VIDEOCONFERENCE MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

ZOOM PLATFORM

WEDNESDAY, JUNE 16, 2021

9:00 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

Rob Feckner, Chairperson

Eraina Ortega, Vice Chairperson, represented by Nicole Griffith

Margaret Brown

Lisa Middleton

Stacie Olivares

Theresa Taylor

Shawnda Westly

BOARD MEMBERS:

Henry Jones, President

Fiona Ma, represented by Frank Ruffino

David Miller

Betty Yee, represented by Lynn Paquin

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Matthew Jacobs, General Counsel

Pam Hopper, Committee Secretary

Michelle Tucker, Chief, Human Resources Division

APPEARANCES CONTINUED

ALSO PRESENT:

Jerry Fountain, California State Retirees

Brad Kelly, Global Governance Advisors

Peter Landers, Global Governance Advisors

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PROCEEDINGS

CHAIRPERSON FECKNER: Good morning, everybody. We're going to call the Performance and Compensation meeting to order. Mr. Hoffner will be joining us a little later. He's in the middle of something he had to finish up.

So the first order business will be to call the roll. Ms. Hopper, please.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

CHAIRPERSON FECKNER: Good morning.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Good morning.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

ACTING VICE CHAIRPERSON GRIFFITH: Nicole in for Eraina this morning.

COMMITTEE SECRETARY HOPPER: Okay. Nicole Griffith for Eraina Ortega?

ACTING VICE CHAIRPERSON GRIFFITH: Here.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Here.

COMMITTEE SECRETARY HOPPER: Mr. Chair, all is in attendance.

CHAIRPERSON FECKNER: Thank you.

Agenda Item 2 is approval of the timed agenda. What's the pleasure of the Committee?

COMMITTEE MEMBER OLIVARES: I move.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON FECKNER: It's been moved by Olivares, seconded by Taylor.

Any discussion on the motion?

Seeing none.

Ms. Hopper, please.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Nicole Griffith for Eraina Ortega?

ACTING VICE CHAIRPERSON GRIFFITH: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, the motion being made by Stacie Olivares, seconded by Theresa Taylor for Agenda Item 2 approval of the June 16th Performance, Compensation and Talent Management Committee timed agenda.

CHAIRPERSON FECKNER: Thank you.

Agenda Item 3, the Executive Report. Ms. Tucker, are you prepared to deliver Mr. Hoffner's report or are we going to wait for him?

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes, Mr. Feckner, I am repaired.

CHAIRPERSON FECKNER: Very good. Please continue.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Good morning, members of the Committee. Michelle Tucker here today for Doug Hoffner. I'm a CalPERS team member.

Today your compensation consultant, Global Governance Advisors, or GGA, is here to present two action items. They'll present their review findings and recommendations on the Committee's annual review of incentive metrics for inclusion on incentive plans for fiscal career 20 -- sorry, 21-22. Then GGA will present recommendations for the Chief Executive Officer's fiscal year 21-22 incentive plan.

Following these action items, you'll receive a presentation on the 2020 CalPERS' employee engagement survey, including an introduction to the new survey platform, and action planning initiatives based on the results of the survey. Thank you, Mr. Chair. That does conclude my report and I'm happy to answer any questions.

CHAIRPERSON FECKNER: Very good. Thank you. You must have got it right, because there's no questions.

So moving on to Item 4, the action consent. This is the approval of the meeting minutes from April 19th. What's the pleasure of the Committee.

COMMITTEE MEMBER TAYLOR: Move approval.

COMMITTEE MEMBER BROWN: I'll second.

CHAIRPERSON FECKNER: It's been moved by Taylor, seconded by Brown.

Any discussion on the motion?

Seeing none.

Ms. Taylor, please -- I mean, Ms. Hopper.

(Laughter.)

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: Aye.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Nicole Griffith for Eraina Ortega?

ACTING VICE CHAIRPERSON GRIFFITH: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, a motion being made by Theresa Taylor, seconded by Margaret Brown, all ayes for Agenda Item 4a, approval of the April 19th, 2021 Performance, Compensation and Talent Management Committee meeting minutes.

CHAIRPERSON FECKNER: Thank you.

Agenda Item 5 is the information consent items. Having no requests to move thinking, we will move to Item 6, the action agenda items. 6a, the annual review of the 21-22 incentive metrics.

Ms. Tucker, I'll give it to you to start off.

(Thereupon an overhead presentation.)

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Chair. This is action item and recommendations will be presented by the Board's executive and investment compensation consultant, Global Governance Advisors and seeks approval of incentive metrics for the upcoming fiscal year, 2021. In April of 2021, GGA presented several recommendations related to the review of the metrics and general incentive plan design and components. At that time, the Committee asked GGA to return today to continue the discussion.

Today, GGA will focus specifically on the metrics and scoring threshold for fiscal year 21-22. Then throughout the coming year, they'll provide education, information, and other recommendations on the general incentive plan design and components. This incremental approach will ensure the Committee has adequate time and information to consider and make the decisions on other potential incentive program adjustments.

Furthermore, it will provide the ability to align incentive compensation strategy with the new five-year strategic plan for 2022 through '27.

With us today to make the presentation are Brad Kelly and Peter Landers from GGA. We also have Tom Toth from Wilshire Consulting, the Board's investment consultant available for questions related to the investment incentive metrics.

Unless, the Board has any questions, I'll turn it over to GGA for the presentation.

MR. KELLY: Excellent. Thank you. If the members remember, this is an extension of the work that we had provided to your Committee at the last meeting. And this is our recommendations on going forward. If I can get the next slide, please.

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MR. KELLY: Today, we're going to talk about the performance -- our proposed performance incentive metrics for the upcoming fiscal year and then the next steps in terms of moving forward.

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MR. KELLY: And next slide.

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MR. KELLY: If you recall in our work presented at the last Committee meeting, we were fairly supportive of the -- of the structure and the incentive metrics that had been utilized by your sytem for the last little while. In terms of total fund performance again, this is something that is key for all systems to focus on, we felt that the -- the levels were actually fair and appropriate, in terms of both the variance and the payout ratios. So in terms of superior performance, upper threshold performance, which would be 35 basis points or above, there would be a payout of roughly about 150 percent for that objective.

And then at the threshold, in terms of the floor, for anything that falls below, minus 15 basis points in the market, would be zero. So the base threshold to receive anything within this specific area would be minus 15 basis points against the market.

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MR. KELLY: In line again with our support for the metrics you used in the past for enterprise operational effectiveness, we don't see any need for a change in this area as well. At the base level, it would be anything less than 1.5 percent. And then at the upper level for superior, we see it as roughly 1.1 percent or below, and the payout ratio there would be 150 percent or 1.5.

Next, please.

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MR. KELLY: In terms of the overall investment performance, this is something that you subscribed to CEM benchmarking around. We like this and again we recommend no change. The base threshold would be underperforming the U.S. benchmark on returns and costs, which would relate to a zero for this area. And in terms of the upper threshold, we would see outperforming the U.S. benchmark on net value-added. And that would relate to a 150 percent payout for this element.

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MR. KELLY: Customer service. We're recommending a minor change. And this is something that was raised by a number of trustees in our one-on-one interviews looking at this area. And we decided to drill down a bit more in this area. So basically in this area, you're looking at two various, two service dimensions that are cumulatively included in this element. First is the benefit payment timeliness, which is the percentage of benefit payments issued to CalPERS' customers within established service levels.

And second is customer satisfaction, which is the customer service with CalPERS services as measured by surveys and other methods. In this situation, we took a look at what we would call the probability of attainment. And this is further identified in the letter that we provided your committee for this meeting. In the past, you had a base threshold of less than 88 percent, which would relate to zero. And then you had a score of, you know, either a 95 percent or above would be the upper end, which would relate to 150 percent payout. We took a look at the probabilities over the last number of years and how these had actually been -- the achievement rating. And we feel that there's room to move up on the customer service level here.

And so what we're recommending to better align with, if you recall, our 80, 60, 20 ratios, so what we would say is threshold performance should be achieved 80 percent of the time, target performance 60 percent of the time, and superior or upper-end performance only 20 percent of the time.

And if you look through the historic achievements of CalPERS, we feel that you could actually move that bottom threshold up to anything 92 percent would be your base level. And then moving up to the upper threshold, which would be 96 percent. So again, this is a positive movement up showing that customer service is something that you're focused on and that you'd like to really focus your staff on. And the probabilities, as you see in our letter, support this.

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MR. KELLY: As you can see, the ideal which is 80, 60, 20, the actual that we've -- that we noted is 88 percent on threshold, 63 percent on target, and 38 percent on maximum. And so all of these are slightly higher than where we feel they should be optimally, not saying that this is horrible. I think this is a good alignment, but there's room to move it up, so by -- you know, increasing the -- all of the scores or all the weightings throughout, that would get you to again still 88 percent probability on the proposed, 63 percent probability on the target, but 25 percent on the maximum. So again, it's bringing down that upper probability into a more reasonable level aligned with that 20 percent optimal that we always like to see.

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MR. KELLY: For stakeholder engagement, this is one where we have two alternative suggestions. And this element is basically weighted on three key survey questions. Is CalPERS sensitive to the needs of stakeholders? Does CalPERS do a good job keeping its stakeholders informed? And on a scale of 1 to 10, how would you rate CalPERS being effective in engaging and communicating with stakeholders?

In this situation, we think again there could be an adjustment upward on both the superior and threshold levels, and all the interim levels -- intermediate levels in between.

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MR. KELLY: In terms of what we -- what we identified in the historic data, you had a hundred percent probability of hitting threshold, which is a bit high.

It's kind of a given at that point. 60 percent at target, which is -- which is great. It's exactly where you need to be. And maximum, yet had a zero percent rating. So out of the last four -- we only had four years of data. So this year, you should be hitting ideally. But at one in five years, you should be at least hitting maximum.

And at this point, it hasn't been realized, so that you feel that that upper element is calibrated a bit high. So we would feel that a bit of a contraction in between would help. So what we've advocated is moving to a 78 percent threshold. Anything lower would result in a zero percent payout for this element. And then on the upper level bringing that down by one percent to at anything equal or above 82 percent would result in a 1.5 payout.

That, in our recommendations, would perfectly align you -- well, would better align you to that 80, 60, 20. Again, we only have four now going into five years of data, so that threshold still needs to be adjusted possibly moving forward, but it's that upper end that we feel could have some adjustment.

But that being said, moving to the next slide, please --

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MR. KELLY: -- further conversations with your

Board, it was very clear that stakeholder engagement is very key for your fund, and like it should be for all funds actually. And so looking at the importance of this element, we feel that keeping that upper end at 83 percent might be the right message that you send to your members. So you'd be increasing that bottom threshold, because again you're still at a hundred percent probability, so, you know, showing that there's an improvement at that -- at that bottom end is a good message. But then keeping that upper end at 83 percent, might help set the right message -- or send the right message to your membership, staking -- saying that stakeholder engagement is key and so therefore, we're keeping that upper level at 83 percent as that top expectation for our team.

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MR. KELLY: And again, when you look at this, this, to our earlier point, brings you back to a zero percent probability at that upper end, but it's the messaging that you would want to consider. So both alternatives are perfectly viable in our mind. It just depends on the messaging that you want to send. But we feel that with either alternative, you're moving in the right direction, but again, we're leaving it up to the discretion of this Committee and ultimately your Board on how you'd like to perceive -- how you'd like to proceed, either adopting alternative one, which is an adjustment of both -- a downward adjustment of the upper level -- maximum level and an upward adjustment of the threshold level, or alternative two, which is retaining that higher end at the maximum level, but still adjusting that bottom threshold moving it up to a higher level to again reinforce the fact that this is a strong expectation that you're putting forward for your staff. Next slide, please.

