MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

OPEN SESSION

ZOOM PLATFORM

WEDNESDAY, NOVEMBER 30, 2022

9:00 A.M.

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

APPEARANCES

BOARD MEMBERS:

Theresa Taylor, President

Rob Feckner, Vice President

Fiona Ma, represented by Kathryn Asprey

Lisa Middleton

David Miller

Eraina Ortega

Jose Luis Pacheco

Ramon Rubalcava

Mullissa Willette

Betty Yee, represented by Lynn Paquin

STAFF:

Marcie Frost, Chief Executive Officer

Douglas Hoffner, Chief Operating Officer

Robert Carlin, Senior Attorney

David Teykaerts, Assistant Division Chief, Stakeholder Relations Division

Michelle Tucker, Chief, Human Resources Division

Karen Van Amerongen, Assistant Chief, Human Resources Division

ALSO PRESENT:

Randy Cheek, Retired Public Employees Association

J.J. Jelincic

APPEARANCES CONTINUED

ALSO PRESENT:

Brad Kelly, Global Governance Advisors

Peter Landers

INDEX

PROCEEDINGS

PRESIDENT TAYLOR: It is 9 a.m. and I'm going to call the open session of the Board of Administration training session to order. And with that, I would like to have roll call, please.

BOARD CLERK: Theresa Taylor?

PRESIDENT TAYLOR: Here.

BOARD CLERK: Rob Feckner?

VICE PRESIDENT FECKNER: Good morning.

BOARD CLERK: Kathryn Asprey for Fiona Ma?

ACTING BOARD MEMBER ASPREY: Here.

BOARD CLERK: Lisa Middleton?

PRESIDENT TAYLOR: I think we're still checking into Lisa.

BOARD CLERK: Okay. David Miller?

BOARD MEMBER MILLER: Here.

BOARD CLERK: Eraina Ortega?

BOARD MEMBER ORTEGA: Here.

BOARD CLERK: Jose Luis Pacheco?

BOARD MEMBER PACHECO: Present.

BOARD CLERK: Ramon Rubalcava?

BOARD MEMBER RUBALCAVA: Present.

BOARD CLERK: Mullissa Willette?

BOARD MEMBER WILLETTE: I'm here.

BOARD CLERK: Dr. Gail Willis?

PRESIDENT TAYLOR: Excused.

BOARD CLERK: And then Lynne Paquin for Betty Yee?

ACTING BOARD MEMBER PAQUIN: Here.

PRESIDENT TAYLOR: Okay. It looks like everyone is here. And with that, I guess we start with our training. So I guess I'm going to hand it over to Brad and Peter.

HUMAN RESOURCES DIVISION CHIEF TUCKER: I have a few comments, if you'd like, Ms. Taylor, to launch --

PRESIDENT TAYLOR: Is that Michelle? I'm sorry, I couldn't --

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes. No worries.

PRESIDENT TAYLOR: Absolutely go ahead, Michelle.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Good morning.

All right. Good morning and thank you, President Taylor. Members of the Board this is Michelle Tucker, CalPERS team member. And I'm joined today by Peter Landers and Brad Kelly of Global Governance Advisors, or GGA, which is the Board's primary compensation consultant.

At the June 2022 Performance, Compensation and Talent Management Committee meeting, GGA presented several policy recommendations for the Committee's consideration.

At that time, the Committee directed GGA and CalPERS team members to schedule a workshop for further discussion on compensation topics.

Based on the Committee's direction and feedback from Board Member interviews, today's workshop will cover various components of the Board's Compensation Policy for executive and investment management positions. Today's discussion will set the foundation for the Board to consider policy options related to compensation for statutory provisions covered under Government Code 20098, which gives the CalPERS Board of Administration the authority to set compensation for covered positions consistent with its fiduciary responsibility to its members to recruit and retain highly qualified And affected employees for those positions.

Included in the presentation are two recommendations before the Board for action today. The first is setting appropriate comparator groups for compensation benchmarking and the second is revising salary adjustment and performance matrices.

Based on the Board's decision regarding comparator groups, CalPERS is prepared to engage McLagan to pull revised compensation survey data. GGA will then return at a future meeting with recommendations for compensation adjustments to align CalPERS compensation to the revised comparator group. The intent is to make any approved recommendations effective for fiscal year 23-24. Upon the Board's approval of the salary adjustment and performance matrix, changes will become effective immediately, and will be utilized for the appraisal process at the end of this fiscal year.

In addition to these two decision points, GGA will collect the Board's feedback on several other policy topics and return with recommendations at a future meeting for specific policy changes to refine and improve the overall effectiveness of the compensation program.

That concludes my opening remarks and so now I'd like to -- if -- Ms. Taylor, as you mentioned, to invite Mr. Landers and Mr. Kelly to begin their presentation.

PRESIDENT TAYLOR: Okay. And just before we do that, I want to notate that Lisa Middleton has joined.

So go ahead.

MR. KELLY: Excellent. Thank you very much Madam Chair and good morning to everyone. As Michelle has just outlined, today's session we'll be talking about your Compensation Policy, basically trying to get to a determination of some of the issues that have been addressed or have been discussed over the last number of months. And with that, can I ask if -- can the -- can the material be posted, please

(Thereupon a slide presentation).

MR. KELLY: There we go. Excellent. And I'll move everyone up to my other monitor.

Perfect.

Thank you.

And can I get the next slide, please.

--o0o--

MR. KELLY: So today's session, one of the key things that we're going to be doing is basically starting the foundation. If you recall, when we first started this engagement with your pension system one of the key things we said was at every juncture we'll do our best to make sure that not only are we guiding you through the best recommendations and best direction, but also educating you along the way to make sure that you fully understand not just what you're deciding, but why you're deciding it as well.

So we're starting with, you know, sharpening the focus, talking about your governance fiduciary duties. Then we're going to get into kind of the general program principles, which is one of the key elements that we recognize needed to be addition -- or added to the policy up front. After that, we'll be talking about the incentive design program -- program design. We're going to talk about measuring investment performance, and, you know, some of the discussions around that. We'll also be discussing the construction of a comparator group, so as Michelle mentioned, so that we can always make sure that we're pulling the right data.

We're going to be talking about the salary adjustment and performance matrix, and, you know, how you can come to the determination of a fair COLA adjustment or performance adjustment at the end of every fiscal year. And then finally, the authority to defer, reduce, or eliminate some of the discretionary and procedural issues around that, that could provide a bit more clarity.

And finally we'll do a wrap-up to make sure that we do have exactly what we need at the end of this session to go forward, both on the absolute decisions that we need from your Board, as well as some of the recommended directions that we'll be implementing in the policy.

So can I have the next slide, please.

--o0o--

MR. KELLY: So again just to remind you of what Michelle just walked you through. The purpose of today's discussion is to decide on specific policy changes that will help to refine and improve your overall effectiveness, so CalPERS compensation program just for the senior leadership and Investment staff. And this is what -- we want focus on the team members that fall under the policy, because this is your relate -- your responsibility. Specifically, we -- as mentioned -- as mentioned before, we need a decision on the revised peer group, so that we can start moving forward and also on the salary adjustment performance matrix, so that we can get prepared for the next year. And then all other items discussed today will be basically taking your direction, including them in a revised red-lined version, your policy. And then that will be fully discussed at that -- February's PCTM meeting.

Next slide, please.

--o0o--

MR. KELLY: So in terms of, you know, why you're here, and why we're having this session, and why we need you to make these decisions.

Next slide, please.

--o0o--

MR. KELLY: We always want to make sure that there's clarity on your part in terms of, you know, why -- the importance of what you're doing and why you're doing it. And so, you know, we want to make sure that you have clarity here. So we want to make sure that, you know, the success is based on clear roles and focused efforts. And, you know, sometimes management and Board -- boards tends to step on each other's toes and we want to make sure that there's clarity here in terms of what's expected of you as fiduciaries and as Board members of the CalPERS Board of Directors.

Effective boards remain focused on strong strategic direction and oversight. We want to keep you out of the weeds. And this is a quote that Pete and I love to use on a frequent basis, the Board's role is to pull management out of the trees to see the forest. We want you to always focus on the big picture, the strategic direction and the overall attainment of that long-term strategy for your Board, for your -- for your system, for your members.

And when we apply that towards the compensation design, we want to make sure that you're affirming that the compensation design is always aligned with your strategic vision, and as -- and the positive impact that it has on attracting, retaining, and establishing a performance environment for your system.

Next slide, please.

--o0o--

MR. KELLY: In terms of market-leading funds, because I know, you know, we always tend to compare ourselves to everyone else on the street. And when we look at the market leaders right now in the public pension community, the top pensions, the ones that -- what we would say are over a hundred percent fully funded, they are currently recruiting top investment professionals and highly skilled board members. And why are they doing this? Because they're building an internal capacity to manage their assets, to have internal management teams, and to help replace that costly external service that they -- that they typically had used in the past.

They do offer higher compensation opportunity levels and they do this specifically to attract, motivate, and retain that top talent that they need and that helps them to substantially lower their external management fees. And that increase in expenditure more than offsets the total cost of what they normally would cover on the external management side.

What we also know is that internal teams often perform better for investors, since the entire team is directly aligned with the mission, vision, and values of your pension fund. If you -- if you look at some of the external providers that you're using, oftentimes they're dealing with multiple LPs, multiple limited partners out there, that are all within their fund. And sometimes, you know, there is -- sometimes there can be a misalignment.

Having everything internal or having your team focus solely on your mission, your strategy, your objectives, it really helps them keep focused and help with the overall probability of maintaining that success for your fund.

This is often done through the incentivization through long-term incentive plans, again to focus on that -- those long-term absolute returns that everyone needs. They're also setting up offices strategically in global places, New York, Hong Kong, Sydney, India. They're really expanding. And the reason why is because they're competing against every other asset manager, every other investment entity out there and they want to make sure that they're closer to where the deals are, and that they have the opportunity to get to those deals quickly, do their due diligence, and actually take advantage of the opportunity there.

In terms of the above changes, they've all led to pension -- the pension fund deficits being reduced or almost eliminated. As you all know, Peter and I are Canadian and we're not here, you know, basically, you know, with our own marching band here. But what we can say is that here in Canada, the median for all our public pensions is 108 percent funded. That's quite remarkable. There's less than four percent of Canadian funds that are below -- I believe below 80 percent funded right now.

So this is a time-tested and proven approach. And it's something where we would strongly suggest your fund consider. And how can you get there? Well, as I mentioned before, one of the key ways that they've done that is by strategically focusing on the compensation that they're offering and the recruitment and retention of talent that they need to help offset those higher external fees.

Next slide, please.

--o0o--

MR. KELLY: In terms of enhancing your overall effectiveness through your compensation governance, your roll as a -- as a Board member, Board trustee, you always have to make sure that the compensation program, the decisions that you make maintain an alignment with the mission, vision, and values and the strategic objectives and the activities that you want to have in your organization. With the proper alignment there, you want to make sure that you're helping to facilitate good, quality talent management, the attraction and retention of good talent, a strong performance culture, and performance management program, and then strong execution on the -- on your -- on the actual activities of your fund to make sure that you are obtaining what you've set out as your vision to obtain in the near and distant future.

Next slide, please.

--o0o--

MR. KELLY: When we talk about incentive programs specifically -- and I know we had this conversation earlier about the Great Resignation that the world has experienced over the last little bit through the pandemic. A McKinsey study came out and they found that employees they want good pay. They want benefits. Those are key elements that help to make their decisions aware they end up working. But ultimately, they really want to make sure that they are valued, that their contributions, their performance, the skills and the qualities that they're bringing to the table are being recognized.

And when you look at the incentive plan, an incentive plan really needs to be transparent and transparency is key for the success of any incentive plan. It has to be clear on the objectives and what the incentive plan is trying to achieve, realistic on the expectations, not putting, you know, sky high expectations on your staff. And then also having multiple check-ins and strong communication throughout that annual cycle, so that you're clear on what's happening. There are no shocks. And everyone is clear on what those expectations are, and what the -- what the actual performance will be at the end of the day.

What we're finding is that programs that help to really identify the value that employees are bringing to the table, it's no longer a fringe benefit for a lot of them. It's now a necessity that they have to have within their overall tool belt. And when you look at the overall effectiveness of a plan, you have to make sure, you know, is it doing what it's -- what it's intended to do and basically what is your underlying intention for that plan to make sure that that's being clearly communicated to your staff.

Next slide, please.

--o0o--

MR. KELLY: And so when we look at the recognition of performance a lot of organizations have put a tremendous amount of effort and focus on teams and strong team building. A study was done in 2016 that we often like to quote. This was a study that was done through Cisco Systems. They had 297 teams. They identified through a number of key indicators 97 high-performance teams. And they compared them to the remaining 200. And what did they discover? What set these 97 high performing teams a part from the other 200. Well, they discovered three key distinctions. They found that the teammates played to their strengths, so they truly understand -- understood what the strengths and weaknesses were of everyone and they made sure that everyone was really working on the key things that they were good at, and that everyone was working towards their strengths.

They felt -- the teammates felt that they were safe to share their ideas, opinions, possibly to fail too, but they never felt that there was an overwhelming pressure on them to not open up and to not to speak their mind. And that way they were able to get really good ideas and good quality discourse around the table about, you know, how the team should perform.

And then finally, the team -- the teams were aligned with their values, not just with each other, but aligned to the values of the organization as well. And so basically when you look at the recognition and your recognition programs, i.e. your incentive programs, you want to make sure that you're recognizing teams in some way, because their collective performance really will have an impact on the overall performance of your fund going forward.

Next slide, please.

--o0o--

MR. KELLY: So when we look at positive incentive plans and at-risk. And when we were talking to external stakeholders, your members, you always want to make sure that you're clear that an incentive, if designed properly, is always at risk. It will not be pay out if the performance and the returns or the benefit is not gained by the organization. So what makes a good positive incentive plan? One, it's clear on the expectations and the process through which everyone goes through on an annual basis. It promotes buy-in, so that everyone says wow, I really need to participate in this. I want to participate in it, because I can benefit from this and our organization can benefit from it.

It's based on influence. So am I being tasked and expected to perform in areas that I have some level of influence and control on or is everything outside of my span of control? And am I, you know, purely just either a beneficiary or a victim of everything else that's happening around me?

It's assess on -- it assesses attain -- I'm sorry, attainability. And when we look at attainability, these are the reason why Peter and I have delivered some of the probability assessments that we've done for you over the last little while, strictly so that you can assess the attainability levels to say what is fair, what is defensible, and what is the communi -- what -- how are we communicating that back to our employees in a fair way, so that they understand that this was -- truly was calibrated in a fair and objective way.

They also rely on strong communication. And this is part of the annual cycle, so that there's open discourse around performance and what's happening, both on opportunities, but also on barriers to performance as well. Plans should be simple. I think the banking communities throughout North America have, you know, some of the most complex programs you could ever imagine. If you want to really look at complex plans, I would -- I would encourage you to look at any of the annual proxies that they release on an annual basis. You want to keep it simple, so that you can understand it. You can administrate it in a clear and conscientious way. But at the same time, you want your employees, your team members to truly understand all the workings of it, so that they can understand what's the expectation that I have and what's the reward that's been offered if I'm absolutely able to perform.

Also, plans need to be renewable, which means they're -- they can, you know, keep happening on an annual cycle. And most importantly, they need to be affordable, meaning that you've kicked the tires and you know what the potential payouts could be, and not just what the potential payouts would be, but what the correlated benefits would be as well, because then you could look at are the benefits, which they should, always outweigh the payout. And if that's the case, then it's a strong plan.

But if not, if there's the inverse, then that's where organizations tend to get in trouble.

Next slide, please.

--o0o--

MR. KELLY: In terms of program principles, next slide, please.

--o0o--

MR. KELLY: If you recall, this is something that we identified that was -- it was unclear at the front end of the Compensation Policy. And so we had discussions with all of you on a one-on-one basis. And this is one of the questions that we asked in terms of, you know, what is it that you're trying to achieve with this program. But when you look at your principles as a statement up front, they're meant to support the purpose and objectives of the overall policy. They help establish a foundation and direction for benchmarking activities. And they should add clarity and they aid transparency for all participants and all stakeholders, your trustees, your managers, the general team members basically making sure that there's clarity on all fronts.

Next slide.

--o0o--

MR. KELLY: In our interviews, this is a very high level summary of some of the opinions that were collected. Everything that we communicate as opinions that we've collected, it was mentioned by at least three of the Board members. So we want to make sure that we're not communicating outlying opinions, but something that was communicated by multiple board Members, and so therefore should be -- should be recognized.

So when we look at the opinions around the principles and program principles, Board members felt that the compensation program should be aligned to the mission and the pension -- of the pension system, which is, you know, pretty clear and that was kind of a unanimous opinion from everyone. They need to be reasonable, fair, and equitable. Again, everyone agreed with this, but they need to be reasonable, fair, and equitable within the internal structure as well as the external environment that you're working in.

You also need to consider the broader rank and file employees because you do have individuals that are eligible -- incentive eligible and then you have others that are not. And so there needs to be consideration of how that blend and mix is treated fairly throughout the organization.

It needs to support equity, diversity, and inclusion within the system, which is fantastic. And again, this helps to make sure that at no point is the compensation program a barrier to anyone of any race, ethnicity, gender what have you, making sure that it's purely objective, and fair for everyone who's participating. And it also should ensure team members that they are competitively compensated, so it assures them that you're on top of this and that they are being compared -- they are being paid in a competitive way relative to the external and -- external market and within the internal structure of the organization.

