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# Executive & Investment Positions Compensation Review – Recommendations

DRAFT FOR DISCUSSION



California  
Public Employee  
Retirement  
System

# Outline

## Overview of Today's Material

BACKGROUND .....	3
KEY FINDINGS .....	8
EXECUTIVE MANAGEMENT POSITIONS .....	10
INVESTMENT MANAGEMENT POSITIONS .....	17
POTENTIAL BRIDGING STRATEGY .....	24
NEXT STEPS .....	28



# BACKGROUND

# Positions Reviewed



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- The California Public Employees Retirement System (“CalPERS”) asked McLagan to assemble competitive compensation data for the following executive and investment management positions from its Board-approved compensation comparator group:

Executive Positions	Investment Positions
Chief Executive Officer (“CEO”)	Chief Investment Officer (“CIO”)
Chief Financial Officer (“CFO”)	Deputy Chief Investment Officer (“Deputy CIO”)
General Counsel	Chief Operating Investment Officer (“COIO”)**
Chief Operating Officer (“COO”)	Managing Investment Director
Chief Actuary	Investment Director
Chief Health Director *	Investment Manager
	Associate Investment Manager

\* McLagan does not survey the Chief Health Director position. GGA and CalPERS are still gathering relevant data for review at the June PCTM meeting.

\*\* COIO position is currently not used at CalPERS, but market data and recommendations have been provided for general information purposes.

# GGA's Role in the Review Process



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- As CalPERS' Primary Compensation Consultant, GGA's role as part of the compensation review process is as follows:
  - Highlight key findings from the compensation review as it relates to the competitiveness of compensation at CalPERS.
  - Provide recommendations on potential adjustments to compensation levels and structure at CalPERS to remain market competitive.
- GGA highlighted its key findings on the competitiveness of CalPERS' compensation at the February PCTM meeting.
- For the purposes of this meeting, GGA will be presenting its recommendations to fill any observed gaps to the market from its review.
  - GGA's recommendations will not result in any immediate adjustments to the actual base salaries of incumbents as GGA is only recommending adjustments to the Base Salary ranges and not incumbent base salaries.

# Comparator Groups Used



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## EXECUTIVE MANAGEMENT POSITIONS:

- Leading US public funds, leading Canadian public funds, select California-based agencies (including large local agencies), banks and insurance companies.

## INVESTMENT MANAGEMENT POSITIONS:

- Large and complex institutional investors, including: US public funds, Canadian public funds and US corporate plan sponsors.
- Private sector asset management organizations of comparable size (~\$100B to \$500B based on CalPERS current AUM) that are key competitors for CalPERS team members, including: investment management/advisory firms, university endowment funds, insurance companies and banks.

# GGA's Determination of Market Competitiveness



- In making its recommendations, GGA has generally looked to align the Midpoint Salary, Target Total Cash Compensation and Target Total Compensation at CalPERS to the:
  - Combined Peer Group (i.e., Public Sector & Private Sector) Median

## REMINDER:

- Total Cash Compensation = Salary + Annual Incentive at Target
- Total Compensation = Salary + Annual Incentive at Target + Long-Term Incentive at Target

# KEY FINDINGS



# GGA's Key Findings

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- Midpoint Salary levels are generally competitive for most roles when compared to the Combined Peer Group, with the exception of some Executive Management positions and one Investment Management position.
- Midpoint Target Total Cash Compensation and Target Total Compensation levels at CalPERS are much less competitive when compared to the Combined Peer Group for all roles.
  - This indicates that Annual and Long-Term Incentive opportunity levels are generally less competitive at CalPERS when compared to the Combined Peer Group of Public Sector and Private Sector peers.

## PLEASE NOTE:

- GGA has provided a couple of alternatives in regard to Annual and Long-Term Incentives to position CalPERS more competitively with the Combined Peer Group, in addition to any required Base Salary range adjustments.
- GGA has also highlighted its preferred alternative for the Committee's reference.

# EXECUTIVE MANAGEMENT POSITIONS

# REMINDER: Competitiveness Breakdown



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- Since the February PCTM meeting, McLagan has provided Total Compensation data for the 4 Executive Management positions below the CEO, which is highlighted in the following table.