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MR. KELLY: In terms of next steps -- next slide.

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MR. KELLY: -- we are -- as part of our workplan, we have already had one meeting with Wilshire. We're going to really get into the investment metrics around total fund and asset class performance hurdles, again looking at the probability of attainment and the appropriateness of all of these. We're going to be looking at the variance from the benchmark hurdle rates, what are the indices used by your peers, so are you using similar indices or are you using something that's not quite aligned with what the general market is using. And then again, we're going to be doing our historic assessment on the performance variance levels and associated payout levels to see if adjustments in going into the next fiscal year should be warranted.

We're also going to be working - and this is key - working with the incoming CIO, because we want to make sure that we're aligned to his or her philosophy moving forward and what they're trying to achieve on the investment side with the team and with your portfolio. So we're going to get started on the historic performance work, but at the same time wait to have that new CIO in place, so that our recommendations are fully aligned with what that new individual wants to bring to the table and propose for your fund.

Ultimately, the results will provide a clear an objective assessment of hurdle rates and a higher level of confidence for you as a Committee, as a Board moving forward, as well as a strong alignment with the new CIO's vision and strategy moving forward into the next fiscal year.

And with that, I'll leave it to questions.

CHAIRPERSON FECKNER: Thank you. Appreciate the presentation. And I know that this has been a short assignment so far for you and we weren't able to get to all of the matrix that we we're going to, but I'm confident in the next year that you guys are going to dive even deeper into these incentive metrics. But I do want to say that especially on the stakeholder engagement, I appreciate the ability to have alternative number two. I think the last thing we want to do and look to our stakeholders is lowering the threshold. So I think that keeping the 83 versus an 82, I think sends the right message, but still going from 75 to 78 shows that we're trying even harder to improve.

So I see Mr. Hoffner is back. Welcome, back, Mr. Hoffner.

I have Ms. Brown for a comment.

COMMITTEE MEMBER BROWN: Thank you, Mr. Chair. So we'll start with the stakeholder engagement metric, which is -- and I want to go talk about slide nine, which is the questions. Can you tell me who writes the survey, who analyzes -- who writes the questions, right, and then who gets the survey and who does the analysis when the survey comes back?

CHIEF OPERATING OFFICER HOFFNER: Ms. Brown, this is Doug Hoffner I'm happy to take that question. So we get -- the questions were derived from previous survey mechanisms that have been used historically and that's when the prior consultant, prior to GGA coming on Board almost five years ago took those initial survey questions. So those are things that CalPERS had historically been asking of our stakeholders. We do the surveys ourself.

We use a third-party independent entity, the audits, and evaluate the methodology of those surveys. And that has been something that's been ongoing through the Board's policy related to incentive compensation, since they were invented and adopted into the organization.

COMMITTEE MEMBER BROWN: Thank you for that. So I just would like to have GGA take a look at -- I don't want to add to your scope, but take a look at the questions. I know that depending on how the question is written, you can get a certain type of answer. And so I'm hoping that we could also get GGA to look at these questions, look at who that survey is sent to and just examine the underlying data and the analysis, just do a double check on that for us.

CHIEF OPERATING OFFICER HOFFNER: And let me follow, up, Ms. Brown. Actually, later today, there's another agenda item in a different committee that's actually the -- providing an overview of the most recent stakeholder engagement survey results. So I think Mr. Pacheco and Mr. Teykaerts will be presenting that in the other Committee and the full Board later this morning. Again, the data I'd be happy to provide that to GGA and have them do a (inaudible) of things, again predicated on our historical survey questions, some going back many, many years to really give us a good understanding of how well we've done in our stakeholder's minds over time. So happy to work with them on that.

COMMITTEE MEMBER BROWN: Yeah. And let me ask GGA, is this something you typically do or sometimes do?

MR. LANDERS: So I'll answer that and if Brad has anything else to add, he can -- this is definitely something where we will definitely look at all of the metrics. Oftentimes, we'll be asked to do deeper dives on those investment hurdles and the asset class and things like that. That's probably where we do the most work in terms of ensuring that those measures are correct, and that we're, you know, looking at the right benchmark indices, the right basis points and things like that.

But this is definitely something that, you know, we can definitely reflect back, look at the questions that are asked, compare that to other, you know, surveys we've seen in the past. And definitely as part of, I think, you know, a even more comprehensive review in 21-22 can definitely, you know, look into this in a lot more detail. Based on, you know, what Doug and the team has shared with us, you know, these were the types of questions that seemed like they were the most relevant, that you as a Board were comfortable with, and that they do a good job of, you know, ultimately evaluating performance, but definitely we can -- we can look into this a little bit further as part of that broader review and take that into account as part of our workplan for this year.

COMMITTEE MEMBER BROWN: I appreciate that answer. I just wanted to make sure doing that analysis was something you typically do. Even though we may feel comfortable as a Board, we're not -- we are not professional question writers, you know, and that's just -- that's a specific skill and it would be nice to know that maybe the questions could be or should be changed in order to get a variety of responses.

And then my next question is about metric one and this goes back to sort of one of my pet peeves, which is why pay an incentive when you fail to meet the benchmark? Metric one basically gives a payout if they get -- they're under 15 -- by 15 bps. So why are you recommending that we continue to give an incentive payout for what I consider to be underperformance?

MR. KELLY: Great question. As you know, this is something that we flagged in the last meeting as atypical. This is not something that we normally would see, but there was a general philosophy that was applied to this, that has a historic precedent associated with it. So that being said, we never are advocates for major adjustments of any sort of incentive plan going forward when we first come in. We always -- you always want to make educated and incremental changes moving forward. We feel that it's safe to have this for the upcoming year, but it will be crucial for us to really dig deep into the data around this, the probability resetting the payout ratios and the benchmark hurdles, and aligning that with the objectives, and the philosophy that the new CIO is going to bring in. So we want to make sure that all of those things are aligned.

So we feel it might be a bit premature for us to advocate a major change here on the total fund side until we have those key pieces in place, one being your CIO. We want to make sure that we're working in lockstep with that individual to make sure that whatever we're advocating is something that that individual really wants to put in place and really wants to push forward and that some philosophical beliefs that led to the adoption of this current breakdown is, you know, either adhered to if they truly it and support it, but if not, then how do we readjust it to make sure that we can collectively move forward in the best way for your fund.

MR. LANDERS: And, you know, Brad mentioned getting the input of the CIO. I think it's important that you know, when you're making these types of adjustments on the investment hurdle side, that we're getting the viewpoints of both the Board and the CIO who's running that. A collaborative approach generally leads to more buy-in at the end of the day. And so that's why we want to take a little bit more time and review -- do a more holistic full-blown review of those metrics. But that is definitely something that we will be looking at intently as part of our workplan to see if that -- you know, if we need to keep some sort of, you know, bogey below the basis point or if we start it at that zero basis point figure. That's definitely something that, as part of our workplan, we'll be doing a lot more digging into to make sure we understand the historic rationale, and if that still makes sense in today's environment or if it's that we should be changing moving forward.

COMMITTEE MEMBER BROWN: Thank you for that answer. I'm glad to hear you say that you are going to continue to look at that, because that is abnormal in the industry that you pay an incentive for under the benchmark. Even though it's maybe been our practice, I don't necessarily think it's a good practice. And hopefully as you analyze the total fund incentive and you look at those calculations, you can help us move forward and not pay an incentive for not reaching the benchmark.

I did have one more comment or concern. And I both had sent an email to GGA and to -- I spoke with Wilshire about how the incentive is calculated and paid out. And this has to do with the $583,000 that was an adjustment from the prior year that got added into this year's performance. And it turns out that it sounds like I need to talk to State Street to find out how that incentive performance was calculated last year.

I want to state for the record I have a concern that if we are paying incentives off estimates and not off the actual real investment return, I'll look into this far -- further, but I do have concerns. And maybe State Street can put this all to bed and make me feel safe and not concerned about how the incentives were calculated -- how the returns were calculated last year.

Thank you.

MR. LANDERS: Yeah. And that's something that we at GGA for sure -- you know, there's certain practices that we've adopted with other funds where we'll, you know, use the custodian's audited results and do sort of an incentive payout audit based on that. That's a practice we've done with a few clients in the past. That, you know, potentially could be something that CalPERS could consider adopting moving forward. But that is something as well that we'll be looking further into, you know, how that's -- how that's administered. We definitely will say that, you know, with certain assets classes there is that time lag. And it is quite common to, you know, have those quarterly time lags when, you know, certain investment results are reported on.

And I'm sure Wilshire can speak more to this than we can, but that's just us in our sort of experience of seeing how those things work, but we will definitely, again as part of that deeper dive, look into that. And if we do note anything that we feel is, you know, atypical with the market, we'll make sure to bring that to the Committee's attention.

COMMITTEE MEMBER BROWN: Thank you.

CHAIRPERSON FECKNER: Mr. Toth, do you care to comment, since she -- Ms. Brown said that she reached out to Wilshire as well.

MR. TOTH: Good morning. Tom Toth with Wilshire Advisors. Yes, happy to -- happy to comment. I think, first, let me touch on the comment Mr. Landers made in terms of the performance calculation for private assets on a lag basis. That is very typical kind of the standard in the industry is that you're looking at one quarter in arrears private asset performance. So I think CalPERS aligns with industry best practice as far as that goes.

To Ms. Brown's question I think the distinction that we want to make is between the performance calculation that goes into the incentive compensation calculation versus adjustments which are made subsequently and oftentimes many months after -- for financial statement purposes.

And my understanding is that those are different. So the incentive compensation calculation, which is done by State Street as your custodian is separate and distinct from those financial statement -- potential financial statement adjustments, which often occur, you know, well past the time when performance is officially reported.

CHAIRPERSON FECKNER: Great. Thank you. Appreciate that.

Ms. Brown, any other questions, comments?

COMMITTEE MEMBER BROWN: (Shakes head.)

CHAIRPERSON FECKNER: Thank you.

I move on to Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Mr. Chair, excuse me. First, I want to thank you for a very good report and I very much appreciate that you want to move at a pace that is fair and reasonable. And I like the incremental approach that you're outlining. So that's said.

One of the things that you brought to us is this idea that 80 percent of the time threshold level performance should be achieved, 60 percent of the time target level should be achieved, and 20 percent of the time superior. Have you had a chance to look at the metrics that you are proposing today historically to determine whether or not they would have, in fact, achieved that 80, 60, 20 target?

MR. KELLY: If you refer back to our letter that -- the key question that was raised at the last Committee meeting was around stakeholder engagement and customer service, those two -- and customer service levels. Those were two key areas that your Board had questions around. So those are two areas where we were able to, in a timely manner, get to some historic data and run a probability assessment on. We have not looked at the others, especially on the investment side. That's going to require a lot more work. And as we mentioned earlier, we're going to be working with Wilshire on that to make sure that we have the right elements in place.

But the two key areas that you had flagged are the two areas that we were able to dig in deeper on and provide you with some objective assessment on, and which has led to the incremental adjustments that we recommended. But going forward, we fully intend on going deeper on the rest and having similar data for you to look at and objectively test the fairness and appropriateness of all of the measures and weightings.