Also, Board members felt that your program needs to be enticing, but not a deterrent when seeking or retaining talent. So you want -- a lot of -- a lot of the Board members mentioned that they would like to see staff have long careers within the organization, which is, you know, a great telltale sign of an organization that's committed to their people their overall progression, development, and career aspirations.

Also, they want to make sure that recruitment needs to focus on the position of a strong overall package and that compensation is not the be-all and end-all and the sole reason why people are choosing to come to CalPERS.

Next slide, please

--o0o--

MR. KELLY: Board members also said that they'd like to see the program be motivating and performance based. They want to make sure that compensation should not be the sole reason for working at CalPERS. As I mentioned before that the team members are clear on the performance expectations and they're also clear on the system priorities going forward, so that they can in turn focus their efforts, their priorities on what the system is trying to -- trying to achieve. Also, Board members mentioned that they'd like to see the program be adaptable considering that rolls continue to change and considering that CalPERS continues to grow and continues to evolve. And with that understanding, the compensation program should have that flexibility as well.

They also want to make sure that the program is clear and understandable, that it -- that there is at least one element in the program that helps to unify the team and the focus of the team. And then also they want to make sure that that one element helps to set a positive culture and work environment for the entire system, so that everyone is focused on the same things and benefiting from each other's overall performance -- positive performance going forward.

Next slide.

--o0o--

MR. KELLY: So with this in mind, and again we're going to try and go through this material quickly, because we want to engage. We want you to speak as much as possible. Share your views, your opinions to make sure that at the end of today's session, we're actually getting all of your views and opinions, and that we are moving forward in a very clear and focused way.

So our recommendation after our conversations with all your Board members in terms of program principles, we feel that you could basically encapsulate it by saying that you would like your program to be designed and managed to be fair and equitable, competitively positioned at the median of defined mixed -- mix of peers, aligned with CalPERS commitments to internal equity, diversity, and inclusion, enhance the attraction and retention of top talent, enable transparency for CalPERS Board, leadership, and team members, and support a strong and performance-based work culture.

We feel that the views and opinions that were expressed to us are encapsulated in all of this. And at this point, we're going to open it up for discussion. We'd like to hear your views and opinions on whether you feel we've hit the mark here, if there's anything we've missed, whether you support this or whether you feel that there's other things that should be added or a different direction should be taken, or is just everyone totally committed -- totally in support of what we recommended.

(Laughter).

PRESIDENT TAYLOR: So I do have Mr. Feckner wants to ask a question.

VICE PRESIDENT FECKNER: Yes. Thank you and I hope you all can hear me. I do have a question. It's kind of one-off from where are you right now, Brad. But it's probably best guided towards Michelle at this point. In reading through the materials that we've done -- used for the last, you know, three months or so in having these conversation and meetings, I realize that we have four of our -- and I look at it is because like Brad you brought up the comments about the forest and the trees. I totally get that. However, I also look at the trees as being the -- overshadowing of -- because truffles grow under trees and we want to nuture and grow those truffles. So we need those trees to stand tall and stay in place.

So as I'm looking back through the papers, I realize that we have four of our top execs that are maxed out in their salary. And I know we can't take an action item today, because it was not agendized, but I want to put it out there for Board members to possibly bring this back as an agenda item, an action item in January to give the CEO the flexibility, because these folks are at the end of their bandwidth, so to give some flexibility of extending that bandwidth limit to at least allow the CEO to give a -- let's say a retroactive COLA increase to these four individuals, since we couldn't give them a salary increase, because we want to be able to protect, like I say, those tall standing trees.

And we're talking -- I mean, the folks that are at that -- end of that pay scale are Matt Jacobs, Scott Terando, Don Moulds, and Michael Cohen. And we need to make sure that those redwoods stand tall. So I would just urge the Committee and the Board to bring back and action agenda item in January to give the CEO the flexibility to extend that bandwidth to least offer them a COLA.

That's all I have for right now. Thank, you Madam Chair.

PRESIDENT TAYLOR: All right, Mr. Feckner, I agree. And I'm thinking that we want some custom comparator groups for them to -- because they -- those positions are throughout the State of California, but they are different positions at CalPERS, so we need to -- so, for example, you mentioned Don Moulds, Chief Health Director, well, there aren't any Chief Health Directors really, except at Covered California. So we -- you know, so if we're going to compare those positions, our Chief Actuary, where -- you know where are we going to get a Chief Actuary? So maybe we need custom comparator groups out of the State of California is what I mean. General Counsel for CalPERS is a totally different position than most general counsels in the State of California.

So I think these are positions that really need a custom comparator group. I don't know if we can -- there might be a State agency or two that we can compare it to, but I want to make sure that we're not losing them across the river either, right? So maybe that's part of the custom comparator group, but definitely Covered California pays way more than we do for what Don does. And I don't think that leaving -- losing Don would be advantageous to us at any way. So I agree with all of that. I don't know if anybody else has anything to say about that, but I do agree with that for January. So we want to -- Ramon, it looks like you're raising your hand.

BOARD MEMBER RUBALCAVA: Well, I couldn't find my little reaction button. Now, I see it. But I just want to say I concur with the discussion that we should have a visit in January in those four items.

PRESIDENT TAYLOR: I muted myself. So that's direction from the Board Ms. Tucker, if you don't mind?

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes. Thank you, Madam Chair. So what I understand is in January you'll look at sort of a immediate COLA type increase for that group of four positions, while continuing the larger effort of looking at the comparator group through the whole 20019 program. And those changes will be effective for 23-24, but this is sort of a short-term immediate fix for that small group is what I'm hearing is action from you, is that correct?

PRESIDENT TAYLOR: That's correct, exactly.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Okay. All right, got it.

PRESIDENT TAYLOR: Thank you.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you.

PRESIDENT TAYLOR: Jose Luis, go ahead.

BOARD MEMBER PACHECO: Thank you, Madam Chair and thank you, Brad, for your comments here. So I'd like to just kind of go back to your recommendations. First of all, I just want to ask a question regarding aligning with the CalPERS commitment to internal equity, diversity, and inclusion. I just want to know what is your -- what are your comments and how do you -- how do you envision that, in terms of how we would do that, so that we do embrace those? Because I really believe those are really, really important in our -- to foster a really robust and, you know, collaborative culture. So can you -- can you elaborate further on that, Brad?

MR. KELLY: Absolutely. So when we -- when we approach compensation, at no point do we ever consider gender, ethnicity, anything like that. It's purely objective. And the more objectively you can approach this in terms of obtaining, you know, where in a band -- in a salary band people will start, what incentive opportunities they have. The more that that compensation program will not be a barrier to anyone in terms of your overall diversity, ethnicity, and inclusion efforts within your organization.

Again, we want to -- we often -- whenever we do -- whenever we do a compensation assessment, we tend to just put a position title. We don't put a name or anything, so that there's any inference about anyone's background or gender. We just -- it's the position. The position is the position. And that's where we feel that we might be able to support some of the efforts that you're trying to obtain within the -- your system. So again, it's just about being as objective and as transparent as possible.

BOARD MEMBER PACHECO: Fantastic, Brad. I think --

MR. LANDERS: The only other thing I'll add, Jose Luis too is --

BOARD MEMBER PACHECO: Ye.

MR. LANDERS: -- another way in which you can integrate this, it may not be in everyone's incentive plans, but it can definitely be in those that are, you know, most influential is having specific, you know, diversity, equity, and inclusion targets that people are trying to achieve. Whether that is actual targets, whether that's education throughout CalPERS, things like that, so you can also try to integrate things like that into the incentive program, more so on, I would say, the qualitative aspect of people's incentives, so that's another area where you can be --

PRESIDENT TAYLOR: We have to be very careful about that in California, because Of Proposition 209 unfortunately.

MR. LANDERS: Okay.

PRESIDENT TAYLOR: So, we have -- there are ways. And, Michelle, if you want to address some of the things that you've already done for that might be helpful --

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes, absolutely --

PRESIDENT TAYLOR: -- in terms of like your -- you've changed the wording of applications and things like that.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes. Thank you. Yeah, we're doing a lot to make sure that the door is open and provides ready and equitable access to all candidates, applicants, and team members. So we are engaging and we've purchased some new software that is going to go through our job postings and look for words that might view -- towards a certain gender or might, you know, cause some concerns. For example, it will go through language and say it is overly feminine, overly masculine. There are some terms that are antiquated or offensive. So it will really help us I think learn to make our job advertisements and all of our recruitment announcements really more open.

We also have looked to do redactions of application reviews for some key positions and that's been about really helpful. And we're broadening our outreach that we're working within -- we're working with a number of different recruitment groups to really expand the scope and reach of our applicant pool. So those are some of the ways we cast a broader net. And that kind of brings more folks to the table, as you were mentioning.

Regarding timing of specific incentives, you're so right, Madam Chair, for Prop 209, we can't set a hiring target. What we can do is talk in -- for all of our team is we can encourage them to apply diversity, equity, and inclusion principles at work. So are they, you know, showing -- demonstrating commitment to these values of ours and things like that.

So we can't set targets. We can still definitely, as you said, tie to the education. We have a DEI Certificate Program. So we're trying to incentivize folks and encourage them to participate in that. So there's several things that we're doing that I think will get us there just in a different way.

BOARD MEMBER PACHECO: Fantastic. Thank you, Michelle. Thank you, Peter. Thank you, Brad, for that.

I just have one more comment -- question. Back on the opinions that we collected regarding the recruitment needs to be -- needs to focus on the provision of a strong overall package. I know you briefly elaborate on that, but can you just expand on that overall package for -- you know, in terms of -- in terms of how we would make sure that we retain and foster our key employees?

Thank you.

MR. KELLY: Well, when you look at compensation, because that's what we're talking about today --

BOARD MEMBER PACHECO: Yeah.

MR. KELLY: -- because there's always other elements as well in terms of work environment, you know, career progression, opportunities, things like that. But from a compensation point of view, you want to make sure that you are as competitive as possible, so that you're enticing the right people to come in, you're maintaining that competitiveness, and that you're clear and that you're treating them in a fair and equitable manner. So in that -- in terms of having a fair, objective, and transparent incentive program or compensation program allows people to say, okay, I'm being treated fairly here. At no point can I expect the unexpected in terms of compensation payouts. So I think CalPERS is a good fair place that I want -- that I want to work at.

And so -- and having a good quality performance culture where you're recognizing people's contributions, and celebrating that, and rewarding that, gets the real performers to want to work there as well, because they know that they're going to be recognized for the contributions and the performance that they bring to your fund.

BOARD MEMBER PACHECO: Would you also -- would also men -- would also believe that the mission -- the mission-driven aspect of CalPERS, is that also a component that you would also think is important as well and part of the whole overall package?

MR. KELLY: Absolutely. And that would be one of the non-compensatory elements that we would encourage to say, you know, this is -- this is our team culture. This is what we're trying to achieve collectively as a group. And if you don't align with that, then there's really no purpose for you to be here, because then they're working at odds to your organization and to your members.

So to your point, Jose Luis, you absolutely want to make sure that you're clear, that there's a mission. And that really motivates and incentivizes a lot of people, because there's a purpose to what they're doing and there's an -- there's an end result, and there's millions of people out there that are relying on what they're doing on a day-to-day basis. And that can be, you know, quite inspirational and quite motivating to a lot of people.

MR. LANDERS: The only other thing I'll add to what Brad was saying is, you know, I think CalPERS had done a good job sort of evolving its pay program over the years, in that you're able to now offer, you know, especially for Investment staff, a salary, an annual incentive, and a long-term incentive that they're used to receiving as well as, of course, the pension benefit, which isn't as attractive as it might have been once back in the day, but still is an added benefit as well. And then, you know, strong sort of insurance, health insurance things, things like that. Obviously, you know, in retirement, you know, health benefits and things like that.

So all of that, you know, considered as part of what the overall package is from a quantum perspective. But I think you've already done a lot of really good steps in terms of getting that salary annual and long-term incentive in place for Investment staff, because that is, you know, the biggest part of the pay package for those people. So offering that allows you to fulfill that sort of -- again that principle of providing that comprehensive full package.

BOARD MEMBER PACHECO: Thank you, gentlemen. Thank you very much.

PRESIDENT TAYLOR: All right. Thank you, Jose Luis.

Mullissa.

BOARD MEMBER WILLETTE: Thank you so much. It's lovely to see everyone this morning via Zoom. And I really appreciate the presentation and the individual conversations, the work, and the preparation, thoughtfulness behind this presentation today.

I did want to make a brief comment along how Mr. Pacheco brought up the commitment to internal equity, diversity, and inclusion on the slide 15 our -- your recommendation. I think from where I've sat over the conversations I've had, you know, I think that our commitment, the CalPERS commitment, to equity, diversity, and inclusion is not necessarily to be nestled under just being fair and equitable, right?

I think actually when you have a commitment to this DE&I work, then you actually enhance the attract -- enhance your attraction and retention of top talent. I think -- I think you -- that actually then supports the strong work culture and everything else too. Like I think that it's not separate. It's kind of encompassing. And I think with our intentionality, part of our commitment is being intentional with that. And I don't want to -- you know, I'm not trying to get into the -- into the forest here, you know, down deep, but just kind of at from a high level perspective. I think it's important that our commitment is holistic to all of these pieces. Our commitment to DE&I is holistic to all of these pieces, which then support all of them even more and strengthen then -- strengthen them even more.

And I also just want to -- because it was brought up kind of the idea of DE&I work, I think there's two -- there's two sides to that coin. There's the work you do to say how do we promote this and then I think there's the other side that is often missed in organizations, but it's what are we doing that doesn't promote it, right? And I think that's -- you know, you don't just build up. You also want to make sure that there's nothing in your way. And so it's not just looking at new things, it's what are the old things and how do we -- and how do we get those out of the way, so that we can build and then they would mix together.

So that was just my only comment, but I really appreciate the conversation and the -- again the presentation. Thank you.

MR. KELLY: So Mullissa, just to respond to that, and that's an excellent, excellent point. From a wordsmithing perspective, and just to get direction, because we want to make sure we have direction at the end of this session for all of this. For that line, aligned with, could we say aligned with and further supports or further enhances CalPERS' commitments? You know, something like that, so that we can further emphasize not just an alignment, but a -- but, you know, a -- an additional support to reaching that end goal and the objectives that are put within that program. Would that -- would that suffice or would that be aligned with what you're hoping to see here?

BOARD MEMBER WILLETTE: I mean, I think to be honest in terms of wordsmithing, you wouldn't even have to wordsmith it. It would just be a back tab, and that that bullet wouldn't be nestled under another one. It just -- it's a stand-alone bullet that we also are doing this as something that we're doing holistically.

PRESIDENT TAYLOR: Okay. You got that, Brad?
MR. KELLY: Yes. Thank you.
PRESIDENT TAYLOR: Okay. Excellent. And you may want to do -- just change in from equity, diversity, and inclusion back to diversity, equity, and inclusion, because that's the normal nomenclature for it.
MR. KELLY: Yes.
PRESIDENT TAYLOR: Ramon, go ahead it's -- you're up.
BOARD MEMBER RUBALCAVA: Thank you, Ms. Taylor.
Yes, I want to also thank the -- Brad and Global for the presentation. That was very good. And I also want to commend Jose Luis for bringing the discussion forward on diversity, equity, and inclusion. But I also, and particularly want to thank Ms. Willette, because she pointed something out that I did not see until the discussion started that, yes, it should be it's own stand-alone bullet (inaudible). And the whole thing that it has to be seen not as part of some other -- it doesn't -- it's not within something else. It's part of the -- one of the -- it's a major framework where we see all our work. So I want to thank my -- the colleagues and the consultant for this.
Thank you. And I agree with Mullissa it should be not wordsmithed but it's own bullet.

Thank you.

PRESIDENT TAYLOR: Okay. And I am hearing from Mr. Miller that he suggests, which is a good idea, that we replace aligned with integrate, maybe integrate and implement, possibly, but integrate for sure. That does make more sense.

And then we do -- if nobody else has a comment -- I want to make sure the Board has a chance to make comment. We do have some public comment. And Jose says he agrees with integrate.

So Christina or David Teykaerts. We have public comment.

STAKEHOLDER RELATIONS ASSISTANT DIVISION CHIEF TEYKAERTS: Good morning, Madam President. Yes, we do. One moment.

Okay. Go ahead Randal Cheek.

MR. CHEEK: Hi. This is Randy Cheek. I have a question. Why is this being brought up in a special meeting and why wasn't it brought up during a regular Board meeting? That's number one.

And number two, I wanted to ask, if you're going to compensate, why not compensate all CalPERS employees, not that the management is not deserving of some good compensation, but all your employees contribute to the success of CalPERS and there must be a way to give everybody who works at CalPERS a good incentive to stay there and work for CalPERS.

And I think this is -- would be fair and equitable. And I think that you ought to be looking at that also. That's all I have to say.

PRESIDENT TAYLOR: All right. Thank you, Mr. Cheek.

MR. KELLY: Madam Chair, would you like me to address that?

PRESIDENT TAYLOR: I mean, you certainly can. I think Mr. Cheek forgets that we are -- our employees are represented by a union, so -- but go ahead, Mr. Kelly.