Position	Salary (\$'000s)			Total Cash (\$'000s)			Total Comp. (\$'000s)		
	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.
CEO	\$503	\$500	+1%	\$639	\$837	-24%	\$775	\$2,148	-64%
CFO	\$290	\$327	-11%	\$368	\$553	-33%	\$368	\$738	-50%
General Counsel	\$300	\$323	-7%	\$381	\$527	-28%	\$381	\$737	-48%
COO	\$250	\$340	-26%	\$318	\$637	-50%	\$318	\$800	-60%
Chief Actuary	\$258	\$320	-19%	\$328	\$526	-38%	\$328	\$593	-45%

# Recommended Salary Adjustments



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- GGA is recommending an adjustment to the Executive Management roles below the CEO to position Midpoint base salaries at the median of the peer group. Salary bands have also been set with a range of 75% to 125% of the Band Midpoint for all roles for greater consistency moving forward.

Position	Current			Recommended		
	Min	Mid	Max	Min	Mid	Max
CEO	\$377,250	\$503,000	\$628,750	\$377,250	\$503,000	\$628,750
CFO	\$217,500	\$290,000	\$362,500	\$243,750	\$325,000	\$406,250
General Counsel	\$225,000	\$300,000	\$375,000	\$243,750	\$325,000	\$406,250
COO	\$187,500	\$250,000	\$312,500	\$255,000	\$340,000	\$425,000
Chief Actuary	\$206,000	\$258,000	\$310,000	\$240,000	\$320,000	\$400,000

# Incentive Alternative #1 (GGA PREFERRED)

## Introduce LTIP for Current Ineligible Roles



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### Potential Incentive Opportunity Levels:

- Under this alternative, adjustments to Incentive compensation would include making positions currently not eligible to receive LTIP eligible for the plan as well as required adjustments to Annual Incentive to position roles more competitively against the peer group from a Total Compensation perspective.

Position	Annual Incentive (% of Salary)						Long-Term Incentive (% of Salary)					
	Current			Recommended			Current			Recommended		
	Min	Tgt.	Max	Min	Tgt.	Max	Min	Tgt.	Max	Min	Tgt.	Max
CEO	0%	27%	40%	0%	70%	105%	0%	27%	40%	0%	70%	105%
CFO	0%	27%	40%	0%	60%	90%	*	*	*	0%	60%	90%
General Counsel	0%	27%	40%	0%	60%	90%	*	*	*	0%	60%	90%
COO	0%	27%	40%	0%	60%	90%	*	*	*	0%	60%	90%
Chief Actuary	0%	27%	40%	0%	40%	60%	*	*	*	0%	40%	60%

# Incentive Alternative #1 (GGA PREFERRED)

## Introduce LTIP for Current Ineligible Roles



### Resulting Market Positioning:

- Provided below is a summary of the resulting competitiveness with the peer group after GGA's recommendations under Incentive Alternative #1.
  - GGA notes that the gap to market for the CEO is currently too great to fill all at once without decoupling the Long-Term Incentive opportunity from the Annual Incentive opportunity.

Position	Salary (\$'000s)			Total Cash (\$'000s)			Total Comp. (\$'000s)		
	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.
CEO	\$503	\$500	+1%	\$855	\$837	+2%	\$1,207	\$2,148	-44%
CFO	\$325	\$327	-1%	\$520	\$553	-6%	\$715	\$738	-3%
General Counsel	\$325	\$323	+1%	\$520	\$527	-1%	\$715	\$737	-3%
COO	\$340	\$340	0%	\$544	\$637	-15%	\$748	\$800	-7%
Chief Actuary	\$320	\$320	0%	\$448	\$526	-15%	\$576	\$593	-3%

# Incentive Alternative #2 – Fill Gap Only to Total Cash for LTIP Ineligible Roles



## Potential Incentive Opportunity Levels:

- Under this alternative, adjustments to Incentive compensation would include making positions currently not eligible to receive LTIP more competitive only on Total Cash, while positioning the CEO more competitively on a Total Compensation basis. LTIP eligibility would remain unchanged.