COMMITTEE MEMBER MIDDLETON: All right.

MR. LANDERS: That being said, from Brad's point of view, those -- as he mentioned, we dig deeper, because at a -- when we were doing our initial review for I guess the April meeting, those were the two that we noted that seemed to be trending, that they tended to be very close to the high end of your performance range.

And when we did look at a higher level, not doing as deep a dive, the others, in terms of investment as well as the cost-based, and the operational effectiveness, they tended to be a pretty decent spread, where some were ending up at the higher end, some were ending up on the lower end of the scale. So we had less high level concerns with sort of those probabilities, and that's why we really dug deeper on those two that seemed to be trending that you're always tending to pay close to maximum.

But to Brad's point, that's definitely something we can bring back to the Committee at a later date. But at a high level, the other two or three seem to generally be falling into that spectrum. And that's why we didn't, at this point, do as deep a dive on those, was those ones that were trending higher.

COMMITTEE MEMBER MIDDLETON: Appreciate that. Are we looking then at the likelihood that it will be next year's incentive program that we would see you making more changes to these targets?

MR. LANDERS: Yeah, we would most likely be making tweaks to say the operational effectiveness in the CEM ones, and then potentially, depending on the results of the deeper dive on the investment huddles, that's where there might be a more, call it, material change, I would think is on the investment side. So that -- just to give a little bit of a framing, there would probably be a tweak in those couple of areas and potentially maybe more material changes on the investment performance side.

COMMITTEE MEMBER MIDDLETON: All of these performance measures come with a amount of money that can't -- that is being placed in, for want of a better word, a pool that could be earned in incentive. What's not clear to me from this is how much of the total compensation is incentive driven as opposed to being base salary?

MR. LANDERS: I'm just -- I can't answer that a hundred percent, but going off of my head, for some of the investment folks, you know, the -- it's probably closer to 50/50 between salary and incentive, and then -- and this I'm deferring, because there's a long-term incentive component as well. But on the sort of short-term inventive versus salary side, it's probably closer to 50/50 at a high level for the senior level investment folks. But then as you get to, you know, the non-investment side, I think the incentive makes up a lower weighting of the overall pool, so it's probably more of like a 70/30 between salary and incentive. I'm just going off the top of my head. Maybe Doug and them might be able to shed a little more light, but I'm just going off of rough estimates, based on what I've seen.

CHIEF OPERATING OFFICER HOFFNER: Thank you, Peter. Yes. So Doug Hoffner, CalPERS team. We'd have to look at each one of the positions, which is in the policy, but you do have ranges by various levels. And I'm sort of -- sort of focusing right now, particularly on the Investment Office sort of, you know, a range of zero to kind of potentially 60 percent of salary with a target around 40 percent. Some go up to 75 or higher, you know, like a hundred percent of that salary opportunity.

So that's -- again, that's incentive opportunity. That's not a guarantee. There's qualitative and quantitative metrics built into those as well. So what we could do is go back and, you know, provide essentially, as we did last year, with sort of the payout metric in terms of total compensation that was paid out. And that was a sort of a one-year snapshot. But clearly, the data is available for a longer look back and how that reflects what we did in the marketplace as well.

So the other positions outside of the investment office, there's a very -- is a lower level. Sort of 0 to

40 is the max within the sort of Executive Office outside the investment folks, so -- with a target threshold to 27 percent. That's somewhat different. Some of peers -- I know even the folks across the river have different methodologies and systems in place. I don't think initially they have targets assigned to those incentives. So both qualitative and quantitative measures were provided as sort of comparison, side by side, by both Brad and Peter in the April meeting, but that did not, you know, show actual payout, but we, of course, would be happy to provide that information as a follow-up.

COMMITTEE MEMBER MIDDLETON: All right. I think - and I'm expressing an opinion - one of the most critical decisions that we need to make as a Board is what percentage of the CEO's salary do we want to be base salary and how much of it should be incentive driven. And I would very much appreciate your recommendations in that area.

The last question, and there's really a comment embedded in the question, is what we don't have here is a historical record of what the CEO's total compensation is and how that compares to other pension funds. And I think that is something that we need to know. We have what is the largest pension fund in North America, and -- in terms of political demands and the like. I think the most demanding CEO pension job in North America. And to the best of my knowledge, we are far from paying the highest salary in North America.

MR. KELLY: All very, very valid points. And this is something that would have to be determined with a broader market benchmarking study. And so that is something that we definitely will be engaged with CalPERS on in the future, but by no means did we have time to do that before the end of this fiscal year. But it is definitely something that we always advocate needs to be done. We always look at what your peers, what the general market is doing, and making sure that you're not just equitable against that external market, but then also how do things break down internally with an internal equitable breakdown of your comp structure as well. So that is definitely something that's in the pipeline. And you're right, there's a lot of value that comes from that and is definitely something that we'll be doing in the future.

MR. LANDERS: Yeah, and most pension funds will conduct those reviews every two, maximum three, years to really get a pulse of where they're at in the marketplace. Our understanding is there was a recognition, I believe it was a year or two years ago, of the CEO's sort of positioning relative to other peers, and there was an adjustment made. But definitely as Brad mentioned, that is something that we would advocate every two to three years to really go out to market, and not only for the executive level jobs, but also for the Investment staff to, you know, make sure that this Committee and the Board is comfortable with the peer group that is being used. That's often the first sort of question that you want to make sure you have answered. And then once you've agreed to that peer group, then running the market analysis, and the data for that peer group, and then seeing where you're positioned relative to that group, and then making, you know, the relevant adjustments that are required based on the results of that study to position you competitively, but also to Brad's point recognize internal factors, such as the person's, you know, performance in the role and the job that they are doing as an individual.

So all of that can get factored into -- we agree, Lisa, into, you know, determining what that CEO salary level and then consequently what their incentive opportunity looks like as well to make sure you're competitive.

COMMITTEE MEMBER MIDDLETON: All right. Thank you, both.

CHAIRPERSON FECKNER: Thank you.

And like I said earlier, we realize that this was going to be a short year, but we are anticipating a much deeper dive in next year and future years, so thank you.

Next, I have Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Feckner. Yeah, I just -- I was not going to comment on this, but I am going to jump on Ms. Middleton's comments, because as we look forward for reevaluating the Chief Executive Officer's incentive plan, I don't think when we reevaluated it last time, that we actually got to where we need to be. We are the only pension fund that also handles health care and retiree health care. So it makes our -- makes her job much more complex, so we're not just, you know, providing pension benefits. We're also providing health care.

So I think it's important that -- I don't think there's anybody that you can compare our pension fund to with that, and then, what do we have, three different -- or 3,000 different types of retirement. So we have a very complex system that no one else has. So as we move forward, I hope that we look at that. And it's going to be difficult to look at peers, but because of the difference of CalPERS and how large it is and complex. So I just wanted to add my comments to that.

But what I actually was going to compliment you guys on is the fact that you guy -- the stakeholder engagement and customer service measures, I appreciate.

And I read the thresholds, and your letter, and how we -- how you guys got there in terms of history and stuff like that, so -- but I will say that on the stakeholder engagement, I prefer the second metric, which is the 83 percent. So I just wanted to make sure, as I believe this is an action item, that we pick the second -- in my opinion, we should pick the second metric, so that -- and then moving forward, I appreciate that we're going at an incremental pace, so that we can look very deeply at what we're looking at, and the metrics that we're meeting, the 60 -- the 80, 60, 20, whether that fits in with us and industry standards, and us being a little more complex, et cetera.

So -- but I do want to thank you for the report. It was very thorough, so we had a good way to look at how you got to these metrics, so appreciate it.

MR. LANDERS: And just to comment on Ms. Taylor's first point as well, around the CEO and peer group data, I think it's important for this Committee and the Board to realize that, you know, there are definitely nuances. You are the largest fund in North America. There are some complexities there. And so I think it's important, whenever we do this study, which hopefully is in the next 12 months, to recognize that the data is just one aspect of it. That gives you a good frame of reference in terms of, you know, what the competitive market is paying. But then there is always an art. This is why compensation is never -- it's not a science. There is a bit of an art to say, okay, we know what the market data is doing, but we need to take into account these additional complexities. And that's where it will take a little bit of judgment on this Committee and the Board's part as it relates to the CEO and, you know, any other roles. There's always a certain level of judgment -- informed judgment that has to be taken into these decisions.

MR. KELLY: Exactly. And building off of the -- Peter's point about informed judgment. We want to make sure that if -- and I say if. A lot of you are -- your guts are telling you that you're misaligned to the market, but we always caveat that with an "if" we want to objectively see that, right, and ascertain whether or not it's real. But if it -- the data does show that there's a misalignment and there's additional arguments that you want to put forward with regards to further increases, we want to make sure that your fund is protected. We always know that executive compensation is a lightning rod with the media and with your stakeholders, and we want to make sure that any adjustments, if recommended, are done in a very metered way and risk-mitigated way, so that you have strong formulated arguments, you have the objective proof behind you, so that by no means are you putting this fund in any, what we would call, headline risk associated with these adjustments.

CHAIRPERSON FECKNER: Thank you.

And, Ms. Taylor, when the motion comes to being made whoever is making the motion, would include whether we want alternative one or alternative two in the stakeholder piece.

Next, I have Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Mr. Chair.

I want to thank GGA for this. A lot of informative data here. I think we really want to promote a culture of equity and excellence within CalPERS. And what I'm seeing here is a significant divergence between the metrics for various areas, significantly between stakeholder engagement and customer service and then on the investment side.

And so this lack of alignment I think can create issues internally in terms of equity and achieving excellence. How do you view that?

MR. KELLY: Can we ask you to clarify that a bit more?

COMMITTEE MEMBER OLIVARES: So If we're looking at, for example, the metrics for customer service, those are very high. And I want to thank the executive team for doing a great job in excelling at customer service particularly during the past 18 months or however long they've been going through this COVID time.

But then when we look at stakeholder engagement, the threshold that we've set is far lower. And CalPERS is a global player. As Ms. Middleton mentioned, we're the largest pension fund in North America, so very engaged in DEI and ESG, which is key to our risk mitigation and investment performance. So we also need to excel there. And in order to provide financial security for our members, our investment performance also needs to excel. I'm not seeing the same standard of excellence across these metrics which creates issues for performance and then internally for equity.

MR. KELLY: That's -- this is a really good point. And I think this is an important factor for all Committee members to look at. None of these elements are Apples to apples, absolutely not. You can't compare one against the other and say that an 85 percent performance in one area is an 85 performance in another. It's not. It has to do with the metrics that you're using, the questions that you're asking. And so what we're doing on the probability standpoint is actually doing exactly what you're saying. We're making sure that every upper threshold, lower threshold, target are the exact same probability. So if you want to change the metrics, if you want to change the questionnaire on stakeholder engagement, make it harder for you to achieve, we would still apply the same probabilities associated with it to making sure that there's a -- there's a 80 percent chance of hitting tar -- or thresholds, 60 percent chance of hitting target, and a 20 percent chance of hitting maximum.

It's apples -- you're comparing apples to oranges. Even when we get into the asset classes, we've had other funds raise the exact same question in saying, well, you know, you'll have different standards for everyone. The fairness -- the fairness assessment is the exact same for all of these areas. And the reason why you do that is you don't want an investment professional in one asset class saying, you know what, to your point, I have harder standards to meet, so I'm going to jump and I'm going to try and get a job in another asset class, because it seems to be a lot easier there.