MR. KELLY: Thank you. So Randall, this session is a direct result of multiple conversations that we've had in the past with the Board where we need clarity on the policy -- the Compensation Policy that solely applies to the executive team and the -- and the investment team. The current Compensation Policy that the Board currently has responsibility over only applies to those two groups. So in terms of a fair and equitable treatment of compensation through the whole organization, that now would fall on the shoulders of Marcie with her delegated authority to manage staff.

You're right, you know, fair and equitable compensation both internally and externally are important and it's our intention to make sure that there is, as you heard numerous times throughout that introduction, that that is ultimately the intent of this is to make sure that there is fair treatment both internally and externally. But for the sole purpose of today's session, it strictly just relies to the compensation policy that this Board has the responsibility to oversee and adjust, and that's why we're having this -- the session that we're having today is because there's so much conversation that has taken place over the last number of months, that the Chair of the PCTM Committee basically felt that we needed to have this session to get some clarity from Board members and some unified direction, so that we can make those appropriate adjustments to the -- to the policy and move forward in a proactive way.

PRESIDENT TAYLOR: Thank you.

Mr. Feckner, you have a comment.

VICE PRESIDENT FECKNER: Yes. Thank you, Madam Chair. Mr. Cheek, I'm not sure what -- where you've been for a while, but this discussion has been going on for about a year now, so it's not something that just popped up. The Committee has been dealing with this (inaudible) --

PRESIDENT TAYLOR: Oops. Whoops. Rob, you froze. Oh, no.

VICE PRESIDENT FECKNER: -- figured it was going to be much too long to run to that same time span. So this is nothing new. It's something that we've been looking at for quite some time now and this is why it's come back today.

PRESIDENT TAYLOR: Okay. You sort of froze in that, I will just let you know, but I think we got the gist of it. So does anybody else have any commentary on that before we move forward?

VICE PRESIDENT FECKNER: I hate freezing.

(Laughter).

PRESIDENT TAYLOR: Sorry about that. All right. Brad, if you guys want to go forward.

MR. KELLY: Excellent. So --

MR. LANDERS: I just have one question on the -- on the principles just to get the views of the Board on this. We have the comment in there that you want to target the median of the defined mix of peers. Is that -- is that sort of target positioning of median? Is everyone generally comfortable with targeting sort of that midpoint, that median of that mix of peers, whatever the peer group ends up being, is -- do we have general consensus on that amongst the Board members? I open that up to any comment if people feel differently?

PRESIDENT TAYLOR: I will say that I want to make sure that we are keeping up with our sister fund for sure, that they're not higher than we are. We've never been higher than them, but I would like to at least keep up with them. I find it disheartening to find out when people leave and they go over there because the pay is better. So I want to make sure that we have that comparator group in there, whether that -- so the median to the rest of our comparator groups, that's different than making sure that we keep up with what's going on across the river for me at least.

And then I have -- I thought I somebody. Oh, David. There you go.

BOARD MEMBER MILLER: Yeah. One of the things, and this may be the analyst in me, is whenever I see a measure of central tendency, whether it's median, mode, mean, it's nice to have a sense of what that distribution really is. Because you can have a median, but it may be very far removed from, you know, the arithmetic average of the kind of salaries that are being offered out there. And so I think a little more information would be helpful. I think the median generally makes the most sense for targeting when we kind of have these discrete numbers and types of comparators, but it would also be good to keep in mind and have an idea of some measure of the dispersion of that, so that we have an understanding if the mean is quite different from the median to have a sense of what are -- what are the kind of offers people are really getting that we'd be competing with at these -- you know, if we're looking at comparisons to certain organizations to have a sense of, you know, what kind of pay they're actually offering versus just whether they above or below and how much.

PRESIDENT TAYLOR: All right. Thank you, Mr. Miller. Jose Luis, you have a comment and then Eraina.

BOARD MEMBER PACHECO: Yes. I just wanted to thank you. Thank you, mad Madam Chair. And I'd like to just kind of piggyback on what Mr. Miller had mentioned as well. You know, I think perhaps that we do definitely want to explore that more. And I wanted to kind of ask Brad and Peter if there are studies out there that kind of show this, that, you know, just -- not only the median, but maybe above the median, but with respect to organizations of our size -- our public pension size, if that's -- if the median is the best practice or is it a little bit more? I just wanted to know if you guys could kind of elaborate further or if we need to explore that further?

MR. LANDERS: Definitely to answer that question, the most predominant practice is to target the median. Now, obviously every organization's peer group is slightly different, so that median number ends up being pretty much different by every organization. But most organizations as a policy tool will target the median for say target performance, and then if, you know, performance warrants, you know, on the downside paying a little below that median if performance isn't there. And then if performance is really there and you're shooting the highlights out, performance, you know, well above the median is usually tolerated. But at sort of a target level of performance, that's where you're tying to hit that sort of median. And that's what most organizations will target as a sort good rule middle of the road type of approach.

BOARD MEMBER PACHECO: But the -- I just want to -- just to elaborate on that Peter. We do have some -- we could cater -- we could tailor our policy to make it very flexible for us in the event that let's say there's a high performance, you know, individuals or so forth, that we've got that ability, right? I mean, we're not locked in just to the median, right?

MR. LANDERS: No, exactly. Exactly. And you would always retain that flexibility and discretion as a Board to reward those higher performers for sure at a higher level. But it's more just again more from a procedural perspective just sort of looking at saying, in general, we want to be targeting the median overall, when looking at pay levels. But yeah, we can definitely build in some working that provides you with that flexibility, as you mentioned, to, you know, make sure that you can, you know, adjust from there based on -- based on performance.

BOARD MEMBER PACHECO: That's perfect.

MR. KELLY: If I can add one final comment here with regard to both David and Jose Luis's concern. What we're trying to achieve later on in this session is to get a consensus around what that peer group will be going forward. And that peer group will pretty much -- the compensation of the peer group will determine where that median lands. And so that is the -- that is very, very important.

And with regard to studies around where the median is regard -- you know, in relation to CalSTRS, it's McLagan that's going to pull you the data based on the composition of -- composition of peers that you've agreed on that will determine what that median is. And so this is really, really important moving forward is to make sure that you're all comfortable with that peer group, because that peer group can -- that median will go up or down based on the composition of that peer group and will determine whether you remain, you know, market competitive going forward. So that's a real major element of this.

And as Peter mentioned, the typical practice is maintaining a focus on median, but that also is determined by making sure that you have the right peer group in place, so that you're targeting the right median, if that makes sense to everyone?

BOARD MEMBER PACHECO: Yes. Thank you. Thank you, Brad and thank you, Peter. Yes, I guess we'll be talking about that later on in our -- in our discussion. Thank you very much.

PRESIDENT TAYLOR: Thank you, Jose Luis.

Eraina.

BOARD MEMBER ORTEGA: Yeah. Thank you. Just a comment or a concern I have is once we get to a comparator group and establish what the -- you know, the median and the target is, I think that -- I understand the sensitivity to the comparison to the CalSTRS compensation, but just sort of using that as a benchmark and then the implication is somehow that, you know, we have to be higher. Well, where does that end? Because they have the same -- that Board has the same authority to salaries. And so if you're constantly just bouncing back and forth between the two funds, I don't know that -- it's an arms race. I don't know how you ever win that battle, so I think you have to pick a comparator group, agree to it, set -- see what the median is, then you kind of have to live with what the outcome is, because you're going to constantly be just ratcheting up each other's compensation, if it's simply about comparing the two funds.

So I think, you know, there's certainly lots of differences, and you know -- but again, with two independent boards, I'm not really sure that we can just sort of constantly chase the other -- each other's compensation.

PRESIDENT TAYLOR: Well, we certainly -- I get that. I think certainly we will have the comparator group. We can get into that later and have them included, but I just want -- I don't think I said higher, but I might have. I'm hoping to get just the same as at the very least, so that we're not losing folks to that -- to those folks.

And Michelle, maybe -- I don't know if this is something we have later on, but maybe if we can get the folks that are leaving, how many of those folks are leaving for CalSTRS, right? What's the percentage? That kind of stuff.

MR. LANDERS: We actually have something --

HUMAN RESOURCES DIVISION CHIEF TUCKER: We have that -- or Brad and Pete have it. Yeah.

PRESIDENT TAYLOR: Oh, great.

MR. LANDERS: We'll share that with the group in a little bit.

PRESIDENT TAYLOR: Great.

HUMAN RESOURCES DIVISION CHIEF TUCKER: We still have 30 more slides for you today, so...

PRESIDENT TAYLOR: I know. I saw.

(Laughter).

PRESIDENT TAYLOR: All right, you guys.

MR. LANDERS: I won't -- because we're talking about peer group later, but Eraina makes some really good points about trying to target just one organization. It's definitely good to look at a broader subset of organizations, so -- but we can talk about that more when we talk about peer groups in more detail.

PRESIDENT TAYLOR: All right. Fantastic. I -- seeing no further comments from the Board, I guess Brad, Peter, everyone you can go ahead.

MR. KELLY: So we'll move forward with the direction that the Board is comfortable with the proposed principles with some additional wordsmithing and that will be implemented in a red-line version for the February -- upcoming February meeting. And --

MR. LANDERS: Or an upcoming meeting, yeah.

MR. KELLY: So moving forward, I'm going to pass it over to Peter and Peter is going to now talk about the incentive program design.

MR. LANDERS: Perfect yes. If we can switch to the next slide, please.

--o0o--

MR. LANDERS: Perfect. So we're going to quickly in this section -- and there's no real hard, you know, defined direction we need coming out of this specific section on incentives and looking at different ways of measuring investment performance, but it's really just an educational piece. And just to get people's overall views on how you'd like to see performance measured, specifically on the investment side moving forward. And this will then provide just some high level direction, so that we can work over the coming months - and this is something that will definitely take us into the spring and even into June - to come forward with any specific changes as relates to the way that, you know, investment performance in particular is measured and performance is determined.

So again, nothing definitive needs to come out of today's discussion. This is really some educational material to, you know, solicit some different ways of looking at performance and then gauging people's views on, you know, which areas they sort of like and which ones they sort of are hesitant or don't really like as much.

But we wanted to start off first by talking about the current system that you have, which looks at a five year rolling average of investment performance. So you're not measuring based on one year investment returns, absolute, or relative. You're looking at over the last five years how have we done on the short-term incentive side against a benchmark and then on the long-term incentive side when those start to come due in a couple of years, how did we do relative to our required rate of return.

And so what we wanted to highlight here is, yes, you're looking at, you know, five-year performance, but it's important to realize that within that five-year average if you have, you know, one negative year, whether that's on an absolute basis or relative to a benchmark, you know, it does take that full five-year cycle for that to sort of get cycled out. And so if you're, you know, getting rid of one bad year and adding in another bad year, it just makes it important to realize that then incents people that, you know what, we need to achieve a higher level of performance in future years and make sure that we are, you know, hitting whatever that target is, whether it's relative to a benchmark or relative to your required rate of return. And we have some statistics we'll share in a little bit looking at sort of your LTIP even, and how that's tracking, and sort of how the variability in performance impacts how you track towards or not towards those payouts.

But I think it was just important to realize that it's a five-year average. You're not measuring on one year performance. And so you are measuring long-term how are we performing against a benchmark or again against that absolute rate of return. And so it's important to remember that when you have years where -- you know, a single year where you might not have done as well, you're measuring based on longer term how you've done over five years, not just in isolation on that one year's performance.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: Also, I wanted to distinguish the main distinctions between what you're measuring on the annual incentive plan and then what you're measuring on the long-term incentive plan. On the annual side of things, that is based on relative performance. So you're looking at the total fund's return against your total fund return benchmark. And if you, you know, outperform, you get a certain payout, if you underperform, that leads to, you know, very little if not no payout. And we made some changes there that if you -- now, that if you underperform, that leads to no payout whatsoever.

So that's measuring in relative performance to an index. So whether that you're positive absolute rate of return or negative rate of return, it's ultimately looking at how did we do against that index? And the purpose of that is really to measure did we generally outperform the market and do better than what a passive index would have done? Because that's how you're really measuring the skill of your investment team is could we have done better working with this team than just, you know, passively investing in, you know, the S&P 500 or what have you.

On the flip side, your long-term incentive, which we generally agree with, which is forward-looking, is saying over the long run are we beating our required rate of return, which was seven percent when you first starting granting long-term incentive. Now, I it's think 6.8 percent. But you're measuring your performance as saying if we beat that required rate of return, we're okay paying people an incentive for beating that objective. And if we don't beat that required rate of return, we're not going to pay anything. And so getting backed to Brad's earlier point, that's the at-risk portion. You're only paying out and you will only pay out that long-term incentive, if you're beating that required rate of return on an annualized five-year basis.

And so it's important to realize the distinction between the two and it's actually a really good mix in that you're rewarding people both for relative outperforming the market and the index, but then you're also rewarding them long term on beating that sort of required rate of return that you need for your members. So we actually think the current structure that you have is actually -- does a good job of balancing out the need for relative and absolute performance over time.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: We wanted to talk about something -- and this is an area where, you know, we've had some discussions in the past around asset classes and do we include asset class performance in the -- in the incentive or the annual incentive for people working in specific asset classes. And it's important to realize that when we're doing that, there's really two primary measures of what different asset classes are trying to do for your fund.

One, which is typically your -- you know, your public equities, even your real estate, your private equity is alpha generation. So basically being able to beat that index and generate a positive return relative to just passively investing in the marketplace. So that's what we call alpha generation. You're trying to incent people for outperforming the index within a certain level of risk that you're obviously tolerating.

On the flip side, you might have other more strategic areas like your risk mitigating strategies and things like that, and other asset classes, where the goal may not be necessarily to generate that alpha, but to really protect you from a risk perspective and to be able to more mimic and hug the overall benchmark and, you know, not have such large swings between being up and being down.

And so for those asset classes, you typically would measure more within a lot more reasonable level of basis points and looking at obviously the tracking error and things like that, that those asset classes are performing. And so this is just getting you set sort of some foundational education to say if we are to go down this path -- and that's one question we do have for you is, you know, do you want to, you know, be looking at, you know, asset class performance and incorporating that into the incentive plans where warranted. It's important to realize that different asset classes we might be measuring performance in slightly different ways. And so just wanted bring that up and provide that level of information to the -- to the Board.

Next slide, please.

--o0o--

MR. LANDERS: So that's that at a high level. If we can move to the next slide, please.

--o0o--

MR. LANDERS: Very quickly again looking at, you know, ways in which you can measure performance, like I mentioned earlier. Right now, you're measuring performance on a five-year basis. So looking at five-year relative performance under the -- under the annual incentive plan and saying did we beat our benchmark? Did we beat it by this amount of basis points? If we did, it leads to a payout. So this really reflects longer term investment performance, but in those like one-year scenarios where there might be extraordinary results, positive or negative, it doesn't necessarily reward people for what they achieve in that one year.

If flip we can flip to the next slide, please.

--o0o--

MR. LANDERS: This is a different -- a slightly different approach that some leading funds, especially in Canada I would say more than anything, have adopted. And it's to have a weighted approach to measuring performance under did the annual incentive plan. So it's saying, yeah, we're going to measure five-year results and that's going to be the majority of how we reward people. But for those one-year results, we want to actually reward, again positively or negatively, that one-year performance to take into account any extraordinary results. And so we're actually going to put a weighting on that, so that if we do underperform or overperform in a given year, that has the ability to influence positively or negatively the payouts that we get for investment performance.

And so it's just a slightly different way of looking at things trying to incorporate extraordinary one-year results into the plan. And again, it's not to say that you have to make any decisions today. This is really just education to just get people's thoughts overall on, you know, do you like this, do you not like this, that type of thing.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: Very quickly. I'm not going to go through all this, because there's a lot of text here and the material is public, so you can read it over. But there are sort of three ways you can measure performance. One is relative performance to the index. So this is what you're doing currently. Very common measure in the pension fund world. It's the most common way to do it.

It again measures people's skill in terms of being able to beat the index in a passive sort of -- you know, passive overall market. And if people are outperforming, but maybe absolute returns aren't necessarily there, it is at least a way to help with retention, because they know that, you know what, we're outperforming a little bit. We have the ability to get a payout versus, well, if we're measuring absolute and we're not doing so well, we're not -- you know, we're not going to get anything, so why am I going to stay here?

So it helps in those types of scenarios. The biggest cons to that are the traditional sort of best of the worst scenarios. So you're generating negative returns, but beating the index, so you're paying people even though you're getting negative returns for members. And as well, in some asset classes, you know, things like private equity, infrastructure, real estate, it sometimes can be tough to determine what an appropriate index is. And so, you know, it just may -- makes that comparison a little bit more difficult.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: Another way to look at relative performance is not against an index, but looking at a universe of other managers. And there are actually different groups of out there. I know Wilshire in particular has a universe of different managers that they sort of collect information on. And you're basically saying we're not necessarily going to measure against an index, but we're going to measure did our -- did our organization outperform other managers in the marketplace?

And again it looks at did we do better overall than other managers. So did we provide added skill in beating other managers?

The biggest cons to this are, one, it's not very common in the pension fund world. So you're going to be a bit out of an outlier by doing this. Again, it still doesn't alleviate the concerns of paying for being the best of the worst, because if all managers are down and you're down less, you still might pay out.

And then the other big one is, and this is probably the biggest reason why it's not adopted is, every manager is facing different circumstances might have different asset allocations, might have different risk parameters that they need to work within. So really determining an appropriate universe of portfolio managers to measure against can be very difficult. And that's typically I think why a lot of funds shy away from looking at other managers and more measuring against an index in particular.