Position	Annual Incentive (% of Salary)						Long-Term Incentive (% of Salary)					
	Current			Recommended			Current			Recommended		
	Min	Tgt.	Max	Min	Tgt.	Max	Min	Tgt.	Max	Min	Tgt.	Max
CEO	0%	27%	40%	0%	70%	105%	0%	27%	40%	0%	70%	105%
CFO	0%	27%	40%	0%	70%	105%	*	*	*	*	*	*
General Counsel	0%	27%	40%	0%	60%	90%	*	*	*	*	*	*
COO	0%	27%	40%	0%	70%	105%	*	*	*	*	*	*
Chief Actuary	0%	27%	40%	0%	60%	90%	*	*	*	*	*	*

# Incentive Alternative #2 – Fill Gap Only to Total Cash for LTIP Ineligible Roles



## Resulting Market Positioning:

- Provided below is a summary of the resulting competitiveness with the peer group after GGA's recommendations under Incentive Alternative #2.
  - GGA again notes that the gap to market for the CEO is currently too great to fill all at once without decoupling the Long-Term Incentive opportunity from the Annual Incentive opportunity.
  - The gap to market on a Total Compensation basis for other roles remains material due to lack of LTIP.

Position	Salary (\$'000s)			Total Cash (\$'000s)			Total Comp. (\$'000s)		
	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.
CEO	\$503	\$500	+1%	\$855	\$837	+2%	\$1,207	\$2,148	-44%
CFO	\$325	\$327	-1%	\$553	\$553	0%	\$553	\$738	-25%
General Counsel	\$325	\$323	+1%	\$520	\$527	-1%	\$520	\$737	-29%
COO	\$340	\$340	0%	\$578	\$637	-9%	\$578	\$800	-28%
Chief Actuary	\$320	\$320	0%	\$512	\$526	-3%	\$512	\$593	-14%



# INVESTMENT MANAGEMENT POSITIONS

# REMINDER: Competitiveness Breakdown



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- Midpoint Salary figures are competitive for almost all roles. Less competitive Annual and Long-Term Incentive opportunity levels are the main cause for the gap in CalPERS' compensation when compared to the Combined Peer Group.

Position	Salary (\$'000s)			Total Cash (\$'000s)			Total Comp. (\$'000s)		
	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.
CIO	\$566	\$513	+10%	\$1,132	\$1,750	-35%	\$1,698	\$3,000	-43%
Deputy CIO	\$453	\$373	+21%	\$816	\$907	-10%	\$1,178	\$1,450	-19%
COIO	\$328	\$315	+4%	\$492	\$702	-30%	\$656	\$893	-27%
Managing Inv. Dir.	\$412	\$333	+24%	\$700	\$972	-28%	\$989	\$1,340	-26%
Inv. Director	\$321	\$278	+15%	\$482	\$642	-25%	\$642	\$867	-26%
Inv. Manager	\$244	\$203	+20%	\$342	\$413	-17%	\$439	\$439	0%
Associate IM	\$146	\$164	-11%	\$185	\$268	-31%	\$225	\$299	-25%

# Recommended Salary Adjustments



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- GGA is recommending an adjustment only to the Base Salary range for the Associate Investment Manager position to align more competitively to the Median of the peer group. All other investment management positions are already competitively positioned and do not require adjustment.

Position	Current			Recommended		
	Min	Mid	Max	Min	Mid	Max
CIO	\$424,500	\$566,000	\$707,500	\$424,500	\$566,000	\$707,500
Deputy CIO	\$339,900	\$453,200	\$566,500	\$339,900	\$453,200	\$566,500
COIO	\$246,000	\$328,000	\$410,000	\$246,000	\$328,000	\$410,000
Managing Inv. Dir.	\$309,000	\$412,000	\$515,000	\$309,000	\$412,000	\$515,000
Inv. Director	\$240,750	\$321,000	\$401,250	\$240,750	\$321,000	\$401,250
Inv. Manager	\$183,000	\$244,000	\$305,000	\$183,000	\$244,000	\$305,000
Associate IM	\$109,500	\$146,000	\$182,500	\$123,000	\$164,000	\$205,000

# Incentive Alternative #1 (GGA PREFERRED) – Increase Annual & Long-Term Incentive



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## Potential Incentive Opportunity Levels:

- Under this alternative, adjustments would be made to both the Annual and Long-Term Incentive opportunity levels for all investment management positions to reduce the gap to the peer group median.