We objectively show that the fairness apply to each group is the exact same. And so -- and I think that's -- thank you very much for raising that, because I think that's a key point that everyone needs to -- needs to know, is that all of this -- we're advocating that all of these be set at the same fairness probabilities, so that there isn't inequity within any of these weightings or metrics.

COMMITTEE MEMBER OLIVARES: So I understand that it can be difficult to achieve certain investment benchmarks, particularly during this time of economic uncertainty. However, I think it's not quite clear why we -- and this gets back to Ms. Brown's point, why we are proposing to reward investment performance that does not meet our standard, that does not hit the benchmark.

MR. KELLY: And you're referring to the minus 15 basis points, is that -- is that correct?

COMMITTEE MEMBER OLIVARES: I am. And there are additional questions I have regarding that in terms of why we're using net asset value instead of net IRR. And if we've taken most of our investments internally to be managed, we're reducing the cost there too. So are we expecting to have further cost reductions? I think that there are a lot of things to consider here. There's a bit more detail that would be helpful to see.

But overall, I think we should have a standard of excellence. And we are seeing it in other aspects of CalPERS, again with customer service. So when there's -- if you look at the gender and racial makeup of the Investment Office versus those who provide customer service, I also want to note that, because you're talking about employees, on the customer service side, primarily women who earn a lot less. On the Investment side, primarily male, earn a lot more. I think we need to be very thoughtful on how we are rewarding excellent performance.

MR. KELLY: All very good points. And again, I go back to the fairness probability that we're trying to apply to all areas, so that achieving maximum performance in customer service will have the same probability of achieving maximum performance on total fund return.

We want to make sure that there is fairness. We're doing exactly what you're advocating on the fairness side. Now, to your point about getting into the financial weightings and objectives, that is something, as we said before, we're going to do a deep dive on. And if there's adjustments warranted, we absolutely will advocate for that, again, going back to the same fairness probabilities on all sides of your organization, so that everyone has equal opportunity of achieving that maximum threshold and target performance levels.

MR. LANDERS: Yeah. And on the -- on the Investment side too, the thing that will be balancing that out is the level of risk as well that this Board and the Committee is wanting the staff to take from a relative value-add perspective, because we can definitely set the targets higher, let's say, for achieving a certain level of basis points, but are we then incenting too much risk taking by the investment staff. And so we'll be sort of weighing all of those things out as that more detailed dive gets done.

But, yeah, definitely we're mindful of your concerns, Ms. Olivares, and we will definitely take that into account as part of that deeper dive in the upcoming fiscal year.

COMMITTEE MEMBER OLIVARES: I'm not sure this is part of the deeper dive or not, but in looking at total fund performance, and some of the metrics there, can you explain to me why we're looking at net value added for our investments versus net IRR?

MR. LANDERS: So value-added versus benchmark is still predominantly the practice that is used within the industry to reward for investment performance, especially on the annual incentive side where we're starting to see, and you've done that at CalPERS, on the long-term incentive, that is where we're starting to see more of a movement to that absolute rate of return or the IRR as you're referring to, Ms. Olivares. And so we feel like, you know, you have a good, through both the short- and long-term incentive, programs. You have a good mix of looking at relative performance against the relevant index. And also over the long run, which is the important part for CalPERS members, are you meeting that rate of return, that seven percent that the Board and members are looking for over the long run on an absolute basis?

So it is very common market practice to be using sort of a mix on the short- and long-term incentive of relative value-add on one and then the -- on the longer term, the IRR or the absolute rate of return.

COMMITTEE MEMBER OLIVARES: I think to make it clear for our members, it would be helpful if you explained the components that go into each.

MR. LANDERS: Perfect. So when you look at value-add, that is literally comparing the return. So say you get eight percent and you're comparing that to a market index or, you know, there's various asset classes, so it would be a blend of the asset classes. If you hit say eight percent and the index hits seven and a half percent, you beat that index by 0.5 percent or 50 basis points.

So you're measuring your fund's performance relative to an index in the marketplace. On the flip side, the IRR, or the absolute return, is saying, you know, we have to hit seven percent for our members on an annualized basis. Did we hit that seven percent absolute return or did we not hit that seven percent return?

So it's two slightly different ways of doing it. And what we're increasingly seeing, as I mentioned earlier, in the industry is for the -- especially on the investment performance side, you want to be on annualized basis, or looking over longer term results, looking at, you know, how did they perform relative to just, you know, investing in an index. Did they -- did having this individual investing for CalPERS allow you to beat the index or not, essentially, versus just --

COMMITTEE MEMBER OLIVARES: And, Mr. Landers, could you be a little bit more granular. Again so -- sorry to keep going back to this point, but again, it's an equation, right? And so if we think of net value added and how the costs are subtracted there, right --

MR. LANDERS: Yeah.

COMMITTEE MEMBER OLIVARES: -- the investment versus net IRR, can you walk through what is in each equation, because as we go through changing our policies, when it comes to compensation, we need to be very clear on what we're measuring.

MR. LANDERS: Yeah. So I mean top of my -- top of my head -- and maybe Wilshire can probably feed this on exactly going granular on what goes into each Calculation. But at a high level, essentially your net return is saying, yes, this is our gross return that we got, but then what did we pay our -- what did we pay our managers that, you know, we might have asked to do that, and what were other, you know, internal costs that were paid? And then what -- after you subtract those costs out, what did we get net of all of those costs essentially?

And an IRR looks at similar things, but, you know, there's probably a little bit more granularity. Potentially Wilshire could be better asked to get into the granular specifics. But essentially that's at a high level, we achieved this gross return, but what were the costs that we had to pay to get that return. We subtract those out to get what that net sort of return looks like.

COMMITTEE MEMBER OLIVARES: This is important for us to understand as we take more of our investment management in-house, right? And then we're looking at these different long-term incentive structures. So, Mr. Toth, if you could explain from your perspective the difference in those equations for the members watching.

MR. TOTH: Ms. Olivares and members of the Committee, so I draw a distinction between what you can think of as the time-weighted return, which is the headline performance number for the PERF and IRR, which you can think of as a money-weighted return, which is more commonly used in private assets. And those are -- those are different equations. The time-weighted return essentially isolates the impact of cash flows on the performance calculation, the money-weighted return, the IRR, includes those.

And so they're not directly comparable and you can't -- you can't combine both of them to come up with one number. So the standard in the industry for total fund performance is the time-weighted return, which is the performance calculation that you would compare to the benchmark returns. So to use Mr. Landers' comment, if your portfolio was up eight percent, the index was up seven and a half percent. Your portfolio's performance is net of all costs, so that would be trading costs, incentive costs, all of that other stuff that goes into managing the portfolio. That 50 basis points of value-add is the time-weighted return calculation.

Is that granular enough? There are complexities there in terms of putting them together.

COMMITTEE MEMBER OLIVARES: Well, I think that highlights some important points. And thank you for that. So when it comes to our private assets and those team members who manage those, when we look at their metrics for compensation, are we then looking at net IRR? I know there have historically been issues with this too and that's why I'm also pushing on the question.

MR. TOTH: So in the current construct, it's a total fund calculation. So the IRR is not part of their incentive compensation for private assets, in the current framework.

COMMITTEE MEMBER OLIVARES: So there isn't alignment between how the performance of private funds are managed and employee performance on managing these funds and compensation?

MR. TOTH: Let me be careful with the answer.

COMMITTEE MEMBER OLIVARES: So, let me -- let me think about it this way. Again, so culture of equity and excellence. If we instead were going to hire a firm to make these private investments for us, what are the factors we would consider? We would look at net IRR. We would want to understand that. If we were going to hire a firm to do stakeholder excellence or outreach for us, we would want them to have certain thresholds. So I want to make sure that we are -- we have the appropriate benchmarks in place, compensation structure, and again, we are achieving equity and excellence.

MR. TOTH: If I could just follow on, Ms. Olivares. I think you're absolutely right. If you were hiring a private equity manager, part of the mosaic for evaluating them would be based on, not just -- I'll be care -- I want to be very clear, not just one performance metric IRR, but you would look at total value paid in capital, realized value paid in capital, and you would look at that over various time frames. So you'e absolutely right on that point.

COMMITTEE MEMBER OLIVARES: Okay.

MR. LANDERS: And one of the things we will be looking at as well to your point as part of this more comprehensive review of the incentive program and getting the views of the incoming CIO, once one is officially hired, is getting their views on the line of sight. So to your point, right now, the incentive program is tied on the investment side solely to total fund results. But on the private asset side, on the public equity side, on the fixed income side, should we be adding a component or a weighting for those professionals that relates specifically to their asset class performance. And that's one thing that we will be, you know, again getting the views of the Board, as well as the CIO, looking at how has this performance historically been measured at CalPERS and potentially coming forth with some more material changes for asset class professionals that will still have a meaningful amount of weighting on the total fund performance side, but also as part of the annual incentive, tie them to a portion on how they perform in their specific asset class, so that we can, towards that sort of culture of excellence, make sure that we are rewarding those that are performing well.

And those asset class that are, you know, pulling that total fund result up that they are being properly rewarded for that excellence and aligning pay and performance adequately, so that is something as well as part of that deeper dive. As well as looking at the hurdle rates and things like that, we'll also be examining whether asset class professionals should have a weighting in their annual incentive to the specific asset class that they work in.

COMMITTEE MEMBER OLIVARES: Thank you.

CHAIRPERSON FECKNER: Thank you. And I just want to remind us all that we are on Zoom. We're not in person. So let's -- when we're asked a questioned, let's let the presenter finish their response before we move on.

I have Mr. Miller.

BOARD MEMBER MILLER: Thank you.

Yeah, this is -- you know, this is a topic that's kind of near and dear to me, but in the much bigger picture sense, in terms of, you know, to me, there's -- there's value to at-risk compensation, but I don't see it as value in terms of cause and effect for how people apply their knowledge, skills, and abilities to their job, for how they make decisions and perform on a daily basis, whether it's a rank-and-file person, as most of our employees and most of our constituents have been throughout their careers, or whether it's an executive.

But in terms of reinforcing our strategic priorities, our operational priorities, in terms of being something that reinforces the performance expectations that are communicated and managed by our executives, our managers, our supervisors, I see it as a communication tool. I see it as ceremonial, to some extent. It's an outward-facing tool. To me, that's where the real value of it is versus trying to figure out to what extent our incentives are rewarding a person's individual decision-making or luck, as it may be in -- from one thing to another.

So for us, I think being consistent, whether we buy into kind of the philosophical underpinnings of some of it or whether we think, you know, 80, 60, 20, or some other thing is -- has any kind of real empirical value, it's really about the communication, the ceremony, the messaging. It's about what the rest of the world considers, whether it's empirically supportable or not, expectations.

For example, when we hire, people have expectations. They want to see that they can have a reasonable way to look at things. If they are expecting at-risk compensation, they want to know that it's being done fairly, it's being done coherently, and more consistently rather than even fairly, so they have some reasonable expectation of what they will be earning if they come to work for an organization like CalPERS, where we've got a pretty good long track record of history and performance that they can look at.

And so the two things that kind of jump at me is -- I like what's being proposed as a step toward evolving and refining the approach over time. And I would hope that when we -- as we move and refine this, that we would not be setting up, you know, at one end of things hundred percent probabilities of receiving, and especially if there's a hundred percent probabilities of receiving when we're not making targets.