Next slide, please.

--o0o--

MR. LANDERS: And then lastly absolute performance. So again, this is looking at did we beat a certain percentage that we wanted to hit as a required rate of return? So in your case, on your long-term incentive plan, did we beat the 7 percent or the 6.8 percent that we have said we need to achieve to, you know, to continue to, you know, adequately fund on our plan?

And so, there are lot of pros to this of course. It aligns directly with, you know, a required return for pensioners. It doesn't reward people for being the best of the worst. It's familiar with people because of long-term incentives. Its -- it would be considered market leading, because still a lot of your comparators, especially in the U.S., still only use relative performance. But you're starting to see some of the leading funds look at that.

And then also in certain illiquid assets, real estate, private equity, and that, it sometimes can be easier to set absolute return thresholds than trying to define a specific index. On the con side, so the negatives, it's not -- it's still not standard market practice. So you're going to stick out and potentially be an outlier from that.

If you're measuring absolute performance, if the whole market is going up and you're underperforming others, you know, other peers or indices, then it doesn't take that into account. So you're going to get rewarded just because the overall market is up, not necessarily because you added any additional skill over the market as a whole.

It also can be harsh. So if you're trending to be negative and people know there's no payout potential, well then you have potential flight risk, because people say, well, you know, I know I'm not going to get that, so why am I going to stay here type of a thing. And again, it doesn't encourage outperforming against the index overall, and sort of again demonstrating that skill of your investment team.

Next slide, please.

--o0o--

MR. LANDERS: Perfect. So I'm going to stop there. And again, we're not -- we don't need any specific direction here. I just wanted to quickly gain any sort of thoughts and opinions on, you know, do we agree with using sort of relative and absolute? Do we like measuring to an index? You know, do we -- do we -- going back, do -- does anyone have any thoughts on sort of incorporating asset class performance back into the incentives for those professionals? So I just wanted to get people's thoughts, so that we can start some of our thinking into the -- into the winter and into the spring on any potential changes we'd want to make to measuring performance.

PRESIDENT TAYLOR: I'm not seeing anybody, but I'll kick it off by saying I think, as this year demonstrated, we had not the greatest year, but we did have asset classes stand out. So I'm not sure how -- what the pleasure of the Board would be, but do we want to have a discussion about going back to asset class incentives, right, rather than just the total fund? Does anybody have comments?

I've got Jose Luis.

The other thing would be absolute performance versus relative performance, et cetera.

So, Jose Luis

BOARD MEMBER PACHECO: Thank you, Madam Chair. And thank you, Peter, for that presentation. Really appreciate that.

I want to do -- I do want to elaborate a little about the relative performance versus other managers. And you mentioned -- I did highlight in my notes the difficulty to determine an appropriate universe of managers. If we were to focus on the top quadrant of the managers, would that suffice in us -- in figuring -- in --

as a way -- as a benchmark or -- I'm just kind of curious, because that's what we're -- you know, we're always looking at. And utilizing Wilshire's peer universe of managers, would that be an approach that we could utilize to make this relative performance, you know, a viable option. Even though it is difficult, if we were to build it out, do you think that's possible?

MR. LANDERS: Yeah, I think the biggest caution I will say to that is you want to try and -- you know, you say top quadrant, but if, in any given year, you know, that quadrant of performers didn't have the same asset allocation as you had or didn't have the same risk parameters and they were able to take on a lot more risk to achieve those higher level of returns, you wouldn't want to necessarily be sort of hurting yourselves by comparing yourselves to people that are working under very different parameters. And so that's the biggest caution whenever you look at -- you know, look at other managers is -- you know, is it really a universe of managers that is operating in a very similar sort of fashion to what you're doing with similar limitations? And so I would caution that if you were to move forward in that -- in that direction.

BOARD MEMBER PACHECO: Thank you, Peter.

PRESIDENT TAYLOR: I muted. Mr. Miller, go ahead.

BOARD MEMBER MILLER: Thank you.

Yeah, I guess one of the things I appreciate and to the extent that you can give us some more advice or elaborate, if there's any kind of a real sense of not so much, you know, we -- we're clearly focused on what our intent is and what strikes us as appealing about any of these given approaches. But how do -- what kind of thoughts and feedback can you give us about how likely candidates will feel about -- about these and what would really, from their perspective, what would be optimal, or more attractive, or what would really help us in that marketplace, where their -- you know, their point of view may be not apparent to us, especially if we're thinking about adding a different mix or adding some additional comparators, how candidates who are out there looking around seeing what the opportunities are for them assess what we have to offer in relative terms and what we can do to best position ourselves?

MR. LANDERS: Great question, David.

And I will say that like most people, I would say investment professionals are no different. They're, you know, somewhat suspect of change and so they like familiarity. And so you'll see a lot of them that will still deviate sort of go towards that sort of relative to an index approach. They're quite used to being measured against that and being measured against an index, whether that's a customized index or in some cases it can be a more, you know, broader just like S&P 500 index. But they will -- they will sort of spark, I think, more towards what they know and what they've historically been measured on, especially if it's an annual incentive.

One thing -- one -- I'll call it a luxury, for lack of better term, on the long-term incentive side in the United States is because you're a leader in adopting long-term incentive, I think you have a little bit more flexibility there in the sense that, you know, you're offering this additional incentive opportunity. We actually, in general, you know, like the fact that you're tying it to, you know, absolute returns, that again over the long term they're only getting paid if they generate the return you need for your members.

So you probably have a little bit more flexibility there on the long-term incentive. But, you know there's nothing that we see currently in how you're measuring performance, either on the annual incentive or the long-term incentive that is -- that concerns us in terms of how you measure. The one area being, you know, the asset class professionals not being tied -- at least a portion. It doesn't have to be all of the investment portion. And you should have a total fund component to it at a all times. But that's what sticks out to us the most is that, you know, your person in public equities or in fixed income right now is not able to be rewarded based on, you know, outperformance of that asset class. Everyone is sort of tied in with overall total fund returns and therefore it's harder to sort of establish the higher performance necessarily from the lower performers, at least from investment perspective.

So that is something that, you know, if that goes on for long, long periods of time and a professional says, geez, you know, I consistently am outperforming, but you know what, I'm sort of lumped in with everyone else, that is a concern long term of, you know, that person may start to look elsewhere and say I'll go somewhere where my efforts and my asset class are more properly rewarded. So that's the only level of caution I would -- I would give to your comment, David.

BOARD MEMBER MILLER: Great. Thank you.

PRESIDENT TAYLOR: Okay. Great. Lynn Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you.

I have a question and a comment. And just curious when you're talking about the relative performance measurement and selecting a group of managers, would those managers also be external managers that our fund is working with?

MR. LANDERS: I mean, you're really -- it would be -- it's a -- it would be up to this Board and the Committee to establish what that group of managers look like. That's definitely one possibility that you could look at. What is usually used most often though is -- and I just Wilshire. There's other groups out there that have these, but it's a -- more of a basket of different managers in a universe. So it wouldn't necessarily -- I would say more traditionally or where it is used, it's more against a basket of managers in a universe. It wouldn't necessarily be just your investment managers that you work with. But that is something you could definitely consider if that's, you know, the determination of this Board and of the Committee.

ACTING BOARD MEMBER PAQUIN: Thank you. I mean, I appreciate you going through those three options. I just think that is a much harder option to actually implement and select the right managers when have the circular reference going in there as well too.

MR. LANDERS: Yep.

ACTING BOARD MEMBER PAQUIN: And so just curious about that.

And then as far as the question of incorporating asset class performance, we used to do that. We changed maybe four or five years ago. I don't remember the exact percentage, but I do think it's important to have some attribution to the asset class, maybe it's 25/75 or 50/50, but, you know, the Controller is in favor of that, as you study it further.

Thank you.

MR. LANDERS: Perfect. And just, yeah, to add to your point, one -- on the manager's piece, that is the biggest reason I think why funds just shy away from using getting performance against other manages, because it's so hard to determine what the appropriate universe of managers is. So I concur with that, and definitely, you know, our understanding is it was taken out because there was worry about creating silos and people not working together towards total fund objectives.

And while we definitely admit that that can be a concern, that's why always we advocate you must have at least I'd say 30 to 50 percent weighting on total fund within your -- within your sort of incentive design, and then potentially the remainder on asset class, because you always do want to be rewarding people for overall team results, but also rewarding them for their efforts in their specific asset classes. And the great thing that you have that is again getting people to row in the same direction is the long-term incentive, because that is measured for everyone on total fund results.

So over that five-year time period, everyone should be rowing in the same direction, because everyone then gets rewarded if the total fund beats the required rate of return. So I agree as well and appreciate those comments, Lynn.

MR. KELLY: And if I might also add to the, Lynn. That's one of the reasons why we referenced the Cisco study, the front end, because of the focus that organizations are placing on high-performance teams and how to recognize teams, foster teams, enable them to help feed into the overall performance of the organization. So you're recognizing the team aspect and then also correlating that to David's earlier comment about elements that would help to recruit and retain quality professionals. The external market, the professional -- the private sector investment professionals very much are -- they have experience in being rewarded for their portfolio performance, their team performance. And so therefore, they would definitely align with that coming in to CalPERS. So it's something that to Peter's point about having that familiarity with the comp structure, that would -- definitely would be a great Benefit.

But then -- but then also you want to make sure that you're not -- you're not demotivating your high performers by -- you know, allowing them to fall victim to others who are -- other asset classes or other teams that aren't performing and also not motivating your high performers to recognize the contributions that they're making, in spite of what might be happening around them.

And so it's just a great way of maintaining that recognition, which all professionals want. You know, I think if we spoke to everyone right now and said do you want to be recognized for your contribution to this Board, to your contribution towards the organizations that you work at, everyone would say yes, absolutely. And so you want to make sure that you're doing the same thing with your team. And we think by allowing your incentive plan to have some portion on that team or asset class performance will go a long way.

But then breaking down those silos, that's why you have a -- to Pete'rs point, that's why you have your LTIP on your overall fund performance that, you know, gels everyone together on one cohesive outcome, as well as having a portion of that relative performance in their annual incentive gelling everyone to that cohesive outcome. I think putting -- communicating it properly, having an emphasis on that will help to breakdown those silos, but then also placing a -- as I said before, having a percentage on that asset class performance will really help to incentivize and motivate those high-performing teams to really do what they can to be rewarded and recognized for good performance that they're contributing.

PRESIDENT TAYLOR: Okay. So thank you. I'm going to move on to Ms. Middleton.

BOARD MEMBER MIDDLETON: All right. Thank you.

And I really appreciate the conversation that's taken place so far. Very thoughtful. And I agree with almost everything I've heard.

When it comes to having an incentive that is asset class related, I'm very open to doing that, but I would not want to proceed without significant input from Marcie and Nicole in terms of what their recommendations would be on this. Our history is such on this issue that their guidance and their thoughts are -- would be critical to me.

MR. LANDERS: We'll definitely look to do that within any of the confines of certain, I know, legal rules that we have to follow in terms of getting their opinions on compensation matters, but we'll, as much as we can, work with Robert and the legal team to make sure we can get some kind of opinions without -- again while making sure we align with any required sunshine rules and things like that.

PRESIDENT TAYLOR: Thank you, Peter. I

appreciate that.

Lisa, anything further?

BOARD MEMBER MIDDLETON: No, thank you.

PRESIDENT TAYLOR: All right. Then we'll move on to Mr. Feckner.

VICE PRESIDENT FECKNER: Thank you, Madam Chair. Lisa stole my comments. I actually was going to say let's not move forward until we have the opinion of both Marcie and Nicole as to their thoughts on, you know, the total fund versus asset class, especially since Nicole came into this midstream. So I'd like to get her opinion going forward before we move forward. So thank you.

PRESIDENT TAYLOR: It sounds like we should get that as Board direction, if we can. I don't know what the legal ramifications are, right? But I agree, it is Nicole's wheelhouse now, so we need to know how she feels about that.

And also I think we -- I think Rob was inferring this, but including the relative performance versus the absolute performance, so how she feels about that makeup. I'm not -- I mean, I'm hearing from the Board, so I don't know if I get some nods here that the comparator group of other investment managers sounds a little too complex and outside of our realm. So I'm seeing nods. So I think we want to throw that one out.

(Laughter).

MR. LANDERS: Again, we just put it out there as an alternative, but we, you know, let the Committee understand that. So, yeah, we'll take that under advisement, and for sure, we'll move forward again. There wasn't really any action items on this specific section of this workshop, but this has been some really good discussion. And we can definitely move forward in moving some other things forward in the coming months on this.

PRESIDENT TAYLOR: Okay. Excellent.

Go ahead, Brad.

MR. KELLY: Sorry, Ms. Chair, I just -- I would like the Board just to recognize the fact that in the spirit of education and information, we want to make sure that we are informing you and educating you on all the current practices that are out there, so that when you do make these decisions, you're do -- you're making them with conviction and an understanding of what you could and what you should be doing. So, you -- when we talk about the inclusion of one-year performance, that is -- that is a practice that's currently being implemented with some funds. And also, as Peter mentioned, some funds are using that management -- or manager comparative group as well.

So, again, it's just to tell you about what's out there on -- with regard to the use of relative and absolute performance in your incentive structure. We think that's bang on. And so again, it's just about making sure that you're educated on all possibilities. And that if you were ever asked about this going forward, you would have an educated answer for them as to why you did or did not choose to go in any one direction.

PRESIDENT TAYLOR: Excellent. We do appreciate that.

So it looks like, I want to make sure, no further questions from the Board before we move forward. And yeah, no further questions. So Brad and Peter if you want to move forward.

MR. LANDERS: Yeah, if we could bring the slide presentation back on.

--o0o--

MR. LANDERS: Great. I'm sure this will solicit some good discussion. And this is around comparator groups.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: And just to set the stage, you know, a comparator groups is really there to clearly define the size of the comparator organizations, the sectors that organizations operate within, and the scope of the roles to be compared. And it really is there to --

you know, and make sure that you include a prescriptive or an objectively defined mix of multiple groups. And what we mean by that is some organizations will have specific lists of organizations, others will say, no, we'll -- we have a waiting that we put on say public sector versus private sector peers within our peer group, and that's how we determine, you know, our peer group.

So if we can move to the next slide, please.

--o0o--

MR. LANDERS: So as Brad had mentioned earlier, as part of the interview process with each of the Board members, we collected your opinions on the -- on the peer group. And, you know, again these are sharing, you know like Brad said, where we heard multiple, three or more, Board members stress specific categories or comments. This is what we're including here.

And one was we wanted to make sure we're comparing to similar sized public funds in North America, knowing of course that CalPERS is, you know, one of the largest, if not the largest in North America. And so also looking at are they transformed funds? Do they, you know, manage a lot of money internally versus externally? So all of that, you know, getting factored in in terms of what that similar size public pension fund looks like.

We talked and we heard that, you know, endowment funds made some sense, not for, you know, the executive roles, but more for the investment roles, where you could lose talent to in the marketplace. We definitely heard most individuals say that, you know, for-profit private sector organizations made sense. There's definitely an acknowledgement that, you know, you're never going to be able to compete 100 percent against the private sector, but you are losing talent and can lose talent to the private sector. We have some stats in a little bit that sort of back that up to a certain extent.

There was a comment that was made too that, you know, as you're competing and you're looking to internalize as much management as possible, that, you know, you are too dependent on high-priced investment consultant. You pay a lot in external management fees and is there a way to lower that by building your internal capabilities?

And one of the ways you can do that is in certain asset classes bring in people from the private sector, where, yes, you're paying them a competitive wage, not at Wall Street levels by any means, but a competitive wage that, yes, the mission-driven organization, you know, hopefully more flexible work environment, and work -- a little bit better work-life balance, not having to hustle to bring assets into a fund and just being able to invest and find opportunities. You can start to use all of those pieces in your -- in your tool jar to compete in that.

And then there was an acknowledgement that the private sector is definitely a lower concern when looking at non-investment roles, so your executive roles below the CEO, but the private sector is still a threat. And actually when you look at some of the data of where some of your current executive talent came from, actually -- you know, a fair bit of them actually came from private sector and that's where you recruited them out of. So definitely, private sector, you know, an area to at least examine for that group as well.

If we could move to the next slide, please.

--o0o--

MR. LANDERS: In addition, public State agencies were definitely indicated to make a lot of sense when looking at executive roles. And again, where that -- where you current executive talent came from backs that up that, you know, several did come from public agencies, not necessarily State agencies, but public agencies. But there was also an acknowledgement that solely focusing on public State agencies and not looking at other groups like other pension funds or even the private sector, might be a hindrance as you look to, in the future, recruit for talent at the executive level moving forward, and definitely would be a hindrance for -- if we're -- if we were to include that in the Investment staff peer group.

And then lastly, we asked people around the idea of what we call a blended peer group. And a lot of people indicated it made a lot of sense. So having a specific split between saying we're going to measure this percentage of the peer group based on, you know, public sector, public agencies and this specific percentage based on private sector comparisons. And definitely there was a universal view that there was no -- definitely no appetite to ever go a hundred percent private sector.