Position	Annual Incentive (% of Salary)						Long-Term Incentive (% of Salary)					
	Current			Recommended			Current			Recommended		
	Min	Tgt.	Max	Min	Tgt.	Max	Min	Tgt.	Max	Min	Tgt.	Max
CIO	0%	100%	150%	0%	200%	300%	0%	100%	150%	0%	200%	300%
Deputy CIO	0%	80%	120%	0%	110%	165%	0%	80%	120%	0%	110%	165%
COIO	0%	50%	75%	0%	80%	120%	0%	50%	75%	0%	80%	120%
Managing Inv. Dir.	0%	70%	105%	0%	100%	150%	0%	70%	105%	0%	100%	150%
Inv. Director	0%	50%	75%	0%	80%	120%	0%	50%	75%	0%	80%	120%
Inv. Manager	0%	40%	60%	0%	45%	68%	0%	40%	60%	0%	45%	68%
Associate IM	0%	27%	40%	0%	35%	53%	0%	27%	40%	0%	35%	53%

# Incentive Alternative #1 (GGA PREFERRED)

## Increase Annual & Long-Term Incentive



### Resulting Market Positioning:

- Provided below is a summary of the resulting competitiveness with the peer group after GGA's recommendations under Incentive Alternative #1.

Position	Salary (\$'000s)			Total Cash (\$'000s)			Total Comp. (\$'000s)		
	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.
CIO	\$566	\$513	+10%	\$1,698	\$1,750	-3%	\$2,830	\$3,000	-6%
Deputy CIO	\$453	\$373	+21%	\$951	\$907	+5%	\$1,450	\$1,450	0%
COIO	\$328	\$315	+4%	\$590	\$702	-16%	\$853	\$893	-5%
Managing Inv. Dir.	\$412	\$333	+24%	\$824	\$972	-15%	\$1,236	\$1,340	-8%
Inv. Director	\$321	\$278	+15%	\$578	\$642	-10%	\$835	\$867	-4%
Inv. Manager	\$244	\$203	+20%	\$354	\$413	-14%	\$464	\$439	+6%
Associate IM	\$164	\$164	0%	\$221	\$268	-17%	\$279	\$299	-7%

# Incentive Alternative #2 – Heavier Weighting on Annual Incentive



## Potential Incentive Opportunity Levels:

- Under this alternative, larger adjustments would be made to the Annual Incentive to position Total Cash more competitively with lower Long-Term Incentive opportunity levels.
  - This would require a decoupling of the Long-Term Incentive from the Annual Incentive.

Position	Annual Incentive (% of Salary)						Long-Term Incentive (% of Salary)					
	Current			Recommended			Current			Recommended		
	Min	Tgt.	Max	Min	Tgt.	Max	Min	Tgt.	Max	Min	Tgt.	Max
CIO	0%	100%	150%	0%	210%	315%	0%	100%	150%	0%	190%	285%
Deputy CIO	0%	80%	120%	0%	120%	180%	0%	80%	120%	0%	100%	150%
COIO	0%	50%	75%	0%	110%	165%	0%	50%	75%	0%	80%	120%
Managing Inv. Dir.	0%	70%	105%	0%	110%	165%	0%	70%	105%	0%	90%	135%
Inv. Director	0%	50%	75%	0%	100%	150%	0%	50%	75%	0%	60%	90%
Inv. Manager	0%	40%	60%	0%	70%	105%	0%	40%	60%	0%	20%	30%
Associate IM	0%	27%	40%	0%	60%	90%	0%	27%	40%	0%	10%	15%

# Incentive Alternative #2 – Heavier Weighting on Annual Incentive



## Resulting Market Positioning:

- Provided below is a summary of the resulting competitiveness with the peer group after GGA's recommendations under Incentive Alternative #2.