At the other end of things, zero percent probabilities, it just seems like we've just -- you know, at that point you've only got one level of compensation that anyone would have a reasonable expectation of achieving, which kind of defeats the purpose of the messaging, and the ceremony, and all the pomp and circumstance behind this stuff versus setting salaries where they should be, setting expectations, and actually managing expectations of performance on a day-to-day basis, rather than having to try to assume that these incentives are going to have some magical impact on someone's knowledge, skills, abilities, competencies, and how they apply them on the job.

MR. KELLY: If I can respond to that, Mr. Miller. All very, very good points. I actually run a three hour workshop for HR executives on the psychology of incentives and you hit a lot of those high points, in terms of you're addressing the fact that people want to be recognized for their performance. It's an esteem issue, if you look Maslow's hierarchy of needs. Also, you need to have a plan that clearly articulates and aligns with your strategy and plans. So you're absolutely right, messaging is key. It has to be clear on the participant's point of view, in terms of what those expectations are.

And it is -- it's a huge communication process, internally and externally. How are you communicating it internally with your staff, so that they're engaged, they're accountable, they're focused on performance, not just current performance, but future performance, and then also how are you articulating the correlation to pay or the incentive payouts to the actualized -- actual realized performance to your external stakeholders, so that there's no criticism, and that they look at it and they say, wow, this is pay for performance, which is exactly what it should be.

So, you know, thank you for that. You hit a lot of key points that I could easily do over a three-hour session, if you wanted to, but you're absolutely right.

CHAIRPERSON FECKNER: Thank you. Anything else, Mr. Miller?

BOARD MEMBER MILLER: No, sir.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor, I think she has some internet issues. Let's go to Ms. Brown next.

COMMITTEE MEMBER BROWN: Thank you.

I just wanted to thank our consultants, GGA, for bringing up the issue of, what I call, the pendulum swing. Previously, our Investment staff was incentivized by asset class only, and so there was a lot of silos and a lot of problems with that. And so the pendulum swung all the way the other way, and I was opposed to that. And then it was a hundred percent on the total fund. And I'm glad to hear you say that you're looking at a mix of basing some incentives on their performance in their asset class and then some incentives on the total fund or you're going to be at least analyzing that, because that's where I think the balance needs to be in order to -- you know, so people just -- I know they don't do this, but just put their feet up and say, well, I'm not going to make it, but the total fund is doing great, so I'm good for the rest of the year and let's go to the Bahamas or whatever.

So -- but I do appreciate you taking a look, because I do think that if, you know, Real Assets, or whatever strategy you're in, does a great job, I think that they should be rewarded for that, as well as the total fund.

Thank you.

CHAIRPERSON FECKNER: Thank you.

I want to -- I know Ms. Taylor is having trouble getting on. And one of the comments she wanted to make or ask was similar to what I was looking at. Since you work with STRS as well, how does the incentive matrix match up between CalPERS and CalSTRS?

MR. LANDERS: So I can -- I can try and answer that. So we gave some of this information I think as part of the April presentation and memo, so I would encourage people to look back at how the weighting works between the two. One thing that I will note that is a little bit different is at CalPERS, you have added more -- especially for the CEO specifically more quantifiable metrics within your scorecard. So you've looked at the CEM scores. You've looked at specific measures for customer service and stakeholder engagement. And you've tried to quantify that and set that grid up, as we've discussed today.

CalSTRS takes a little bit more of a qualitative approach to their CEO, where they evaluate them on several different objectives relating to the strategic plan and individual performance. So they don't have necessarily the scales or quantifiable scales that you have.

But in terms of the weighting between say investment and non-investment performance, that is pretty similar between the two. It's really about the difference in how you approach determining -- you've taken a more quantitative approach in a lot of ways and they take a little bit more of a inform -- I'll call it informed judgment and qualitative view looking at the strategic plan and individual objectives.

And then for the investment professionals, just as whole, the one difference there is you, of course, use the total fund right now as the sole investment weighting. They have a mix in their annual incentive between total fund and for asset class professionals, an asset class weighting as well. So those are probably the two biggest differences between the two organizations is those two specific areas.

CHAIRPERSON FECKNER: Very good. Thank you for those comments.

Seeing no other requests. This is an action item. What's the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIRPERSON FECKNER: All right. We have

alternate one and alternate two in the stakeholder, so what's your motion?

COMMITTEE MEMBER TAYLOR: Alternate two.

CHAIRPERSON FECKNER: All right. It's been moved by Ms. Taylor.

Is there a second?

COMMITTEE MEMBER MIDDLETON: Second.

CHAIRPERSON FECKNER: Seconded by Ms. Middleton.

Any discussion on the motion?

Seeing none.

Ms. Hopper.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: No.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: No.

COMMITTEE SECRETARY HOPPER: Nicole Griffith for Eraina Ortega?

ACTING VICE CHAIRPERSON GRIFFITH: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have four ayes, two noes, one made by Margaret Brown, the other by Stacie Olivares, the motion being made by Theresa Taylor, seconded by Lisa Middleton for alternate two.

CHAIRPERSON FECKNER: Thank you. Motion carries.

Moving on to the next agenda item.

Ms. Tucker.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Chair. Item 6b is presented annually as part of the regular incentive plan cycle required under the Board's Compensation Policy for executive and investment management positions. Recommendations for the Chief Executive Officer fiscal year 21-22 incentive plan will be presented by the Board's compensation consultant, Global Governance Advisors, and have been provided in attachment one.

Based on the Committee's discussion and action on Agenda Item 6a, the annual review of incentive metrics, the CEO's annual incentive plan will be updated to reflect the approved incentive matrices and scoring threshold.

So with that, I can turn it over to GGA for the presentation.

MR. LANDERS: I'll take this one. I don't know if you want to share -- we don't have a presentation. We just have the memo for the CEO, but there is a lot of overlap between the CEO incentive plan and the metrics that we just went through, because a lot of those, of course, are tied to the CEO's incentive plan for the given year. And when we looked at the weightings, in general, we didn't have any concerns with the overall weightings that were being placed on the various metrics for the CEO.

One area that we did propose a slight tweak is on the personal -- the more qualitative side of things, adding another bullet that related to the CEO's role in shaping the upcoming strategic plan, and the Board -- and it would relate specifically to the Board's level of confidence and support of that, you know, five-year strategic plan. And so that was one tweak on the personal performance side that we had suggested could be considered.

And -- but in terms of the weightings of the metrics, we found that the weightings, you know, generally were market competitive. And it would just be those tweaks, as presented in the previous agenda item, that would be made to the customer service and the stakeholder engagement that would ultimately be reflected in the CEO's incentive plan as well.

CHAIRPERSON FECKNER: Thank you.

Seeing no requests to speak on this item, this is an action item. We do have some public comment I just understand. Evidently, it was Item 6a. So, Mr. Fox, can we go back to that. Somehow we didn't get that information in time.

STAKEHOLDER RELATIONS CHIEF FOX: Yes, Mr. Chair.

We have on Item 6a with a request Mr. Jerry Fountain of CSR.

Go ahead, Jerry.

MR. FOUNTAIN: Hello.

CHAIRPERSON FECKNER: Hello.

MR. FOUNTAIN: Yeah, this is Jerry.

CHAIRPERSON FECKNER: Mr. Fountain you're up for public comment.

MR. FOUNTAIN: Yes. Okay. Thank you very much. I apologize for the delay there.

I want to address the incentives. First of all, I think they should not be called incentive, because it looks that they're actually an allowance that's paid just for being employed. You give out the incentives and you're looking for a justification waiting to see if the new CIO comes in to see if they match the new CIO's philosophy, but they're paid anyway.

The Committee is reluctant to offer any changes to the incentive program, so the incentives are going to continue to be paid. They talk about the standards of the industry. I find it difficult to believe that the entire industry pays incentives for nonperformance. CalPERS has established a target goal. And if they don't meet that goal, there should be no incentives. But after listening to the discussions today, there's absolutely no criteria for nonpayment of these incentives.

The Board needs to take a strong look at this and quite possibly listen to the recommendations of the Committee, but not necessarily take those recommendations, because the Committee is reluctant to offer any changes. So what's transpired in the past they're making it this new standard for each consecutive year.

So look at these incentives as what they actually are, they're PERSable allowances. Thank you very much.

CHAIRPERSON FECKNER: Thank you for your comments Mr. Fountain. I just do want to say that this Committee is not reluctant to look at changes, but we are looking at our new Global Governance Advisors to bring back a product within the next year. It was too short of a work period this year to a deeper dive this year. But this Committee is not reluctant. We're just waiting for the proper information to come to us. So I appreciate the comment.

We're back to Item 6b, which is an action item. What's the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Ms. Olivares wants to speak.

CHAIRPERSON FECKNER: I'm sorry. Thank you.

Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Thank you, Ms. Taylor. Thank you Mr. Feckner.

I had a question about 6b page five, so it's the Investment Office CEM and then the change proposed here. So I'm a little confused by the language that we're using here. So it doesn't look like we use the language "meets benchmark" in any place. It's just "underperforms benchmark" and "outperforms benchmark". What's the thinking here?

You're muted.

CHIEF OPERATING OFFICER HOFFNER: You're on mute.

MR. LANDERS: So just looking at page five. So outperforms or outperforms on return, so that second last column, what that's referring to, of course, is that there is a -- some sort of positive outperformance. So on the cost side, obviously, you'd be driving the lower costs than the CEM and on the return side, of course, that would be -- you'd be generating a certain level of positive returns for the members. And so essentially, what that's saying is, if you meet one, but not both, there is a -- there is a payment made, but less than target at half of the target. And then underperforms, of course, means that your costs were higher and your returns were higher than the -- than the average returns set in the CEM benchmark.

COMMITTEE MEMBER OLIVARES: Yes, I understood that. What I'm asking is why we don't use language "meets benchmark". So that's typically what I'm used to seeing in the investment industry where you'll have outperformance metrics based on meeting a benchmark and then exceeding that benchmark. And so I think in using the language -- or just using underperforms and outperforms, it creates a bit more confusion and makes this more contentious.

For example, if you read this as meets benchmark gets a hundred percent of bonus, it looks like somebody is performing, because they met the benchmark, right? And then if the next level was outperforms the benchmark by a certain number of bps and then gets 125 percent payout ratio, I think that would be more clear.

MR. LANDERS: Understood. I think, to be honest, if it was the view of this Committee that you wanted to clarify this a little bit, we -- you know, we wouldn't necessarily be opposed to that on GGA's side. We, you know, had no real issues with the criteria, which is why we suggested no change. And again, this is criteria that had been approved by the Committee in the past, so we didn't -- we didn't necessarily want to tweak any of the wording, if this was wording that the Committee had approved in the past.

But I don't think -- if we wanted to tweak something to say "meets" at a certain -- you know, maybe for the -- you know, for the 1 or the 0.5, I don't think we at GGA would have too many large concerns with making that small tweak in wording, if that was where the Committee wanted to go.

COMMITTEE MEMBER OLIVARES: Well, this is where I'm confused. I don't think it's just a tweak in wording. So if somebody meets the benchmark and costs remain the same, what do they get? What's the payout ratio?

MR. KELLY: It's -- this is all about relative performance. And this is a broad-based survey that's conducted by CEM Benchmarking, which is, you know, globally recognized. And this is how CalPERS compares against the broad universe of other funds within the U.S. pension system. I would say that "meets", it just is -- you're on target. And this is about are you doing better than everyone else or are you doing worse than everyone else?