That, for sure, it would have to be a relatively smaller waiting within whatever that, you know, blended peer group looked like. And really the thought process behind this was being -- making sure that you're able to attract people with current and relevant skills and experiences. And so having a peer group that's made up of a blend of both public sector public funds, as well as private sector peers makes a lot of sense to try and take into account those different areas where you're recruiting and potentially losing talent from.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: Then lastly, again as we sort of embark on the discussion on this, and there's a few more slides, but just make sure you're looking at similar size organizations, working in similar sectors, operating in similar regions, you know, sort of across the United States, or as we've heard already earlier, you know, the competitor across the river. That's obviously an important reference point. I wouldn't say you want to benchmark all of your pay against that one potential peer, but it is a reference point to be mindful of and aware of, and make sure that the positions are similar in scope, in terms of responsibilities.

And that comes up -- you know, we talked about your Chief Health Director and that there are very few roles that have a similar scope and responsibilities to that role. So that's going to make, you know, benchmarking for that role a little bit more difficult, but that's where again for that role that's quite unique and other roles potentially, you know, customized peer groups may make a lot of sense.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: We wanted to quickly take you through just at a high level what the specific pension fund peers that are highlighted in your current list of pension funds peers that we used histor -- that have been used historically, what is the makeup of their peer groups? And you'll see the check marks indicate do they use other public pension funds, do they use other public agencies, and do they use the private sector within their -- within their peer groups? And then where possible, do they use a blend of private and public sector?

And I think the key takeaways here, when you look at this table, is pension funds in the private sector dominate and are typically always included within peer groups. And this is for the non-investment executive positions, so we're talking about CEO, COO, CFOs, that type of thing. So it's not -- we're not talking about solely Investment staff. This is actually non-Investment staff as well.

And there is some level of use of public agencies at the Caisse de dépôt in particular. And then also there is a couple of instances of organizations that have used a blended approach. And them of being your peer across the river. So they use a 67/33 split when determining their peer groups. So just, you know, some helpful market data, to just, you know, educate at this stage. Very common, and you won't be out of step by having, you know, pension funds, private sector, potentially public agencies in whatever peer groups that you determine.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: This was an interesting slide, and again, you've been shared this information in prior public available decks. But this is an interesting slide in that it looks at the amount that you're spending on external management fees, and then the amount that you're spending on internal like investment, administration, and operating costs. And the key takeaway here is to say that even though the external management is call it one-third of your total assets, you're spending almost call it five to six times the amount as a specific basis points on external management fees as you are for internal costs, in terms of your team -- internal team, other operating costs, and things like that.

And so the important thing to realize is, you know, definitely, you know, as pay increases, you know, you want to be obviously -- you know, relevant on the quantum and make sure you're comfortable with the quantum of pay that people are earning, but it's also important to realize overall by bringing more investing in-house and paying your people more in building out that professional team, whether it's here at CalPERS for those statistics or just in other broader sector surveys that we've seen in research, you know, you'll end up paying your own people a little bit more. So, yes, you know, you're going to pay a little bit more for internal costs, but it's going to come at much of a benefit, because you'll be paying a lot less on the external management fees. And that's the tradeoff.

And that's where again to Brad's earlier point about being able to justify any adjustments in pay and things like that to plan members, to other stakeholders, that's the type of evidence you want to speak to to say, yes, we know we, you know, paid X amount more on our -- on our staff this year, but you know what we saved Y percentage and a heck of a lot more by bringing that in-house and lowering our external money management fees. And that's -- you know, that's what those leading funds, those transformed funds have been able to do over time.

If we can move to the next slide.

MR. KELLY: Sorry, Peter, can we go back to that slide. I just want to -- I just want to make sure that this Board is clear on this slide, because this slide is very, very important here. When we did our interviews with all the Board members, many of you recognized that conversations with your -- with your constituencies, with external stakeholders, when you're talking about compensation tend to get a bit uncomfortable, because we -- you tend to talk about compensation levels that are much higher than what your members normally would get in their specific careers and employment opportunities.

I want you to really focus on this, because everyone is focused -- everyone is concerned about what you're paying the CalPERS employee and what gets picked up by the media. And this is what you really should be focused on, because this is what the transformed funds really focused on. They say this as a low-hanging fruit. So we want you to understand when you look at the 3.8 basis points, that's not just internal management of your internally managed assets, but it's also the administration, the operations. It's the paying of your internal employees. It's all of that bundled together. That's 3 -- that's 3.8 basis points, based on your total fund.

Now, that higher number, that 929 million just under a billion dollars is being paid -- that's roughly 21.8 basis points on the total fund. So you say 21.1 basis points, that's not a lot. That's okay. Think about this. That's $929 million you're spending to manage just that upward element, that 193 million. So if you do it on a relative basis point scale, you're actually spending for your internal operations, administration, internal investing, you're spending roughly 5.6 basis points to manage that $300 billion portfolio or asset group.

Comparatively, when you're looking at the 139 million, you're spending actually 67 basis points to manage that upward component. So when you say, well, normally the management fees are 2 and 20, sure, that's 2 and 20, but there's ways that they escalate. You're spending 67 basis points to manage that $139 billion portfolio.

That is where the low-hanging fruit is and that is where you need to communicate to your members saying that's what we're focused on. That's what we want to address. We want to make sure that we're paying fairly, we're being competitive, that we're attracting and retaining the right internal talent, so we can chip away at that number, so that we can get it down to something more reasonable and we can actually start paying our people, not what they're paying the external people, but paying them a bit more and incentivizing them to really perform, because when you look at it from a proportionate basis, 67 basis points versus 5.6 basis points is a huge differential. And that's the strategy that we're trying to encourage you to adopt. That's where we want you to go, because this is the way the other funds have gotten to that fully funded or surplus funded status. And this is how you're going to get there by focusing in on the data that's here in this slide.

MR. LANDERS: We often just say to conclude this, you know, we ask would you rather pay your people a little bit more or pay external managers more, and much more than what you're paying your internal staff that are committed to the vision, that are working hard, that are trying to do the best thing for members. So always think about that as well as, you know, you work towards this philosophy.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: Perfect. Very quickly. It was asked again at the June meeting to provide a little bit more information on both attraction and attrition data within the staff. And we'll specifically Focus on the investment management team and then on the executive staff. But when you look at this pie chart, and this is over the last four years, so relatively recent numbers. While, yes, 33 percent have retired, the largest segment of talent in the investment management piece have moved to the private sector, so 41 percent. You have another seven percent that moved to, you know, other public pensions or public agencies, what have you, and then four percent going to CalSTRS and so what you can say is the lion's share of those that again aren't retiring are moving towards the private sector. So this just enforces that, you know, you're losing people to the private sector, it should make up some portion of potentially what that peer group looks like.

Can we move to the next slide, please.

--o0o --

MR. LANDERS: On the attraction side, what's great is you've had a lot of lateral or promotional people internally that have moved into different positions, which is great, because that means that you're encouraging, you know, people to stay within CalPERS, have a long career within the fund. But again, for those that have left -- or sorry, those that you've brought in from the outside, outside of CalPERS, again the lion's share were being recruited from the private sector and then a smaller portion coming from again other public pension funds and as well from CalSTRS. So just interesting when you look at the data to see, you know, where you're acquiring that talent from.

If we can move to the next slide, please.

MR. KELLY: Peter, there -- Eraina had indicated that she has a question.

MR. LANDERS: Oh, I was going to wait till the end, but yeah, we can address it now too. That's fine.

PRESIDENT TAYLOR: Wait. Wait. Wait. Let's -- I've got Lisa also, so let's do the end of the session, then Lisa and then Eraina.

MR. KELLY: Sorry, Madam Chair.

MR. LANDERS: There's only one slide left, I believe, or a couple of slides.

So next slide, please.

--o0o--

MR. LANDERS: Perfect.

And then on the executive team, you know, it was definitely shared with us that you haven't had retention issues. So you haven't really had a lot of attrition at the executive team level, but where you -- when you look at the current team and where you brought them in from, 50 percent came from government agencies. These were either State or federal agencies, 17 percent, so one of the six, which was Marcie came from another pension fund. And then 33 percent came from the private sector. This is where you brought them in from.

And while you haven't had necessarily any attrition issues, and that's a great thing, you know, obviously a positive, the worst thing that we'd want to have happen is to say, oh, well, you know, we don't have a problem, so, you know, it's okay we're paying people fine and we shouldn't make any adjustments. Our concern would be by the time you do have an attrition issues, you've created a larger problem, because now you have to try and potentially bring in one or two, maybe even three other executives. So we wouldn't want you to be reacting to a problem and just making sure that you're being proactive and making sure that everyone is comfortable. This is the peer group for this team of talent. This is what the data shows, whatever that agreed upon peer group is, and, you know, this is what we want to do to align with our principles and with our philosophy. So I just encourage the Board to always be thinking proactively to avoid having to react to an attrition problem in the future.

If we can move to the next slide, please.

--o0o--

MR. LANDERS: So coming out of all this looking at, you know, the attraction and attrition data, also looking at what we heard coming out of the interviews, this is, you know, GGA's recommendation and this, of course, is why we want to open this up to additional discussion amongst the group, because we know a lot of you probably have pretty strong views in one way or the other.

But on the investment professional side, so the investment team, we think there's justification to do a blended peer group that is two-thirds weighted on other leading public pension funds, similar to the list that I shared with you earlier, and then one-third from other private sector organizations. And that would include endowments, insurance companies, what have you.

And then for the non-investment positions, definitely incorporating a weighting on the public sector agencies, because you are attracting talent from that pool as well. So it would be an equal sort of one-third weighting on other public funds, one-third weighting on public sector agencies, out in California, and then one-third weighting still on the private sector as well. And we think, you know, there's great justification for doing that. And so with that, if we move to the next slide, it's really just a question then --

--o0o--

MR. LANDERS: -- for the group. You know, what should the peer groups be comprised of? And so I'll open it up there and obviously, there's some questions that people have.

PRESIDENT TAYLOR: Yeah. Thank you, Peter. Thanks, Brad.

Lisa Middleton, go ahead.

BOARD MEMBER MIDDLETON: All right. Thank you, Madam President. Actually now a couple of comments. The first one fairly quick. If we go back to the last slide, I'm very comfortable with these recommendations as to what our blended group should be and recommend we move forward with that.

I'd like to move back to I think it's slide 32 or 33 where we're talking about bringing more of the work in-house.

Yeah, this one. And clearly, this is something that I believe all of the Board overwhelmingly wants us to do. The issue is not so much the question of being able to go out and explain to our members why we need to pay more for internal work. The issue is the opposition that we have received from stakeholders, and specifically retiree groups, that have opposed us when we have gone to the Slate Legislature to have the ability to be able to responsibly bring these programs in-house. And it is not responsible to go around the state of California complaining over and over again that we need to do more work in-house and then oppose us when we try to bring that work in-house.

So some folks are going to have -- outside of this Board are going to have to make a decision, do you want to continue to oppose us when we're responsibly trying to bring work in-house or do you want to leave this work outside the organization?

Thank you.

PRESIDENT TAYLOR: Thank you. Well said, Ms. Middleton. I agree.

Ms. Ortega.

BOARD MEMBER ORTEGA: I just had a question on I think it's 33 and 34 of the slides, which show the percentages of the people who left and who came in and just wondered if we have the underlying numbers versus the percentages there, whether we can get that -- my impression was that at least on the -- on some of these, the actual numbers are rather small, so the percentages I'm not sure are that helpful.

And then on the comparator groups, yeah, I think the weightings being one thing, are we going to have a further conversation about what the actual comparisons are? Because I -- you know, I think I've raised in the past my concerns are around on the non-investment staff that a lot of times the private comparators are insurance companies, and banks, and things that I just don't think are relevant to the types of folks that we've brought in.

And then also just looking at the pension versus kind of on the who we've brought in, the government category was the largest but look -- so I absolutely support comparing to other public pensions in North America, but I'm unclear to what extent that's bringing in Canadian funds in terms of comparators for our Chief Counsel, our Chief Operating Officer, those kind of positions where I'm not sure that that is also the best comparison.

MR. LANDERS: So I'll try and address a couple of those questions. One I'll defer the numbers question to Michelle and her team. And I'm sure they can provide some follow-on maybe even after this presentation to you on that. But on the -- on the piece around who makes up say private sector peers and things like that, that's definitely -- we're open to hearing from you and any others on who should be made up of that sort of if we are to use the private sector, what types of private sector organizations makes sense to include. That's definitely part of the discussion to date to make sure that everyone is generally okay and that, you know, staff can work with McLagan to really highlight those specific companies. So definitely welcome any feedback on who shouldn't and should be included, in even that private sector group.

And then lastly on the pension fund side, similar -- a similar comment, definitely, you know, if it was the pleasure of this -- you know, of this Board to just focus on say U.S. funds and not on Canadian funds, that's within your purview. However, I will preface that by saying in the interviews, there was a theme shared that, you know, you should be comparing yourselves to other transformed funds, that it does make sense to include certain, you know, Canadian funds as well. And I think it's also to realize that you are running close to a $500 billion organization. And so, you know, CEO, CFO running, you know, a four or five hundred billion dollar organization quite complex, and I think, you know, including a good sample of both American and North American, Canadian peers still makes sense, knowing that it will make up just a small fraction of the overall peer group data that comes forward to the Committee and to the Board.

MR. KELLY: Oh, one --

PRESIDENT TAYLOR: Eraina, has --

HUMAN RESOURCES DIVISION CHIEF TUCKER: I can share some of -- oh, pardon me. Sorry.

PRESIDENT TAYLOR: Oh, I was just going to make sure Eraina had her questions answered, but go ahead, Michelle.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you. I do have some of those numbers, Ms. Ortega, that you requested. So for the investment management positions, of a pool of 132 team members or positions for the period that's noted on the screen July 2019 through September 2022, we had 27 departures. And so 11 of those were to private asset managers, three were to other public agencies, one of them was to CalSTRS, and then nine retired. So that's how the percentages breakout or equate to to actual numbers.

PRESIDENT TAYLOR: Okay. Great. Thank you. And I thinker Eraina was talking about the comparator group for the positions that aren't investment --

MR. LANDERS: Yep.

PRESIDENT TAYLOR: -- is that correct, Eraina? Was I --

BOARD MEMBER ORTEGA: (Nods head).

PRESIDENT TAYLOR: Yeah. Okay. And I think I commented on that earlier just that we are a different -- you can't just pull from public agencies. We can't hire a CEO from Franchise Tax Board to oversee the workings of CalPERS. It's just -- they're two different organizations entirely, or from Department of Transportation. The same would go with your general counsel. The general counsel would need to be really literate in, you know, investment law, health care law, all kinds of things that normal general counsels in public agencies aren't.

So I think looking at comparator groups outside of -- even outside of pension funds is probably a place we're going to have to go, because we would be looking for people with experiences that are public agencies and possibly pension -- some pension funds don't offer. So that's my thought on that.

MR. KELLY: Madam Chair, if I could add to that, please?

PRESIDENT TAYLOR: Sure.

MR. KELLY: Understanding if you -- if you go back to the data that was presented on slide 32 with regard to the internal versus external, if you're will and your wish is to continue down this path around bringing more and more of your investment activities in-house, managing assets in-house, the overall complexity around managing those assets and the mitigation and management of risk around them continue to increase.

PRESIDENT TAYLOR: Right.

MR. KELLY: And so you run out of room. The pool of candidates that you can draw from continue -- will continue to narrow as you go down that path. And so therefore, you're increasing the probability of you pulling from either a very large fully transformed fund -- pension fund or from the private sector for some of these organ -- or some of these roles. And so therefore, you do have to keep this into consideration in terms of tying to strategically navigate through this to make sure that you're setting yourself up for future success, because if you don't, you may get to a point where you're so complex and the pool where your -- where you want to draw from is non-existent, that's a situation you never want to find yourself in.

PRESIDENT TAYLOR: Absolutely. And I will say as we heard in our November meeting, I do know that our new CIO is really looking to bring this talent in-house. Having spoken to her as well, she really wants to do knowledge transfer from outside folks to our in-house folks so that we can transform our offices. So I think that's -- you know, that's where we need to be focusing in the future for -- so we need to be out -- going out and looking for that kind of talent.

Jose Luis, you have a question or a comment?

BOARD MEMBER PACHECO: Yes. Yeah. Thank you. Thank you, Madam Chair. So thank you, Brad, and thank you Pete for this comment.

Just to piggyback on that comment about bringing in talent. I think I saw a slide, as you were going, that many of our investment folks are being promoted. It was like a -- it was like 50 percent in my -- was I incorrect about that?

MR. LANDERS: It was on the attraction side, I think it was quite high within the investment team. I think it's a couple slides forward if we can move to that. Next one think.

Yeah, that one.

BOARD MEMBER PACHECO: So where are they coming from? So they're coming from within, right, so --

MR. LANDERS: Mostly, yeah.

BOARD MEMBER PACHECO: So is it -- is it a -- is it as you mentioned, if we do bring in the stuff in-house and so forth, and we bring in -- and it becomes more complicated and more -- and there's a lot more risk mitigation we have to apply, what does -- doesn't it make sense to develop our folks that are already here that, you know, they embrace us, they understand our culture, our systems, and, you know -- and they align with our values and our mission -- our mission-driven things. So that would be an excellent area of, you know, further development instead of, you know, always finding them outside. I'm just curious your thoughts on that.

MR. LANDERS: So great points, Jose Luis, and definitely that is, you know, a preferred way to do it, right, because, you know, definitely studies have shown it's a lot cheaper to sort of grow people from within than bring talent in from the outside.