Position	Salary (\$'000s)			Total Cash (\$'000s)			Total Comp. (\$'000s)		
	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.	CalPERS Mid	Market P50	% Diff.
CIO	\$566	\$513	+10%	\$1,755	\$1,750	0%	\$2,830	\$3,000	-6%
Deputy CIO	\$453	\$373	+21%	\$997	\$907	+10%	\$1,450	\$1,450	0%
COIO	\$328	\$315	+4%	\$689	\$702	-2%	\$853	\$893	-5%
Managing Inv. Dir.	\$412	\$333	+24%	\$865	\$972	-11%	\$1,236	\$1,340	-8%
Inv. Director	\$321	\$278	+15%	\$642	\$642	0%	\$835	\$867	-4%
Inv. Manager	\$244	\$203	+20%	\$415	\$413	0%	\$464	\$439	+6%
Associate IM	\$164	\$164	0%	\$262	\$268	-2%	\$279	\$299	-7%

# POTENTIAL BRIDGING STRATEGY



# Potential Bridging Strategy – GGA Preferred Alternative

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**GGA notes the material recommended adjustments required to Annual and Long-Term Incentives under GGA's preferred alternatives.**

- GGA has worked with public funds and financial organizations in similar situations to develop a bridging strategy over a 2 to 3-year period to make adjustments over time as opposed to all at once.
- Provided on the following two pages are potential bridging strategies that could be used to gradually phase-in recommended Annual and Long-Term Incentive adjustments over a 2-year period.

# 2-Year Bridging Strategy – Executive Management Positions



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- Under a 2-year phase-in approach, approximately half of the adjustment would be made in Year 1 (FY 2022-2023) with the second half of the adjustment made in Year 2 (FY 2023-2024).

Position	Target Annual Incentive (% of Salary)			Target Long-Term Incentive (% of Salary)		
	Current	Year 1	Year 2	Current	Year 1	Year 2
CEO	27%	50%	70%	27%	50%	70%
CFO	27%	45%	60%	*	45%	60%
General Counsel	27%	45%	60%	*	45%	60%
COO	27%	45%	60%	*	45%	60%
Chief Actuary	27%	35%	40%	*	35%	40%

# 2-Year Bridging Strategy – Investment Management Positions



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- Under a 2-year phase-in approach, approximately half of the adjustment would be made in Year 1 (FY 2022-2023) with the second half of the adjustment made in Year 2 (FY 2023-2024).

Position	Target Annual Incentive (% of Salary)			Target Long-Term Incentive (% of Salary)		
	Current	Year 1	Year 2	Current	Year 1	Year 2
CIO	100%	150%	200%	100%	150%	200%
Deputy CIO	80%	95%	110%	80%	95%	110%
COIO	50%	65%	80%	50%	65%	80%
Managing Inv. Dir.	70%	85%	100%	70%	85%	100%
Inv. Director	50%	65%	80%	50%	65%	80%
Inv. Manager	40%	42.5%	45%	40%	42.5%	45%
Associate IM	27%	30%	35%	27%	30%	35%

# NEXT STEPS



# Next Steps

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## Moving forward, GGA recommends the following next steps in this process:

- CalPERS to review the recommendations brought forward by GGA, with the goal of:
  - Approving any required adjustments to Base Salary ranges to position CalPERS more competitively.
    - GGA notes this would not result in any immediate adjustments to the actual base salaries of incumbents as GGA is only recommending adjustments to the Base Salary ranges and not incumbent base salaries.
  - Discussing the merits of adopting different alternatives to position CalPERS more competitively in the marketplace from an Incentive perspective. This includes potential bridging strategies to phase recommendations in over time.
  - Discussing the merits of including Executive Management positions below the CEO in the Long-Term Incentive Plan.
- If needed, GGA to come forward at June 2022 Committee meeting with updated compensation recommendations based on the guidance and feedback it receives during the April 2022 Committee meeting.



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