And I think that is really an alignment to performance. Meeting just means, you know, you're just aligned with everyone else. You always want to be outperforming. You always want to be above and that's the key thing here. I would -- I would also -- I'd be so bold as to say meeting a benchmark is not actual performance.

You're mediocre. Real performance is outperforming. We're better than everyone else.

And I think that's where your fund, that's where I would like to see your fund go is that we always want to be on top, we always want to be better, and we always want to outperform anyone else that's in our class.

COMMITTEE MEMBER OLIVARES: Okay. Thank you, Mr. Kelly, for that, but I'm still not clear. If somebody meets the U.S. benchmark and costs remain the same, what is the payout ratio?

MR. LANDERS: It's -- let me look. Just looking here. Right now, as the wording would suggest, is if you did not outperform either of them, then I -- because you haven't outperformed either of them, I would assume that would lead to a zero payout. Because if you met it, you haven't outperformed on cost and you haven't outperformed on return. So as of the exact wording, as written here, it would be a zero -- a zero payout, because you haven't outperformed either of the two metrics.

COMMITTEE MEMBER OLIVARES: Thank you for clarifying that.

CHAIRPERSON FECKNER: Thank you.

Again, seeing no other questions, an action item, what's the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIRPERSON FECKNER: Is there a second?

COMMITTEE MEMBER MIDDLETON: Second.

CHAIRPERSON FECKNER: It's been moved by Taylor, seconded by Middleton.

Any discussion on the motion?

Seeing none.

Ms. Hopper, please.

COMMITTEE SECRETARY HOPPER: Margaret Brown?

COMMITTEE MEMBER BROWN: No.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY HOPPER: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Aye.

COMMITTEE SECRETARY HOPPER: Nicole Griffith for Eraina Ortega?

ACTING VICE CHAIRPERSON GRIFFITH: Aye.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Aye.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

COMMITTEE MEMBER WESTLY: Aye.

COMMITTEE SECRETARY HOPPER: Mr. Chair, I have five ayes, one no made by Margaret Brown, motion being made by Theresa Taylor, seconded by Lisa Middleton for Agenda Item 6b, 2021-22 incentive plan of the Chief Executive Officer.

CHAIRPERSON FECKNER: Thank you. Motion carries. I want to thank Mr. Kelly, and Mr. Landers, and Mr. Toth for their presentation and their offering of advice and information.

And we're going to move on to Item 7, employee engagement survey update.

Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Thank you, Mr. Chair. I, along with Michelle Tucker, will be presenting this item, sort of splitting it in half, so -- I think we'll be having a slide deck being presented shortly. I see it coming up now.

(Thereupon a slide presentation.)

CHIEF OPERATING OFFICER HOFFNER: So next slide, please.

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CHIEF OPERATING OFFICER HOFFNER: This item is essentially to provide the Board and the Committee with an overview of the most recent engagement survey that CalPERS has conducted. As you can see, we've been doing this for several decades. I'd like to highlight just a few of the things that jumped out at us. This is, of course, the first engagement survey we've conducted during COVID. We did do a pulse check earlier in the year and got quite positive results.

But again, the focus of engagement is really to make sure that the team members -- we're hearing from them and we're taking action in response to feedback we've received from them and prioritizing our initiatives, you know, to meet our strategic goals of meeting that organizational excellence that we strive to do.

Next slide, please.

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CHIEF OPERATING OFFICER HOFFNER: So as you can see, we did transition from a different provider. We highlight this, the prior provider was unable to meet our ADA and federal ADA compliance requirements from a technology perspective, so we needed to transition. Perceptyx is the new provider and they've done a good job in helping transition from the prior surveys to the work we're ongoing now. They also provide some fairly high level data analytics that's helpful in terms of taking action in terms of feedback from the employees.

And then they've got a broader set of benchmarks with similar organizations, which I think is also helpful for us, in terms of understanding how we compare ourselves. As you'll see in future slides, we've essentially exceeded the peer benchmarks across pretty much every category, if I'm correct.

Their base -- database includes over 12 million responses from their 355 different member organization and companies that we're compared against. And those are entities from, you know, small employers to large employers with over 350,000 employees. So there's a pretty diverse set of peers and others in that database that we're compared against.

Next slide, please.

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CHIEF OPERATING OFFICER HOFFNER: What I -- this is a little more into the weeds probably, but I just highlight the fact that there was some methodology changes from the prior provider, given different technology and uses, but there are some questions that remained exactly the same. And so we'll walk through that in the next slides to talk about where we find ourselves year over year and as we move into our next set of engagement surveys in -- later this year.

We did also, and I -- Michelle will talk about this in a little bit. There was a presentation earlier this spring before -- and we did provide the Diversity, Equity and Inclusion Report for the year. We did include optional questions for the first time ever related to ethnicity, sexual orientation, and gender, and allow the employees to self-identify, if they'd like. And so we'll talk a little bit about that and maybe lessons learned and things that we'll be doing different in the future.

Next slide, please.

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CHIEF OPERATING OFFICER HOFFNER: As you can see, the overall engagement results are quite good. You can see these are the top level engagements for the enterprise. The far right you can see the plus symbol is the overall positive increase above the peer benchmark with -- for the engagement scores. But pride in the company and highly engaged, proud of working at CalPERS, nearly 90 percent. Intended to stay at CalPERS for the next 12 months, again almost 85 percent. And the fact that the work gives them a sense of personal accomplishment again is tied back to being proud to work at CalPERS again is quite high.

So I think, you know, we saw this as very favorable, particularly in an environment where, you know, 85 plus percent of the employees were working from home and other remote locations throughout the -- this last year plus, when this survey was conducted.

Next slide, please.

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CHIEF OPERATING OFFICER HOFFNER: We also included the diversity, equity, and inclusion questions. So we did have a set of questions from prior surveys that we carried forward as well, but again, these things rank quite high in that the bright green there. Again, the employees are feeling respected and have dignity at work, which is great to hear. They feel like they really belong at CalPERS. And I think what we're generally seeing is that they feel that they can bring and be their true selves in the organization, right? So it's not just about the work, it's about the mission, and it's about their commitment to providing the services for our nearly two million members, which includes their, you know, family, friends, neighbors, et cetera.

Next question. And I don't -- Stacie's got a questions. I'm happy to take questions now or at the end of the presentation. Whatever you'd like to do, Mr. Chair.

CHAIRPERSON FECKNER: Ms. Olivares, did you want to ask now or at the end of the presentation.

COMMITTEE MEMBER OLIVARES: Now, please. Thank you, Mr. Chair.

CHAIRPERSON FECKNER: Go ahead.

COMMITTEE MEMBER OLIVARES: Mr. Hoffner, I have a question about the last item on page six of 18, all team members, regardless of their differences are treated fairly. I don't think that's a strong score. If we only have 75 percent of the team responding favorably. So I want to understand what the organization thinks is happening there.

CHIEF OPERATING OFFICER HOFFNER: Okay. Thank you for the question. So I don't know I can answer what I think that the responses is. We had the higher -- you the higher percentage of responses to this survey than we have in the last four years. The survey responses, as an enterprise, continue to go up. I think we had, I can remember exactly, I think 81 percent of the employees responded, so -- and I think what we're trying to get here -- and this is a question we've had in the past, so we can provide some overarching year-by-year data there. But I think the point was that they feel that they're being treated fairly in the organization. Could it be improved? Yes.

I mean, one of the reasons for doing surveys and engagement surveys is to -- is to get an understanding of the pulse of the organization and to make improvements. Really, that's the overall goal of all of this. Could it go higher? Of course, it can. So we're actively engaged within the organization. Each division chief, and branch leader has looked at their scores within their organization. We're also looking at things across the enterprise that are collective action items for us to work on, in terms of this. We've enhanced our Diversity, Equity, and Outreach Program. We've included new diversity and inclusion councils have been established, so really trying to engage the employees, particularly in that remote environment, as well. And try to be as open and inclusive as possible.

We've seen dramatic increase in the level and participation of those employees in these programs in this last year plus. And again, this is that sort of first set of data with this new provider and the methodology, but, you know, we always look to improve.

COMMITTEE MEMBER OLIVARES: Thank you for that overview. I would just like to say to the -- from my perspective, this number is far too low and that means one and four people don't feel like all team members are treated fairly, regardless of their differences. And we can do much better than that.

CHIEF OPERATING OFFICER HOFFNER: Like I said, we're always looking to improve in the organization.

COMMITTEE MEMBER OLIVARES: Thank you.

CHIEF OPERATING OFFICER HOFFNER: Yep.

No further questions, I'm happy to move to the next slide.

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CHIEF OPERATING OFFICER HOFFNER: So this breakout we'll talk about engagement by age. And you can see we have these sort of swaths across those under 20 to those every 60. I think the thing I would highlight here is the slightly lower score essentially relates to folks that have said that they may not be here in the next 12 months. I think based on sort of feedback we've heard from folks is that's indicative of people who plan to retire, right? So, you know, they essentially have moved through their career journey in the State workforce and have essentially sort of indicated maybe they wouldn't be here past that 12-month cycle when the question was asked.

And I'm happy to take questions or move on to the next slide.

And then as I transition, in a slide or two, we can talk a little bit about the diversity, equity, and inclusion work that we're doing as well as we kind move into the race, ethnicity, and gender feedback.

CHAIRPERSON FECKNER: Mr. Miller, do you want to ask your question no or wait till the end of the presentation.

BOARD MEMBER MILLER: I can wait till the end of the presentation.

CHAIRPERSON FECKNER: Okay. Thank you.

Go ahead, Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Okay. So this is just a slide looking at the tenure in the organization.

You know, everybody being measured from those who have been within CalPERS less than six months to those with more than 20 years of experience. And so again, all in the green, maybe 80 plus or above in terms of the potential respondents. I do think, you know, quite high marks for those in the early entry into their tenure at CalPERS.

I don't know what this will look like in the future. I mean, we tend to see that as a higher mark anyway. But, you know, it's got to be very challenging to have come into a new place of employment during a pandemic. My most direct comparison to this would be Michelle Tucker, who's going to provide the next set of talking points here. Literally, I think we've only met four times in the time that she's been at CalPERS. And one of those was probably at our Educational Forum in the October session when she won an award, before she worked at CalPERS.

So making active engagement to connect with the employees, particularly those on the early tenure side in a different environment. I'm happy to see that those are in the low to mid-nineties. Again, from that perspective, we'll see how this shakes out in the future surveys.

This data looks indicative of what we've heard from our provider in terms of sort of cycles that individuals, based on their years of tenure, go through in an organization.

Next slide, please.

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CHIEF OPERATING OFFICER HOFFNER: And right now, Mr. Chair, I'd like to transition to Michelle Tucker, who will handle the next half of the slide deck. And Michelle, maybe you can provide an overview as sort of the diversity, equity, and inclusion framework as well, which is part of the discussion that you provided back in the spring in the Diversity and Inclusion Report that was presented to the committee.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Hoffner. Thank you, Mr. Chair. Happy to be back discussing this. And we did have a really I think deep discussion in March about these topics.

At that time, we talked about how CalPERS is really at the forefront of asking this these questions and working with our survey provider. They let us know that this is a need that they're seeing and we're really one of the early adopters for (inaudible)

We prevent double counting because we have a link that is separate for each team member when it's sent to them. So the survey can only receive back however many team members we have. So in terms of preventing double counting, if a team members identifies -- suppose I identify as Native American and white, I can check both boxes or I can check multi-race. So there could be some overlap in the categories. That is a possibility, but it also provides for confidentiality. So we don't have this record tied to particular individuals, so that was really important that people felt that, you know, there -- this was a secure place to indicate their racial or ethnic identity.