I think there's a couple of things just to clarify though. One is there might just be certain areas that you're moving into that you need to move maybe a little bit quicker and you don't necessarily have the time to develop certain people as quickly as you'd like in a specific area, which will then require you to come -- you know, go to the outside to bring talent in.

The other piece of the equation is as you build these people up and get their skill levels up to the level of, you know, more comparable say with -- you know, with somebody in the private sector, well, what does it say to that person if you're, you know, not going to necessarily reflect that in a pear group. And therefore, you know, their pay level isn't necessarily able to keep up with the added level of skill that they're facing.

So that's why using this peer group just not only to assess, okay, how much are we going to potential pay people to come in, but also to just make sure okay, our staff are currently -- you know, have built up their skills, what is the market for talent for similar individuals at this level with this level of skill? You want to make sure that, you know, you're keeping those individuals competitive and in line with whatever peer group you determine and that you're market competitive. And so you wouldn't want to necessarily say, oh, we're just going to build them from within and then, you know, that's going to necessarily be cheaper. It's more saying, we're going to build up that skill set. Yeah, that's hopefully the lion's share, but also we're going to regularly monitor against this specific peer group to make sure that we're continually paying these people commensurate to their performance and to the level of skill they bring to our organization.

BOARD MEMBER PACHECO: Thank you, Peter. I just want to add one more comment talking about that and about the comparator group. And I wanted to elaborate about the investment position on -- this is the page 34 on the private sector, and you had mentioned as the one-third weighting the endowment funds. In -- what are you looking for in that? I mean, what is your thoughts? I mean, are we looking at endowment funds from the universities or other foundations or is it -- and is it -- is it just strictly in the United States or are we considering all endowment funds throughout North America in that area?

MR. LANDERS: My understanding and I -- you know, this would be more a question down the line for McLagan, because it will come from their database, but I believe its endowments in the United States and to a large extent endowments of U.S. universities for the most part. I'm not going to say it's all that, but I think it mostly ends up being U.S. endowment funds at colleges and universities.

BOARD MEMBER PACHECO: Okay. Very good.

MR. KELLY: If I can add to that, because one thing you need to consider is the size and complexity of the organizations. And so typically in the United States, many of your universities have very sizable and complex endowments. And so if they're at a certain -- you know, a reasonable size, then they would be a justifiable comparator. The small -- the really small endowments wouldn't apply at all. But you're really going to be compare yourself to the large complex endowments that currently operate within -- within the United States.

BOARD MEMBER PACHECO: Okay. Very good. And that's what I had figured. I just wanted to kind of just get confirmation on that. Thank you, Brad. Thank you, Peter, for your comments.

PRESIDENT TAYLOR: Okay. Thank you, Jose Luis.

Michelle, if you would go ahead -- she -- Michelle has a document that shows the blend of private and public groups with some details.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Madam Chair.

PRESIDENT TAYLOR: Post that. Thank you.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Sure. And I can ask Karen Van Amerongen so share that. It has, I think, a little more specifics with the questions that you're asking about what the specific types of entities are that are in this line. So if we can ask Karen Van Amerongen to share her screen. Thank you.

PRESIDENT TAYLOR: You can make that a little bigger maybe.

There we go.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thanks, Karen.

And Karen, maybe scroll down a bit so we can see the blends for the executive management positions. These are described leading the public funds, leading Canadian public funds, select California-based agencies, and then banks and insurance companies. And then for the investment management positions, you'll the description there, which is large and complex institutional investors and then some private sector asset management organizations of comparable size. And when we put -- if you approve this blend, what we do is we work with McLagan to determine which individual entities are appropriate to be placed in there. So, for example, you might choose to have organic fruit and conventional vegetables. And then they'll take if you get like a banana or an apple kind of a thing. So that's I think the simplest way to describe that. And Karen and I are happy to take any questions on this or, of course, GGA can respond.

PRESIDENT TAYLOR: Okay. And it looks like -- I like -- I like the makeup. So the banks and insurance agent -- companies are something to be -- who that participant is is to be determined, right, like what banks and what insurance companies?

HUMAN RESOURCES DIVISION CHIEF TUCKER: That's correct. That's part of McLagan's work that they do is they determine what is an appropriate or reasonable comparator within that type of group.

PRESIDENT TAYLOR: Okay.

MR. LANDERS: And that's what we're -- when we say private sector in our recommendation, that's essentially who we're referring to is right now you're using banks and insurance companies in determining that level. So I think circling back on Eraina's point, Happy to get feedback from her on -- you know, I think she said she's a little uncomfortable with banks and insurance companies. Is there any other types of private sector organizations that you would say, yeah, you know what, that is more comparable to what we're doing here? That would make more sense in a bank and insurance company.

PRESIDENT TAYLOR: Eraina, I don't know if you heard the question.

BOARD MEMBER ORTEGA: Yeah. I mean, I heard the question. I think the issue is the actual entities that get used are, as I understand it, proprietary to McLagan. We don't get -- we don't get information about that, so we say banks and insurance companies and they put who they want in there.

I am just going to say I generally don't think the data supports including banks and insurance companies. The data that's in the slide where it's something like 70 percent of the people have come from government or another pension fund. I just don't think it's realistic that we're hiring, you know, people who work on mergers and acquisitions to be the Chief Counsel at CalPERS. So I think that for the executive management positions, it should be much more focused on where we actually get people from. And while the point may be true that we're not getting them from, you know, the average State department, many of the folks have come from State service. They have come from other -- you know, they come from other pension funds within the state.

I certainly think the other very large pensions in California are an absolute legitimate comparator, Los Angeles, San Francisco, the other large public pension funds. So to me those are much better comparators than a multi-national bank or insurance company.

MR. KELLY: So Eraina, building off of that, and I appreciate that, if we were to look at this and say that there is justification for some sort of private sector element, would you be okay with a prescriptive methodology where we have an equal weighting of one-third, one-third, one-third? And that way whoever is in that private sector is really only one-third of the weighting and the lion's share of the weighting will be on public pensions and public agencies. And that way it's just recognized within there, but it's prescriptively, so that there's clarity on the overall construct of the peer group. It's not just a general blend. It's -- only one-third of the weighting is attributed towards that private sector segment.

MR. LANDERS: Or relatively small, it could be even like is it 20 or 25 percent? So it makes up like a smaller percentage of it, is that something that you could, you know, generally, you know, support?

BOARD MEMBER ORTEGA: Could you go back to the slide that has -- where the -- I think it's like 35 maybe.

MR. KELLY: Thirty-six, where the recommendations.

BOARD MEMBER ORTEGA: No. Where the --

MR. LANDERS: Executive talent.

BOARD MEMBER ORTEGA: It shows where people have come from.

MR. KELLY: Yeah.

BOARD MEMBER ORTEGA: On the --

MR. LANDERS: Next slide.

BOARD MEMBER ORTEGA: Yeah.

MR. LANDERS: The executive one. There we are.

PRESIDENT TAYLOR: So and I want to ask a question while Eraina is looking at that. So are we asking -- I have some public comments and then I want to know if we're -- we have more after that. But are we asking for a vote on the peer -- CalPERS peer group, one-third, one-third, one-third, and two-thirds and one-third weightings? Do -- are we voting on that? Do you guys want -- or just a recommendation -- overall recommendation from the Board.

MR. KELLY: This is one of the key elements that we're hoping to get -- key directions we're hoping to get from your Board. So we would appreciate some clarity on this in terms of not just the elements that are included, but also the proportionality, if that's the Board's wish. That will allow us to get the right data from McLagan and help Marcie move with her team to make appropriate adjustments, so that we're not in a position where we've lagged so far that we now have a flight risk that you don't want to be in.

PRESIDENT TAYLOR: Right.

MR. LANDERS: And I'll defer on whether we need to -- you need to do a vote to someone on the staff. I'm not sure if you need a vote or not, but we would like to have some direction, so that staff can definitely move forward on working to show different data. And maybe it is looking at it with different mixes. So to Eraina's point and concern about having too much weighting on private sector, maybe it is showing, you know, something with 33 percent and maybe with 20 percent or something like that --

PRESIDENT TAYLOR: Well, Pete, let me say that I don't know. It sounded like the rest of the Board was okay with this. I understand Eraina's feelings about this. I think if we -- we're still going to bring it back for discussion, so it's not --

MR. LANDERS: Yes.

PRESIDENT TAYLOR: -- it's not a done deal by any means. So I'm thinking that based on, you know, other Board members weighing in before and just recently, I'm thinking that we could go ahead and do Board -- or Committee recommendation -- or Board recommendation that we move forward with the CalPERS peer group as outlined on slide 34. And I will say that the one-third -- On non-investment positions, the one-third weighting on private sector organizations seems to be fine, because you're giving two-thirds weighting to public sector.

But also, it looks like we did get people from private sector in our executive office. We got 33 percent of our folks came from private sector.

Michelle is saying we do need a vote. So before we vote, however, I do have public comments. So let's go ahead to, Christina, if you want to get David Teykaerts -- or David, can you hear me?

STAKEHOLDER RELATIONS ASSISTANT DIVISION CHIEF TEYKAERTS: Yes, Madam President. Just a point of order, both of the public comments are designated for the item number 3, the general public comment at the end. I just wanted to point that out before we got them on the line, but I'll wait your pleasure on that.

PRESIDENT TAYLOR: Okay. I'm sorry. I only understood one of them to be Item 3 of the agenda. We can wait then.

I also want to be clear, we're not done here yet, right? Do we still have more, Peter?

MR. LANDERS: Yes.

MR. KELLY: Yes. Yes, we do.

MR. LANDERS: There's more.

PRESIDENT TAYLOR: Okay. So -- and we're going to have to take a break. So we're two hours in, so we're going to have to take a break. So if -- we're going to hold off on public comment till the end and Michelle is saying that we need to take a vote on the direction for the CalPERS peer group blended group.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes, Madam Chair. And that will allow us to work with McLagan to pull the data. And then it will come before you again for further action in the spring.

PRESIDENT TAYLOR: Okay. And I think the data is just good to have in general. Do I have a motion on the floor?

BOARD MEMBER PACHECO: I motion. Jose Luis

Pacheco.

PRESIDENT TAYLOR: Okay, Jose

Do I have a second?

BOARD MEMBER MILLER: (Hand raised).

PRESIDENT TAYLOR: David -- Mr. Miller. Okay. So the motion to take the recommendation from GGA was made by Jose Luis, seconded by Mr. Miller. We need a roll call vote for this.

BOARD CLERK: Rob Feckner?

VICE PRESIDENT FECKNER: Aye.

BOARD CLERK: Kathryn Asprey for Fiona Ma?

ACTING BOARD MEMBER ASPREY: Aye.

BOARD CLERK: Lisa Middleton?

BOARD MEMBER MIDDLETON: Aye.

BOARD CLERK: David Miller?

BOARD MEMBER MILLER: Aye.

BOARD CLERK: Eraina Ortega?

BOARD MEMBER ORTEGA: No.

BOARD CLERK: Jose Luis Pacheco?

BOARD MEMBER PACHECO: Aye.

BOARD CLERK: Ramon Rubalcava?

BOARD MEMBER RUBALCAVA: Aye.

BOARD CLERK: Mullissa Willette?

BOARD MEMBER WILLETTE: Aye.

BOARD CLERK: Dr. Gail Willis?

PRESIDENT TAYLOR: Excused.

BOARD CLERK: Lynn Paquin for Betty Yee?

ACTING BOARD MEMBER PAQUIN: Aye.

PRESIDENT TAYLOR: All right. It looks like the motion carries.

And with that, let's take a 15 for everybody to have a moment, since we've been sitting here for two hours and then get back to it. And let's see it's 11:23, let's say 11:25. At 11:40 let's be back here.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Madam Chair -- or Madam President?

PRESIDENT TAYLOR: Yes.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Can I just confirm that that vote was to accept the GGA recommendation on slide 36 for the CalPERS per group -- peer group as being two-thirds public pension funds rating for the investment positions, one-third private sector. And then for the non-investment --

PRESIDENT TAYLOR: Correct.

HUMAN RESOURCES DIVISION CHIEF TUCKER: -- one-third public pension, one-third public, one-third private sector.

PRESIDENT TAYLOR: Correct.

HUMAN RESOURCES DIVISION CHIEF TUCKER: As noted on the slide. Okay. Thank you. I just wanted to --

PRESIDENT TAYLOR: As noted on the slide. And we appreciate that and we will look forward to the information.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you.

PRESIDENT TAYLOR: All right. And see everybody back at 11:40.

(Off record: 11:24 a.m.)

(Thereupon a recess was taken.)

(On record: 11:40 a.m.)

PRESIDENT TAYLOR: I just had a quick question. I was thinking about this one when we were on break. I think Eraina talked about -- somebody talked about the fact that once it goes over to McLagan for us to get the data, then we never find out who the data is from. Is there a way we can know that or is that just blind data that we don't know?

HUMAN RESOURCES DIVISION CHIEF TUCKER: They have a proprietary blend. So not the private groups we are able to find out, but I think they do share the public group, is that right, Karen? I think there's some non-disclosure agreements that they signed.

HUMAN RESOURCES ASSISTANT DIVISION CHIEF VAN AMERONGEN: Yes. The public groups are usually presented within the slide decks, but the private groups they do have NDAs and so they're not allowed to share those. But they do pick them out just appropriately aligned in terms like what -- Brad and Peter can really talk to this more in terms of size, and complexity, and that.

PRESIDENT TAYLOR: Okay. So they can -- they can at least not -- can they -- so they can't tell us even who they used, so --

HUMAN RESOURCES ASSISTANT DIVISION CHIEF VAN AMERONGEN: Correct.

PRESIDENT TAYLOR: Okay. And Brad, if you want to go into that in a second, what I do want to make sure is that in the public group, they're not skipping over Covered California for some of -- for the positions we were talking about earlier or for the position we were talking about earlier, because that's a different entity than most public agencies and more comparable to what Mr. Moulds does, so I just want to make sure that that's in there group of --

HUMAN RESOURCES DIVISION CHIEF TUCKER: I --

PRESIDENT TAYLOR: Go ahead, Brad.

MR. KELLY: Madam Chair, basically, it's our understanding that that position was so unique that McLagan really couldn't provide, you know, really a definitive peer group for it. And so basically, we worked with Michelle and her team to try and come up with reasonable comparators, which would include CalHR. But it's so unique that an organization like McLagan normally wouldn't have data around this position. So again, it will require some -- a unique approach, but we can make sure that we get something that's fair and defensible at the very least.

PRESIDENT TAYLOR: Okay. And Michelle, I don't know who you think of, but maybe -- I don't know, but Covered Cal for sure. But because the position is so different, you can't even like look at an insurance person -- a health insurance person. It's just a different position altogether, so -- but --

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yeah.

PRESIDENT TAYLOR: -- let us know who you finally decide on from the comparators for that kind of position.

HUMAN RESOURCES DIVISION CHIEF TUCKER:

Absolutely, we can, Ms. Taylor. And I think we shared that -- I think we looked at that last spring, so we'll look again. But Covered California was certainly amongst the groups that we looked at.

PRESIDENT TAYLOR: Okay.

HUMAN RESOURCES DIVISION CHIEF TUCKER: So we'll clarify that. And this will be in the slide deck. We'll make sure that's included when the data and the recommendation come forward.

PRESIDENT TAYLOR: Okay. Okay. And I just got a message. Okay. Never mind. We can move on.

(Laughter).

MR. KELLY: Excellent. So I -- if we can ask for the slide 38 to be put up, please.

--o0o--

MR. KELLY: Excellent. Thank you very much. So continuing on with the elements around the policy that we've recognized need to have some -- you know, some adjustment. If you recall, we've had conversations around the overall annual salary adjustment process, as well as the associated performance matrix that's within the policy itself.

The next slide, please.

--o0o--

MR. KELLY: So when we talk about the purpose of having an absolute -- or a definitive matrix put into your policy, basically this matrix provides you with an opportunity to have clearly defined levels of performance associated -- and with associated salary increases at each defined performance level, so that there's clarity. There's clarity from the administrative side from your staff how it's applied, but also from your team members to say if I can perform at this level consistently, I can expect an adjustment next year of X, Y, or Z.

And so basically, it's to have that clarity, aid in administration, and help to streamline this process on an annual basis.

Next slide, please.

--o0o--

MR. KELLY: Our conversations with the Board members we collected, you know, various opinions as we've mentioned before. One of the key elements around this was basically a view that performance assessments and salary adjustments should be fair and equitable. So, you know, if there's a way to make it more objective and more equitable, everyone seems to be supportive of that. They believe that -- Board members believe that you should take into consideration general public sector practices in the State, but also align to the broader marketplace. And so you should also be looking at inflationary levels, especially in today's market right now or whenever -- wherever relevant.

Also there's a belief that you should take into consideration the expanded nature of the compensation. This would include things like incentive opportunities that not everyone within CalPERS has an opportunity to receive, to make sure that employees covered under this policy get -- you know, are treated the way they should be. And this is namely again to remind you investment professionals and senior non-investment executives, that is who we're talking about here in the policy.

Next slide.

--o0o--

MR. KELLY: Board members also felt that compensation should be sustainable and our conversation around having a three percent target, which is more aligned to the general North American market, people felt that this generally made sense. There was also a belief that -- or a thought that at-risk incentive pay should be more of the focus. And this was a really good conversation we had with -- with many of you around the perception of incentives and the impact that those incentives should have on your annual take-home pay and that these annual adjustments really -- if these incentives really worked, and if performance was really achieved, and rewards were granted, then no one would -- they wouldn't care, but they would place less emphasis on the annual adjustment and put more of their focus and attention on the attainment of the performance objectives, goals, what have you, on an annual basis or even on a multi-year basis especially when you're looking at the investment activities.