COMMITTEE MEMBER OLIVARES: So if somebody is say four or more of these categories, how is that divided? Is it -- does our system say -- just assume a quarter, a quarter, a quarter, a quarter? That's where I'm not clear.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Why don't I confirm with the -- and I can confirm with the team that you can check multiple. But my understanding is that if you identify with more than one category on this survey that you can check more than one and then it would -- I see your question is the percentage to the total. Why don't I get the -- I can get the information --

CHIEF EXECUTIVE OFFICER FROST: Yeah. Ms. Tucker, why don't we --

HUMAN RESOURCES DIVISION CHIEF TUCKER:

-- confirmed.

CHIEF EXECUTIVE OFFICER FROST: Why don't we take as Committee direction if -- with the Chair's permission, that we'll contact the survey provider and get this calculation and provide it to the full Board or full Committee.

CHAIRPERSON FECKNER: That will be direction.

COMMITTEE MEMBER OLIVARES: Thank you. And then the other question.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Ms. Frost. Thank you, Mr. Chair. Sorry.

COMMITTEE MEMBER OLIVARES: The other question I had is on the intersectionality of race, ethnicity, gender sexuality. I didn't really see any intersectionality here and I think that's something we've discussed in the past. Would it be possible to get more information on that?

HUMAN RESOURCES DIVISION CHIEF TUCKER: Possibly. I can take that back as an action item as well. For many of these categories, you can cut the data different ways. So you could see -- and I believe what you're asking is if I wanted to isolate, for example, Native American females, could I isolate that and see those responses, is that what you're asking, Ms. Olivares?

COMMITTEE MEMBER OLIVARES: Possibly, or if we could just have a one-page document that shows us, for example, the -- just that intersectionality, so, for example, women of color, or people of color who are LGBT, so we understand how we're performing in different areas.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes. We can -- we should be able to produce that. Let me take that, if I may, as an action item as well to go back and see what we can produce there.

COMMITTEE MEMBER OLIVARES: Thank you. And I think that would get back to my earlier question I had about what we're seeing in terms of people feeling like they're being treated fairly, based on differences. So I think that would help us be more informed.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yeah, absolutely. Absolutely. I've got that down as an item.

COMMITTEE MEMBER OLIVARES: Thank you.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you. So for slide eight I think we're still at, if we can bring the presentation back up.

Okay. Thank you.

So this again does show the correlation between the overall engagement results and one of the new self-reporting categories we asked, which was race and ethnicity. The majority of team members who reported their race and ethnicity strongly agreed with the engagement question. And so one thing that we did want to just point out here is that there was a strong correlation between comfort in answering these questions and your engagement level. So you'll note on the far right the team members who preferred not to respond had lower engagement scores overall.

And Perceptyx, our survey provider, did indicate that is something they consistently see. When you have optional questions to the team members who answer, optional questions tend to be more engaged.

Next slide, please.

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HUMAN RESOURCES DIVISION CHIEF TUCKER: Another self-reporting question that we asked team members to share was their gender or gender identity. I think I'm one slide too far forward. I should still be on gender and gender identity, please.

So for gender and the gender identity, we did have a small portion of team members who identified as transgender, or other non-binary, or who use another term. But because there were fewer than five responses within each these groups, those results not reflected here to ensure confidentiality. And we are working actively with our Diversity Office as well as with our new -- our Acting Chief Diversity Equity Officer to really explore this and see how we can encourage presentation in the survey in the future.

Next slide, please.

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HUMAN RESOURCES DIVISION CHIEF TUCKER: So this next slide is engagement by sexual orientation. And this is the last of the self-identity questions. And the majority of the individuals who chose to provide their sexual orientation indicated strongly agreed with the engagement question. And again, there were fewer than five team members who identified as lesbian or who use another term. And so again, those scores are not reflected to maintain confidentiality. We will continue to work with our employee resource groups to really encourage engagement and participation on this survey.

Next slide.

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HUMAN RESOURCES DIVISION CHIEF TUCKER: In addition to overall engagement, other top scoring areas for CalPERS include clarity of direction. So here, team members have a clear understanding of our organizational goals and objectives, and they know what is expected of them at work. And they also feel that their senior leadership team keeps them informed of CalPERS manners -- matters.

Manager relationships were another high scoring item. Here, team members and team leader relationships were very positive. Team members feel that their team leader keeps commitments, cares about them as a person, and are comfortable discussing concerns with them.

And performance management. Team members believe that their team leader clearly communicates performance expectations, provides useful feedback on performance, and roles and responsibility with their team are clearly defined.

Areas of focus for us moving forward would be employee empowerment. Team members do want to feel more involved in decision-making processes that affect their work and they want shown that sufficient effort is made to get input from team members.

Growth and development. While team members feel their team leaders support their skill and career development, they would like more career opportunities at CalPERS.

And team work and collaboration. Team members believe their immediate team works well together and they want to see more effective communication between divisions. I would like to highlight that in all categories, we do see the Perceptyx benchmark by more than four percent. And taking care of team members has been a top priority of the executive team, especially during the COVID-19 pandemic. Regular communication from Marcie Frost with her daily emails, regular web chats, and the ability to email questions and concerns so she can address them each week has been important to CalPERS team members during the last 18 months. It's encouraging to know that these efforts are making a difference as are reflected in our high engagement scores.

Next slide, please.

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HUMAN RESOURCES DIVISION CHIEF TUCKER: The next slide is the employee experience question. This is also known as the employee net promoter score. And this is something that we can directly compare between our last survey provider from -- and our new survey provider. So the -- this measurement uses a net promoter score to gauge the team member's overall satisfaction working at CalPERS.

And we have consistently scored high in this area. With our previous survey provider, year over year, we exceeded their benchmark by 30 points. And this year, we scored 43, which is a nine percent improvement compared to last year and almost 31 points above the Perceptyx benchmark.

Let's see, I have -- ready for the next slide, please.

Actually, I see Ms. Taylor had a comment. Would you like me to take that now or --

CHAIRPERSON FECKNER: Ms. Taylor, do you want to ask your question now or at the end?

COMMITTEE MEMBER TAYLOR: Yeah, it was on this slide, so --

CHAIRPERSON FECKNER: All right. Go ahead.

COMMITTEE MEMBER TAYLOR: I just -- while this is better than last year, and I appreciate, and it's 57.1 percent, getting close to 60 percent. As a State employee, you want to make sure that more of your employees would recommend as a place to work. So it's -- it can be a plus or a minus that we're at 57 percent. I think, you know, I'd like to see that higher. So I'm hoping we can find out the passive people, what is their problem. You know, detractors, that's -- sometimes it's hard to change minds there, but at least with the passive people, what kind of work are we doing to engage, so that people are feeling more like this is a destination employer?

CHIEF OPERATING OFFICER HOFFNER: So maybe I could jump in there real quick. Doug Hoffner, CalPERS team. So if you can see in the bottom on the left-hand side of that screen, you can actually see we moved some of the passives. They were higher last year in 2019 when that survey was conducted, into the -- I presume the promoters, because detractors also went down. So really, the emphasis here is to focus on those passive employees and to really try to shift them into that promoter score.

Again, you know, there's a net -- there's a total score of a hundred you could get here or a negative 100. So I think, you know, we're at 30 points above -- 30 percent above the benchmark as well, and we could talk a little bit about that, but we do focus, Ms. Taylor, particularly on the passive folks to basically move them from that sort of neutral position into promoters of the organization. And so we have seen progress over time there as well. And we continue to focus on that as we go forward.

COMMITTEE MEMBER TAYLOR: Is there any particular thing that you do when you notice this is occurring, like how do you -- how do you engage them to move them?

CHIEF OPERATING OFFICER HOFFNER: It usually gets down into the division or unit level discussions, but trying to really seek additional feedback from the employees. This is one data point. So really we go back and essentially at the division and unit levels is have discussions with the teams about, you know, what is happening within a particular, you know, area? And there probably could be different -- differences within that, that would drive them to have a different outcome of that score.

And so really trying to understand where they're coming from. Again, this is a point-in-time survey. It was done over a two-week period of time, but really trying to seek feedback, right, and to the degree you can get more engagement, more feedback, more participation. We also look at things in -- you know, essentially the pulse check survey is coming out and doing more of those, as well as other things to basically seek feedback from the employees that would drive them to higher levels of engagement and -- you know, and a higher promoter score there.

So I don't know that there's any one thing, but really hoping to understand kind of where they're at, where they're coming from, and there are things that we can do within the organization to move them into that more -- that other category is really the emphasis. But we have to get feedback from them as to what would be helpful for them.

I think that's going to be reflective in some of the future slides. We do ask questions. What we think is working really well, we -- and I think that's in slide 14 or 15, as well as things they think we can improve upon. So I think if you look at those in conjunction with the score, you're getting more direct feedback from the employees, as well as where they think we can do better or continue to focus on.

COMMITTEE MEMBER TAYLOR: Thank you. I do appreciate the fact that you guys do something like this and you've got such high engagement in it, so -- and I do understand and appreciate this is a relatively high score for State agencies. So I think CalPERS still is a very much -- very much a destination employer, but I just want to make sure we continue to engage our employees.

CHIEF OPERATING OFFICER HOFFNER: Yeah. And just to clarify, I mean the peer group that I mentioned earlier is, you know, companies public and private, and different industries as well, so it's not just State government. So when you see this 30, you know, point nine percent above their benchmark, that's encompassing very large to, you know, 350,000 employee-type companies to much smaller organizations. So it covers the gamut. So I think we would compare quite favorably in both public and private sector.

COMMITTEE MEMBER TAYLOR: Yes. Thank you.

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HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Hoffner. So I think we are on the next slide.

Thank you.

So we also asked team members what is working, what are we doing well? And to learn more about how they feel about CalPERS' culture, team members we're asked a variety of options that they could select. Approximately 55 percent of team members said that we're doing well in fostering work life balance, providing learning and development opportunities, and focusing on our customers, as well as valuing diversity

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HUMAN RESOURCES DIVISION CHIEF TUCKER: We also asked team members where we could improve. And here, 32 percent of team members believed there's an opportunity to improve collaboration between divisions. So this feedback has helped really guide organization-wide action planning initiatives. As I'll talk about in the next slide, the Senior Leadership Council, as well as our executive team and individual team member leaders are taking on this activity and action planning.

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HUMAN RESOURCES DIVISION CHIEF TUCKER: So the purpose of the action planning is to address feedback from the survey and convert actionable insights into positive changes. So we asked all levels of the CalPERS leadership team to implement action plans to each of their divisions and for each individual team leader over their specific work unit.

At an organization-wide level, the Senior Leadership Council is working to improve communication and collaboration between divisions. This focus area was selected because team members told us this is where CalPERS can improve as we referenced on the prior slide.

The Senior Leadership Council has devised strategies to address communication and collaboration between divisions. And guidelines have been developed to ensure consistency amongst those divisions. So our approach includes identifying areas for cross-divisional business process handoff can improve communication. Also, we are inviting division chiefs and executives to discuss various topics during division-specific all-team meetings.

While the Senior Leadership Council has focused attention on organization-wide initiatives, branches and divisions have been encouraged to implement action plans based on their area's unique results. For example, some divisions have conducted focus groups, held division chief open house sessions, and then also invited guest speakers to attend team meetings. So based on their individual results, they have customized their response.