There is also a view that accountability needs to be strengthened. If the performance aspect is to be enhanced within your organization, then accountability needs to be strengthened simultaneously. There's a belief that performance should reflect actual performance over the course of the entire performance period. Not everyone can be exceptional. And this is hard for managers.

As a manager, you want to give everyone an outstanding, because it -- you know, it makes everyone happy. As I probably mentioned to you before, we've had some clients who have said can I make that announcement before Christmas, because it makes them sound like Santa. And that's a horrible way to approach this. It really needs to be based on an objective basis. And not all the decisions are popular. But as we all understand, that is leadership and that is something that managers need to actually accept. And so, you know, just blanketing everyone as exceptional, it is -- should not be accepted on a go-forward basis. I'm not saying that it's happening now, but I'm saying that it's a practice that should be deterred, so that there is a fair distribution of performance.

You can be a high-performing organization, but not everyone is a super high performer within a high-performing organization. There's still a relevant -- relative performance within that organization. And that's what CalSTRS needs -- or CalPERS needs to really focus on in terms of that proper stratification of performance within the organization.

There is also a belief that asset class performance should be considered. And this is an earlier conversation that we had. And this came up in our conversation around adjustments. I'm not sure -- and there's also a concern. They're not sure how to strengthen the accountability structure, especially if the public sector practices continue to prevail. We've had this conversation with the Board in the past with regard to how transformed funds have managed this in the past. And really that accountability structure has been strengthened and there's, I would say, less job security within a fully transformed organization strictly because performance is, you know, paramount and that is the expectation of all employees.

Next slide, please.

--o0o--

MR. KELLY: One element that can -- seems to be mis -- I want to say forgotten in all of this - I guess that's the best way to phrase it - is the importance of this LTIP that you have, you know, thankfully put in place that allows you to focus on your overall fund sustainability, absolute return on a five-year basis. It totally makes sense and the unfortunate thing is that you are still within that first performance period -- their five-year perform -- rolling performance period, and so therefore, your employees have never -- you know, all the LTIP participants to date have never seen what type of impact that can have on their take-home pay on an annual basis.

Twenty -- after the '23-'24 fiscal year, that's when the first payout will be determined, and that's where you're employees -- the participants will actually say, okay, like, this is huge. Remember, this is almost double what the annual incentive is, okay? And so if you can remind everyone of that opportunity, then they'll realize that this is a big piece of their compensation pie that they really need to focus on and focus on delivering on the five-year performance, so that they are indeed eligible for that at the end of the period.

This is just a quick back-of-the-envelope calculation the way it's tracking right now. Right now, you're falling below that seven percent expectation for that first payout in 2024. You're a bit closer -- because of last year, you're a bit closer to -- or the -- sorry two years ago -- in the 2025 payout. And then you're lagging because you -- everyone had a really troubling time last year. So you're lagging on that, that third, what we would call, grant. But the good news is there's four years to catch up. And that's the importance of having this four-year rolling -- or five-year rolling average, because now it gets everyone to say, okay, we had a bad year in year one, I have four years to try and make up for that, so that we can get over that 6.8 hurdle level, so that we can get -- we can all be eligible for that payout at the end.

What's important is that employee are reminded of this pay -- potential payout hanging there, so that they're reminded of the performance that they need to achieve and the contributions they need to make to get that performance. And again, if it's not talked about and if they're not reminded of it, then out of mind, you know, out of -- it's out of their mind and it's not considered real. We had one client that used to call you foo-foo dust. It's fairy dust until it's actually real and is paid out.

And so remind them of that, you know, impending 2024 payout and what they need to do to achieve that payout, because it is quite motivation -- motivating and it will truly incentivize them. When they look at it and say, I can double my incentive payout by hitting that, then let's do it. Let's focus on it. There's two more fiscal years to finish up here to get into the first payout, so there's still room. And I think that's the encouragement that needs to be communicated to your employees or to your team members. Sorry. I want to make sure I'm using the right verbiage.

Next slide, please.

--o0o--

MR. KELLY: In terms of typical salary adjustments, we mentioned this. We had this conversation in the past reminding you that a recent survey that was done through the pandemic where everyone one was realizing this mass resignation, that the expected adjustments for this fiscal year 2022 was expected to increase to three percent. Typically, it's three percent or lower. This was an -- you know, overall, both public and private sector, the expectation was it was to increase to three percent due to their -- the attrition levels that people were experiencing and the importance of retention within these organizations.

Typical assessment distributions normally has most of the employees landing at target. The overwhelming majority should be right there at target and then you should have a nice distribution above and below. We provided that table there. You've see it before. Typically, you should have what 60 to 70 percent of your employees hitting target. And then, you know, the cream of the crop will rise roughly about 25 to 30 percent. It could be recognized as high performers within your organization.

And then that low-performing group, 5 to 10 percent, that's a group that you really want to monitor, because if they're hitting that performance level in multiple careers, then there's a question of are they real the right person to be in your organization. Tough conversations to have. This is the whole reason why we have realistic assessments of people, so that you can have that -- those conversations and make sure that you're getting the performance you need out of your team members.

Next slide.

--o0o--

MR. KELLY: Our recommendation, as we presented it before, we -- currently, the policy has four levels spanning from zero percent from does not fully meet all the way up to severn percent outstanding. We want to bring you more towards that target, that three percent. So our recommendation is that you further stratify the performance elements to a five-tiered structure. Does not meet again being zero -- a zero adjustment. And then, you know, questionably whether or not they should be staying in your organization, and then up to five percent at exceptional. That would have a nice target at three percent, which is generally market level.

And I know that this doesn't line up. And Peter and I, we've had numerous conversations with all of you about this. We know that this doesn't line up to the normal adjustments that take place with the greater public sector within the State of California, but we want to remind everyone that this policy solely pertains to your team members that are incentive eligible, which is not the overwhelming lion's share of the greater -- the public sector within the State of California. So we think that this is a more sustainable way of managing compensation.

And to go back to the comments of the Board, we want there to be more of a focus on the incentive opportunities, both in the short term and long term, so that there's a focus on achieving those objectives, getting that performance, getting the returns for your fund, for your members, for the sanability of CalPERS, so that you can achieve your objectives. And we feel that better -- more -- a larger stratification and having the lion's share around that three percent fully meets will actually help you to do that.

Next slide, please.

--o0o--

MR. KELLY: So our recommendation is to consider placing more weight on the incentives, on placing less emphasis on base salary, so again at the at-risk compensation to really focus on the performance management and performance culture that you want within CalPERS, and place more emphasis on performance-based payouts, so that the COLA adjustments are a nice to have or the annual performance adjustments are nice to have, but really what everyone wants to focus on is the big payouts, which is I want to achieve great returns, good performance for our fund, so that I can be rewarded through this incent -- these two incentives that are put before me.

We would also recommend that you send out an LTIP payout tracking or projection report to everyone to remind everyone, hey, 2024 is coming and this is what you need to achieve collectively for us to all get paid out. So let's all focus on achieving this and help reinforce the perceived LTIP value again, so that it's not considered foo-foo dust. That's a real aspect of that compensation program. And then we think that by doing that, that will again strengthen that retention value of the incentive program, so that people will say, wow, like, I can't leave this on the table. I've been here for the last three years working towards this LTIP payout, I have to stay. I have to stay, because I could be eligible for a nice payout in 2024. And that's the way these things should be designed. That's the way they are designed. And again, we think that you're in a good standing to actually make that happen.

So that being said, we'll now bring it up to Board conversation here.

Can I get the next slide, please. Just --

--o0o--

MR. KELLY: So in terms of our proposed matrix, do you feel that the further stratification and distribution from zero to five percent with a three percent target makes sense? Do you think that it should be more aligned with the historic practice? I'd like to hear your views and opinions on this.

PRESIDENT TAYLOR: I'm not seeing anybody yet, but I'll kick it off with I don't have a problem with the -- going from zero to five percent instead of what was it zero to seven percent. You know, people will say in this day and age that that doesn't even cover inflation, but, you know, nobody is -- I don't -- I don't think that these folks base pay should cover inflation. They're getting other performance matrices.

But I also really like the idea of if performance warrants that the LTIP and the annual is more of the weight. And then I really thought a really good idea was sending out the tracking projection reports. I thought that was a really good idea.

MR. LANDERS: Michelle might not like us, but yeah, that's the --

PRESIDENT TAYLOR: I know, I just -- I know I'm creating more work for everyone else.

HUMAN RESOURCES DIVISION CHIEF TUCKER: We love it.

(Laughter).

PRESIDENT TAYLOR: But I like the idea. It actually gives them an idea okay, well, this is what happened this year. But last year, this was this, and here's 2024's estimate for you guys. I thought that was a really good idea.

And I think if we're doing it appropriately, we should be getting to where we want to get to retain employees I hope.

I have a comment from Ms. Willette. Mullissa.

BOARD MEMBER WILLETTE: Sorry. Thank you so much. I just wanted to thank you again for this really thoughtful presentation. I want to concur with President Taylor's comment on the communication of the LTIP to the -- to the team. And I've also have unfavorable to the kind of further stratification of the matrix for the performance rating. The only thing that kind of gives me a little -- a little tiny pause, and I'd love to hear what the rest of the Board thinks and defer to their expertise, but is the -- it goes from zero to two, so zero does not meet expectations, understood. Not a change from the current matrix.

But I think -- I think that occasionally meets expectations gives me a little pause. And then that would be -- and that's a jump to two percent. And I -- and I think it's only because, as you had stated earlier, like you want to make it simple. And people, you know -- I don't know if what occasionally meets expectations means. And I know we'd have to -- when we roll -- if we were to adopt this and roll it out, you know, there would have to be a lot of conversations to be had. But I think -- I just -- I don't know if I would like to see -- and I don't know if I'd like to see something like zero, one, three, four, five, or something along that line. So I'm just not sure how I feel about occasionally meets expectations what that means and that you still get a jump, if once in a while you do what you're supposed to do. That's all. But I'd love to hear what the rest of the Board thinks.

PRESIDENT TAYLOR: Yeah. Actually, that's a great catch there, because I think is -- if anybody looks at their normal annual review, there is no fourth tier for us when we do our annual reviews. Occasionally meets, I mean I -- yeah, that -- how do you explain to somebody. Oh, well, you get a two percent raise because sometimes you meet. That sounds like they shouldn't be getting a rise at all. So maybe we should get rid of that. I don't know. How does the rest of the Board -- I've got Rob Feckner, go ahead. How does the rest of the Board feel?

VICE PRESIDENT FECKNER: Thank you. And Mullissa makes a good point. I would just say that you've given those circumstances, anybody that is in box zero or two percent is probably going to be looking for somewhere else to work. So I think that's part of a tool for the CEO to be able to use or for the Board to be able to use. If you're checking your CEO at either of those two boxes, you don't have a CEO anymore. You're going to be moving on to replace that individual. So, you know, I think part of it is semantics, because you're not going to be rating people like that. You will have already hopefully moved them out.

PRESIDENT TAYLOR: That is a good observation as well. How does the rest of the Board feel? Are you guys on board with the recommendation? Anybody want to make a comment? Do we want to keep that second tier, the occasionally meets, or do we want to just do the three tier -- or four tiers that it was?

Okay. Good. So I have Kathryn, go ahead, and welcome.

ACTING BOARD MEMBER ASPREY: Thank you. It's a pleasure to be here. I actually had that same thought as

Mullissa. Why would we be award -- you know, rewarding someone when they're just occasionally meeting expectations? So, yeah, I'm in agreement with that questioning.

PRESIDENT TAYLOR: Michelle Tucker, go ahead. It looks like you have something to share with us.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes. Yes. Thank you, Madam President. I just wanted to share the occasions when we might need to use the occasionally or inconsistently meets expectations. And so inconsistently meets expectations is another way to that phrase in our policy. And it does actually have in our actual policy like a paragraph for each of those things and what they mean.

The reason that we might need to use this is if you rate someone a zero, they received -- it completely zeros out all of their base pay adjustments and it zeros out their incentive award for that year. So having the additional fourth level I think might offer a way to signal to someone you're really not meeting expectations here without completely zeroing them out. So I think it offers perhaps a little bit of nuance, but, of course, we'll adjust according to your direction.

PRESIDENT TAYLOR: Okay. And based on what you're sharing there is it's kind of a, hey, this is your warning basically is kind what it sounds like, right? And like Rob --

HUMAN RESOURCES DIVISION CHIEF TUCKER: Yes, that's how I think people perceive it, yeah.

PRESIDENT TAYLOR: Yeah. And like Rob said, then it's -- maybe next year if you're still in that territory, it's a see you later kind of thing. Okay. Thank you very much, Michelle.

MR. KELLY: Madam Chair, if I could address that as well?

PRESIDENT TAYLOR: Sure.

MR. KELLY: It was our understanding that the current practice is that the majority of assessed employees tend to fall in the consistently exceeds or outstanding level, which is why we wanted to bring everyone back to what a normal distribution within any organization, high performing or not, should be. So we know that just bringing people back down to that fully meets expectations will be a psychological shift. It's going to be -- it's not going to be easy. And so basically, I think that's where that occasionally or inconsistently meets. I love that. Maybe we propose to change it to inconsistently meets expectation, so that there is that wiggle room below, because again you want to have a nice distribution above and below that target. And again, below that target expectations or meets expectations should be -- you know, people who are pretty much on probation and are forewarned and you want to use that.

The current -- you know, the current four level system with, you know, zero to out -- from zero to seven just goes from does not fully meet to meets at three percent right away. That, in itself, is a huge gap. And so we wanted to provide some sort of buffer in between to have a more realistic distribution above and below.

So hopefully, that explains the rationale, again furthering what Michelle had used -- had mentioned in terms of the usefulness that it can have. But we just think that it's going to be a big step to get to this new -- this new level, this new matrix. And just having something above and below just would give people a bit more wiggle room to utilize it to its fullest.

PRESIDENT TAYLOR: Okay. I don't know. I -- so I see that fully meets expectations or meets standards is the same thing, right? And you're saying most people -- Michelle, is that correct, most people -- somebody's hand is going up through the screen here. I see you, Jose. I'm coming to you. The -- most people fall within the consistently exceeds expectations, is that what we're saying?

MR. KELLY: Our understanding is that in prior years, managers felt that they needed to allow everyone to feel that they were -- or the majority of their team members would be evaluated at that above that meets standard level, so either at the five or seven percent level. And so again, we want to -- we want to ratchet this back to something a bit more sustainable, especially with the staff or the team members that have access or have eligibility for short-term and long-term incentives. And so we just think that a three percent target with the majority around that target would be a better distribution within your organization.

MR. LANDERS: Yeah, I'd only -- I'll just add quickly that, yeah, I know that a lot of effort and work was done to get to a more normalized distribution in the past year -- the past fiscal year. So I know there's been a lot of work already done on that, but this would be just further moving in that -- in that direction.

PRESIDENT TAYLOR: Okay. I find it funny, because in my career, fully meets expectations was most managers that gave us -- gave us our annuals. However -- yeah. Okay. I can -- I can see that. Jose Luis, go ahead and then I have David.

BOARD MEMBER PACHECO: Thank you. I think it was Lynn that was next. I don't recall. Did she already speak?

ACTING BOARD MEMBER PAQUIN: Oh, hi. I did ask to make a comment, Jose Luis, but you can go first and I'll go after you. That's fine.

BOARD MEMBER PACHECO: Okay. Thank you. So my comment is, first of all, thank you. Thank you, Brad, for this presentation for the recommendations. And I do concur with my fellow colleagues on what has been spoken.

I just want to bring it back to another question that was a comment in the Board comments regarding the inflation rates -- Inflation levels when relevant. Have we incorporated inflation with respect to these percentage changes? I just -- that's -- if that's something or is that something we should consider? You can elaborate further on that. Thank you.

MR. KELLY: Well, considering that part of your overall team is comprised of unionized staff, you would -- you would imagine that the unions probably -- any collective bargaining efforts right now are around the current environment right now around, you know, inflationary protection and trying to maintain some sort of protection for employees.

So our recommendation would be if there's upward pressure based on the inflationary objectives or issues, then there should be some sort of escalation of this as well, so that there is that internal alignment, but also downward pressure as well. So, for instance, on the return side, if you recall, Marcie came forward and said, hey, like we had a bad year last year, and as a result, we're going to ratchet this down, so we're going to bring this down, because it just -- it doesn't -- it doesn't resonate, you know, positively with our members. And the Board agreed. And then afterwards, you know, to the Board's, you know, benefit, and, you know, credibility, they said, hey, you know, Marcie made this -- made this justification for her staff. We should apply the same logic to Marcie's.

And so again, that's maintaining that internal equitability. And so, you know, be it -- you know, whatever happens at the collective bargaining side or whatever happens with Marcie and her, you know, deferred responsibilities, she -- if she's doing that, then there should be some sort of coherent approach to it across the board and that's all we're saying.

BOARD MEMBER PACHECO: Thank you for that clarification. I appreciate it. Thanks.

PRESIDENT TAYLOR: Okay. Lynn, I'm sorry I missed you. A comment came up and took yours away me, so go ahead.