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HUMAN RESOURCES DIVISION CHIEF TUCKER: In the coming months, as Mr. Hoffner indicated, pulse surveys will be administered to measure the impact of employee engagement survey initiatives. And we will continue to support and influence the diversity, equity, and inclusion framework through the employee engagement survey. Asking and reassessing the demographic question in future surveys will enable us to monitor trends over time and really hone in on where we can be most actionable and produce the greatest effect. We will continue to maintain our partnership and collaborate with the CalPERS Diversity and Outreach Program, and employ research -- resource groups to ensure we are measuring the success of our DEI initiatives, so that we continue to create a culture of inclusivity.

And with that, that does conclude our presentation. So I'm happy to take any questions at this time.

CHAIRPERSON FECKNER: Thank you.

Mr. Miller.

BOARD MEMBER MILLER: Yeah. Thank you for the presentation. I'm really happy to see that we have the capability for the segmentation and to be able to drill down. And I'm hoping that, you know, as time goes on, we'll get more systematic with our approach to the segmentation, and the drilling down, and actually continuing to develop these action plans where we see things, because coming back to the point Ms. Olivares made, when we have a number, say 10 percent, that are in the unfavorable, or bottom box, that may not seem like a whole lot, but if you've then -- the analysis shows that that entire 10 percent is constituted by an intersection of two segments that are important that feel very strongly, being able to do that drill down and really start to get to root causes is going to be really important for us in the longer run.

The other thing I would say is when it comes to comparisons and benchmarks, and I'll try not to geek out too much, because I do a lot of this kind of work, looking for what are the most relevant benchmarks to us. So for example, if we're using a benchmark that's an average or an aggregate of a whole bunch of different kinds of things, that gives us coverage. But if we really want to be looking a best-in-class benchmarks or top quartile, top decile, I would think that those kind of benchmarks would be available.

I also would really like to see us reporting top box, not favorable and just unfavorable. It gives us definitely a different perspective and picture on things, and -- because again, sometimes these raw normal scores aren't that helpful in terms of figuring out where you compare, if your vision is to be, you know, the best or top quartile, or top decile and you're comparing yourself to the average of a whole array of organizations ranging from totally unsophisticated to private sector.

And then the final thing I'd just mention is I think there's a real opportunity to -- and you may already be doing it, but coordinating with CalHR and some of the leading -- other leading departments, because they've done a lot of work on understanding employee engagement in the context of State government, which is somewhat unique, and we have some unique challenges and opportunities. But knowing that that's where we primarily draw from for our -- most of our rank-and-file workforce, it would be good to get that perspective as almost a direct kind of competitor comparison in terms of workforce to understand where there may be opportunities and where our strengths really are with respect to that.

So that's my suggestions for the day.

CHAIRPERSON FECKNER: Thank you.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Thank you, Mr. Chair. And my thanks to Ms. Tucker, Mr. Hoffner, and everyone who's involved in these efforts. This is not easy work by any stretch of the imagination, and I applaud what you're trying to do.

I think metrics are important. They give us a sense of direction. But when you're trying to gauge employee satisfaction and their comfort levels, there's still no replacement for one-on-one conversations between leadership and employees, and getting to a place where there is the trust that allows you to learn the things you need to know to make the improvements that I know you're trying to make.

So I encourage continuation of this. Let's look at metrics, but let's not beat ourselves up too much on an individual score.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chair.

So I had a couple of things. One, I just thank you guys for this report. It's better than last year. I appreciate all of the granular stuff that we're seeing. And I'm also -- I just want to say that I'm really happy that we're making human capital metrics transparent, because, you know, that's what we're asking our asset managers to do for us, and companies that we own. So I think those expectations that we are holding ourselves accountable is really important and very -- I think it's very forward thinking. So we don't -- we can't ask ourselves to do something that we're -- you know, that we want -- or not doing something that we're not -- or that we're asking other companies to do. So really appreciate this report and the hard work that goes behind it. I will also say that there is a lot of work that goes behind trying to get these surveys done. And knowing that some people don't want to respond, it gets -- it's difficult to get a lot of engagement and really you guys did really well with getting more engagement this year, so I'm very happy to see that.

And then I had just one other thing. It's unclear, because it -- you're giving us kind of a high level overview of your diversity and inclusion work. One of the things as a representative of employees that I think is important is that we continue to engage rank-and-file to make sure that they feel like they're -- for -- our people of color feel like they have a path into, you know, wherever their career path that they want to take, whether it's promotional to management or whether it's promotional into -- you know, or analytical stuff, whatever, but making sure that they feel like that is something they can -- they can do.

Sometimes that's not always clear for a lot -- for some of our employees and I've heard these things coming from our employees, not just at CalPERS but at other State agencies, but I have heard it at CalPERS. So I just want to make sure, Michelle or Doug, are we like looking at that rank-and-file how they feel about where their career is going and whether or not they're being hindered because of race, or sexual orientation, or any of those avenues. And that's kind of a really granular question. I know that's difficult to answer.

CHIEF OPERATING OFFICER HOFFNER: So I don't know if I can get to the granular level that Ms. Taylor is asking for, but, I mean, clearly the employee feedback that we saw I think on slide 14 or 15, which talks about one of the things they think we're dealing really well is the career development and the ability to develop themselves within CalPERS is one of the things we see in almost every survey we conduct of the employees. It's one of the main reasons they stay in this organization is that we're -- our interest and willingness to develop and put the time, and effort, and energy into growing them as talented individuals. So I can't say that gets to the level by, you know, you mentioned sexual orientation, or race, or ethnicity, but clearly it's one of the things we're seeing across the broad swath of the employees in terms of their responses.

And I think maybe to the prior questions that Ms. Olivares and some others asked about getting into more granular detail, we could look at that. But that's one of the things we see. We have an emerging leader program.

We're in our fourth or fifth cohort that looks at employees that may want to move into management over time. We put them into programs. It's a competitive process, but we look at these issues in terms of performance, et cetera, in terms of the scoring of those proposals as they go in.

So again, there's multiple ways to allow folks to come into some different programs that we have in terms of career development within CalPERS. There's a whole complete Career Development Services Program under Michelle's leadership that again is highly sought after by employees. We just did a career development day last week. I think it was last week. It seems like it was much farther along. But we spent basically a day -- Marcie and Michelle had a one-hour plus web chat to talk and take direct questions from employees about career development, how they grew in their organization, and what they can do and provide additional resources.

So essentially was day of virtual career development, but provided a lot of different avenues for folks from all spectrums of the organization to have the tools that would be necessary to grow and develop themselves.

We've also developed and implemented an upward mobility program within the State. That's something that's not just a requirement, but it's something we've been instituting and have worked with CalHR and others on that. So those are just a few of the things.

And we could talk a little bit more about the diversity, equity, and inclusion framework. That presentation was made in the spring, but there are five major tenets there. And I think, you know, Michelle touched on it a little bit, but, you know, the talent, the culture, talent management, supplier diversity emphasis, which again, I think, really to Ms. Taylor's point is really consistent with what we're talking about with the companies that we own in terms of the investments that we make on behalf of the membership. So more work there.

Again, I mentioned earlier, the employee resource councils have seen dramatic improvement I think in terms of participation, upwards of 200 percent in participation by folks of again all spectrums in the organization, in terms of rank-and-file and leadership, et cetera. So those are open to everybody. There's no prohibitions to participating in those events. And we're having those on a pretty much monthly basis.

Michelle, myself, and other leaders, Brad Pacheco, Marlene Timberlake D'Adamo, and others are all active participants, sort of from an executive level as well to really foster that culture in this organization that I think will make and want to keep people working here.

COMMITTEE MEMBER TAYLOR: Thank you very much. I appreciate that.

CHAIRPERSON FECKNER: Thank you. Thank you to both Ms. Tucker and Mr. Hoffner for this presentation.

That brings us to Agenda Item 7b, summary of committee direction. Mr. Hoffner, Ms. Tucker either one of you have anything?

CHIEF OPERATING OFFICER HOFFNER: I do have a few things. And I'll probably seek some Committee clarification. So I think I had three related to Agenda Item 6a or so, the discussion that took place there. I was sort of frame this as maybe something that's for future GGA workplan for the 21-22 fiscal year, but essentially looking at there's a discussion about the review of the stakeholder questions. I know that presentation is coming in the full Board later today. So that might suffice. I don't know, but I think there was a thought of having them review that as part of the metrics that they do on an annual basis or will be doing, given the role as your Board's independent consultant.

There was a comment related to salary comparisons or total compensation related to the CEO. I think I'd like -- I seek clarification there. I think there's some comment about other positions. So I think Ms. Middleton was asking for that, but is it really for one position or for the positions covered within the policy? I know that GGA and McLagan just did a survey or a work product for CalSTRS in very much similar vein, but I just want to be seeking clarification. Is it just an individual or more than one covered position?

And I'll pause there, if there's Committee feedback to that. Otherwise, I'll go to the next...

CHAIRPERSON FECKNER: Ms. Middleton, anything you wanted to offer there?

COMMITTEE MEMBER MIDDLETON: Doug, could you ask that question, please?

CHIEF OPERATING OFFICER HOFFNER: So there was a dialogue regarding, I believe, it was sort of couched around salary, but really about total compensation related --

COMMITTEE MEMBER MIDDLETON: Yes.

CHIEF OPERATING OFFICER HOFFNER: -- to the CEO position. And the question I have is there are other covered positions within the policy. Typically, we bring back an item and usually in the spring that asks the Committee the question about looking at comparisons of your peers. So it's -- really, it begins with GGA asking you here's what your existing peer comparison group is.

Is that still sort of acceptable? Do you want to see more or less, different groups come into the fray there? And it's really -- so it's a lot of work, if we're going to relate to one position or is it really covering covered positions within the policy? And just I'd want to give them that distinction or have you give them that distinction, so they know what level of work to do for that review, at a future meeting.

COMMITTEE MEMBER MIDDLETON: Thank you. My primary concern is with the CEO. You raise a good question as to whether or not we should expand that survey. I think the CEO is essential. Depending on what workload and time limits we have, expanding the survey could be helpful.

CHIEF OPERATING OFFICER HOFFNER: Okay. Thank you. The other item - I think this is really for the internal team - is sort of bringing back -- there was a question or comment made around the total compensation, versus base, versus total comp that was paid out. So I think we can provide a memo to speak to that and maybe look at some prior year data, so essentially get an idea of what those ratios are.

And then the fourth and final one that I took down was really related to some of the calculations. We talked about this engagement survey item. And I don't know if it's really Committee direction, but the intersectionality of that work. And so I think to me that's more of a -- I'm happy to take that as direction, but essentially work -- we can work with our -- the survey provider on for the next round of surveys, which won't be till sometime later in the year, but to address those comments and questions that were made by, I think, both Ms. Olivares and I think Ms. Taylor as well.

CHAIRPERSON FECKNER: Very good. Thank you.

That brings us to Agenda Item 7c, public comment. I understand we have no public comment at this time.

Mr. Jones, what time would you like to start the Board meeting?

PRESIDENT JONES: Let's say 11:25. That gives about 10 minutes.

CHAIRPERSON FECKNER: All right. This meeting is adjourned. We'll see you all in the open session at 11:25.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 11:14 a.m.)

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Performance, Compensation & Talent Management Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of June, 2021.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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