ACTING BOARD MEMBER PAQUIN: No problem. Thank you.

You know, I understand the need to include this additional category, occasionally meets expectations. I understand where it could be a good management tool to encourage somebody to try a little harder to get to the fully meets. But my question was I think back in April, Brad, you had have presented recommendations for this category and is what at a one and a half percent, so the two percent. And that seemed to make sense, since it was halfway between the zero and the three percent. So just curious how you ended up at the two percent for this recommendation.

MR. KELLY: For ease of administration. So if one and a half is more palatable for this -- for this Board, then by all means we have -- we wouldn't object to that. We just felt that a two percent adjustment, given the fact that everyone has normally experienced a five to seven adjustment, it will have some impact, and will also send a message to the employees that need to have that message sent to them. But if you feel that one and a half percent is a more equitable distribution in between those two levels, by all means, that's totally fine.

ACTING BOARD MEMBER PAQUIN: Okay. I don't think I have strong feeling either way. I just wanted to have some background on the change and why it was made.

Thanks.

PRESIDENT TAYLOR: Okay. Thank you, Lynn.

David.

BOARD MEMBER MILLER: Yeah, just in terms of the occasionally meets expectations, I can see the value of that -- an additional category, just for nothing else, if not for symmetry to be able to reflect something more of a normal distribution of things. But I think just the choice of words, the occasionally tends to -- makes me think of the low end of that spectrum. I mean, we could say occasionally. We could say generally. We could say sometimes, mostly. You know, kind of, sort of. It's not as clear just on the face of it as when you see fully meets, you know what that means. Consistently exceeds, we know what that means. But occasionally, it seems to -- I think most people think of occasionally as not very frequently or not -- or not most of the time. And I think most people who fit in that box -- and if it is anything like a normal distribution, there's going to be quite a lot of people, most of the time they're going to be meeting expectations, not -- or they're going to be, you know, down in the next box pretty quickly, because they're not meeting the overall expectation to meet expectations on specific assignments, and activities, and details.

So I think just maybe we might have to think about which word is best versus occasionally, whether it's generally, or substantially, or mostly, or something other than, you know, occasionally, or rarely, or infrequently, or -- which is kind of the other end of the shade of meaning there, so --

PRESIDENT TAYLOR: Maybe, mostly. Mostly meets.

MR. KELLY: Or even, I would -- I would -- I like Michelle's reference earlier to inconsistently, because then that provides in some continuity above and below that target meets. So you're either, you know, consistently exceeding or you're inconsistently meeting. I think that addresses your concern, David. If I'm not doing that, please let me know. But I think the change of occasionally to inconsistently might be a good way to really focus this.

PRESIDENT TAYLOR: David.

MR. LANDERS: Oh, I see. That's a good sign.

PRESIDENT TAYLOR: Did you agree, David?

BOARD MEMBER MILLER: (Thumb up).

PRESIDENT TAYLOR: Okay. Cool.

(Laughter).

PRESIDENT TAYLOR: I didn't see. I didn't see. Sorry.

(Laughter).

MR. KELLY: Does that get captured in the minutes?

PRESIDENT TAYLOR: The thumbs up. He agreed.

BOARD MEMBER MILLER: No, that's a thumbs up.

(Laughter).

PRESIDENT TAYLOR: He agreed.

(Multiple voices at once).

BOARD MEMBER MILLER: It covers all the bases in that box. It's quite a range of possibilities there.

PRESIDENT TAYLOR: Okay. And then I have one more comment. Oh, no, I have -- wait. Hold on. Things moved along quite quickly.

Mullissa, you're up.

BOARD MEMBER WILLETTE: Thank you. I just want to say like, yeah, I appreciate the conversation. And it gives me a lot more clarity. And I really do understand better. And I did like the -- adding the additional one. I wasn't a hundred percent sure and I'm not tied to any percentage specifically. I do think though like just for this, I guess, wordsmithing, and it seemed like, you know, the Board's kind of -- more prefers the inconsistently meets expectations. I actually think that that's -- that's where we have to I guess decide, right, is that are we talking about somebody who inconsistently as a management tool? Someone who's inconsistently, I think again that's still a little subjective or somebody who mostly meets expectations. And I think if we were to go with mostly meaning inconsistently meets the expectations, I'd be happy with keeping it at the two percent. I think if we're saying inconsistently, I think my mind starts going to that's the same as occasionally and it's just more rare than not, or it's a 50/50, right? And I would think maybe the, you know, one or one and a half percent would be there.

So I think that's kind of the question. And I think, you know, choosing that -- the paragraph of explanation in the policy is going to be really important there as Ms. Tucker had stated. But thank you everyone for the conversation discussion and I'm definitely on board with the group.

PRESIDENT TAYLOR: And I will just ask a quick question myself. Somebody said that that two percent, the occasionally meets or whatever we decide on, right, inconsistently oh mostly, is - I think, Brad, you might have said it - for people on probation. If they're on probation, they're not getting a raise yet, until they can -- because then they're --

MR. KELLY: I mean -- I mean, if you -- if you were to hit that level of performance, you can be forewarned that your most likely on a probationary period, because your performance warrants that you may have to leave.

PRESIDENT TAYLOR: Oh, I see what you're saying.

MR. KELLY: That's what I mean. I don't mean early on. I mean, at any point within their tenure within your organization, if they hit that level, that's an indication that they're underperforming and the -- as we would say in Canada, the ice underneath their feet is getting, you know, substantially thinner.

(Laughter).

PRESIDENT TAYLOR: Okay. Okay. So I -- how does the Board feel? I don't -- I don't know. David, you haven't taken your hand down. We've got mostly, we've got occasionally, and we've got inconsistently. So we decided against occasionally. I've got two agrees to the inconsistently and Mullissa and I both said mostly, because I think that gives me more of a -- but I see what you're -- I think I see your thought process here, Brad. If you put mostly, and then you're telling them, well, no, you're on thin ice, then that gives them a different -- yeah, so I'm thinking maybe inconsistently might work better at that point. I don't know. Mullissa, do you agree?

BOARD MEMBER WILLETTE: Yeah. Thank you. I agree. I think you -- I think you clarified like it depends on how we want to -- do we want to reward somebody who's doing something right some of the time or do we want to warn them that they're not doing it right enough of the time, right? And that's kind of the idea as a management tool. What are we -- where are we leaning? And I'm happy to -- to, you know, use it in the way of inconsistently and warning them that they're not doing it correctly enough of the time, because the right --

(Laughter).

PRESIDENT TAYLOR: It that. It gets confusing.

BOARD MEMBER WILLETTE: Yes.

BOARD MEMBER PACHECO: I have a --

PRESIDENT TAYLOR: Go ahead -- Go ahead, Jose.

BOARD MEMBER PACHECO: Yes. Thank you. Thank you, Madam Chair and thank you, Ms. Willette for that comment. I really -- as you were speaking, Mullissa, about this, you mentioned I the word "rarely". And I don't know if that's something we could also consider as well. But I'm just curious how that -- if that's -- you mentioned the word, rarely, rarely meets expect --

PRESIDENT TAYLOR: Rarely is worse than -- to me, rarely is worse than occasionally.

MR. KELLY: Yeah, I would argue that rarely is does not meet. Okay.

PRESIDENT TAYLOR: Yeah.

BOARD MEMBER PACHECO: All right. Then we'll drop that then. Thank you.

PRESIDENT TAYLOR: Okay. So we do have to take a vote here, but I do have public comment. So I think we -- excuse me. It's so cold in my house. And we agreed on the inconsistently for level two, right? So that can be changed to that and then we'll take a vote, but I do have public comment first. And then at the end of the session then we have two other public commenters.

Anybody else make -- want to make a comment, board-wise, I mean?

MR. JELINCIC: Hello.

PRESIDENT TAYLOR: Oh. Well, public comment. Go ahead.

STAKEHOLDER RELATIONS ASSISTANT DIVISION CHIEF TEYKAERTS: Thank you, Madam President. I have J.J. Jelincic. Go ahead, J.J.

MR. JELINCIC: Hi. This is J.J., beneficiary, addressing my fiduciaries. The management and control of the system is vested in the Board, Government Code section 20120. It's not clear why this item was done so hastily and under the radar. The Board and its committees met November 14, 15, and 16. This meeting was not discussed, at least in open session. The evening of the 17th, the Board notice was prepared and posted on the 18th. Agenda Item 2a was prepared on November 21st an amended on the

22nd. Attachment 1 was also created those same dates.

I acknowledge that in September at the Perf and Comp Committee, Doug Hoffner said there would be a workshop in November, but the system chose not to include it in the November meeting notices. The urgency of changing the compensation plan in the fifth month of the fiscal year is not apparent to me.

The speed with which the Board acted on this pressing matter suggests that the Board did not need to increase the delegated investment authority. Deals over three billion do not come together in 12 days. It also raises a real question as to why the compensation change has a higher priority than the need to deal -- and the need to deal with it is more pressing than the need to deal with the conflict of interest by the prior Chief Investment Officer. What does that say about the Board's management of the system, or its administrative priority, or the Board's sense of fiduciary duty.

I have long supported the direction of bringing management in-house. However, I encourage you to provide general guidance and put off final decisions as suggested in the posted agenda item and deal with those decisions in the normal course of events.

Thank you.

PRESIDENT TAYLOR: Okay. Thank you, Mr.

Jelincic. If that's our last public comment, Mr. Teykaerts, we'll go ahead and take a vote on the recommendation.

I don't hear anything from Mr. Teykaerts.

ALl right. So I looking -- oh, go ahead.

STAKEHOLDER RELATIONS ASSISTANT DIVISION CHIEF TEYKAERTS: Madam President, no more public comments on this item. Just one for the general public comment at the end. Thank you.

PRESIDENT TAYLOR: Okay. Thank you very much.

So I need a motion to -- for the recommendation to normalize the assessment of base pay performance adjustments, expanding the original four level assessment rating to the proposed five level standard, maintaining alignment with any downward proposals for the general team members, and changing the language I'm adding from occasionally to inconsistently meets at level two. I need a motion.

Anybody?

VICE PRESIDENT FECKNER: So moved.

PRESIDENT TAYLOR: Move by Mr. Feckner.

BOARD MEMBER MILLER: Second.

PRESIDENT TAYLOR: Seconded by Mr. Miller.

All right. Great. Can we get a roll call vote, please?

BOARD CLERK: Rob Feckner?

VICE PRESIDENT FECKNER: Aye.

BOARD CLERK: Kathryn Asprey for Fiona Ma?

ACTING BOARD MEMBER ASPREY: Aye.

BOARD CLERK: Lisa Middleton?

BOARD MEMBER MIDDLETON: Aye.

BOARD CLERK: David Miller?

BOARD MEMBER MILLER: Aye.

BOARD CLERK: Eraina Ortega?

BOARD MEMBER ORTEGA: Aye.

BOARD CLERK: Jose Luis Pacheco?

BOARD MEMBER PACHECO: Aye.

BOARD CLERK: Ramon Rubalcava?

BOARD MEMBER RUBALCAVA: Aye.

BOARD CLERK: Mullissa Willette?

BOARD MEMBER WILLETTE: Yes.

BOARD CLERK: Dr. Gail Willis?

Lynn --

PRESIDENT TAYLOR: Excused.

BOARD CLERK: Lynn Paquin for Betty Yee?

ACTING BOARD MEMBER PAQUIN: Aye.

PRESIDENT TAYLOR: All right. It sounds like the motion carries. And at point, I think we are moving along.

MR. KELLY: If I can ask for slide 47 to be put up.

--o0o--

MR. KELLY: And, Madam Chair to your point, this is the last section here. The last item that we need to address in today's session. This is one of the elements in the policy that gives the Board the authority to defer, reduce, or eliminate incentive payout. We just felt that there needed to be a bit more definitive guidance within the policy itself, both to provide clarity for both your board and the participants.

So if you can get the next slide, please.

--o0o--

MR. KELLY: So the purpose of having what we would call discretionary -- discretion and triggers placed in this policy, which is what we're recommending, it provides your Board with permission, power, and freedom to act. And again, it gives you clarity in terms of the -- what you can and cannot do at what point. The triggers provide your Board with guidance on when you can apply discretion or when it even should be considered and -- or even possibly applied.

And again, we just want to remind this Board that just because a trigger is hit doesn't mean that you actually have to take action. That's the whole purpose of having discretion in here, because everything is situational and we want to make sure that the Board has the authority to apply that discretion around that current situation, whatever it is, that you can act appropriately.

And so basically, we don't have a crystal ball. We don't know what could be happening years from now, but we want to make sure that we have some clarity from your Board about when can it act, and then also, you know, how it can act too. So if you have both discretion and triggers here, it will provide clarity and transparency for you as trustees, for your managers, as well as your team members. It will aid in the administration of the compensation program and it will help avoid possible perceptions of mistreatment and distrust.

The last thing you would ever want is for something to happen in the future and your Board to say, you know what, we need to apply discretion on these payouts and for your employees -- or your team members to say, wow, I'm being mistreated. They don't truly understand what's happening right now.

You want to have, you know, complete transparency within the policy, so that you can say, where -- we're working within the confines of this policy. Good governance dictates that you have good policy and process parameters put in place that you as a Board can follow, but also that your -- your employees can better understand

and have transparency on -- in terms of what can they expect in potential situations and when does the Board have the ability to step in and to make, you know, appropriate changes.

The next slide, please.

--o0o--

MR. KELLY: When talking about the use of discretion and triggers with all of the Board members, generally, Board members you all understand the purpose of clarifying when discretion could or should be applied. But there was an -- the question around, you know, the -- this prescriptive direction, whether or not it mandates that you have to take action. And the short answer is, no. That's what discretion would imply. Board members were concerned that the Boards needs to be -- the Board needs to be comfortable with how the triggers might be perceived by CalPERS stakeholders in the external community. So again, understanding, you know, what events need to take place, what performance levels need to hit before you actually take action and try and address it, and then how do you communicate that around -- around that. Again, there's, you know, headline sensitivities around this, but you want to make sure that you can use the policy to help -- you know, help support you in your best interests.

You know, generally, the Board members also appreciated the addition or inclusion of these elements and the clarity that they provide for you as Board members, so that it's more prescriptive and you have -- you have clarity in terms of when you can act and how you can act.

Next slide, please.

--o0o--

MR. KELLY: So when including discretion, you know, typical things that should be considered, you know, compensation policies must be clear on the specific situations or circumstances when their incentives might be eliminated, adjusted, or deferred. And this provides the administrative clarity. It also enhances the transparent and fair treatment of employees, because it's clearly articulated in the policy and people can, you know, totally understand why you came to -- got to that situation to begin with.

Higher levels of attrition is a common outcome when employee pay is altered and they feel caught off guard. So if something was to happen hypothetically, and your Board was to step in and say we need -- we should, in the best interests of our fund and our members take action and apply discretion here. The last thing you want is for your employees to feel caught off guard and so whoa, whoa, what just happened. That's when you tend to experience higher attrition levels.

You don't want that. What you want is clarity within the policy, so that your team members will look at it and say I get it. This is -- this is the outcome. This is what happened and this is why the Board is now taking the action that it is or at least discussing the possibility of taking action. That is, you know, fair and transparent treatment of your employees and that's what this will help to provide going forward and help mitigate that attrition risk that could happen with, you know, any potential adjustments that -- discretionary adjustments that you may decide on in the future.

The next slide.

--o0o--

MR. KELLY: And this is the slide in this section. Our recommendation is, you know, to protect the best interests and sustainability of the system. We believe that CalPERS must retain the ability to alter incentive payouts under clear and extenuating circumstances. Discretion is a good governance tool that should always be in any compensation policy, and so we would recommend that it stay here.

This section should be expanded to more clearly identify situations and/or circumstances where plan participants can anticipate payouts and/or timing adjustments. You know, three distinct qualifying triggers that we would like to define and have in a policy. One is on investment performance, either at the total fund level or the asset class level, especially if you were to include asset class elements within the incentive plan design. Policy violations. So if people were to obtain the performance levels that you put before them, but they've done it in a way the violates your Investment Policy or the Code of Conduct, you would say, no, that's -- that it is a negative way of actually achieving these results, and therefore, you know, we need to step in. Or if there's some sort of reputational risk associated with it where your Board feels that it needs to take action to mitigate any reputational risk that could result from the results going out that, you know, employees did X, Y, or Z.

But again, we want to make sure that there's clarity on these three key triggers, so that your Board knows when it's justifiable for them to come in and have that discussion around whether or not discretion should be applied.

We believe that discretion can be applied when the Board identifies a triggering event. And it should include an outline of actions that can be taken upon any triggers, so again it's very prescriptive. Discretion means that actions are not defined as mandatory. Again, you don't have to apply it, but it's there as a tool for your use, if need be.

And finally, the proposed language should be similar to what is currently found in compensation policies at other pension systems. And what we had currently put in the policy in previous red-lined draft is very much aligned to what you see in your sister's -- sister fund policy across the river with similar triggers in place as well.

So that being said, I believe that takes us to our final discussion. So first off, you know, what are your views and opinions about the inclusion of discretion and these defining triggers? And what are some of the pros and cons associated with it? How would you like to proceed going forward?

MR. LANDERS: Yeah. And this is just -- just to clarify, this is not -- we don't necessarily have to agree on any wording or anything like that. It's more just directional feedback that we can then work with staff to try and draft up some language, if that's the direction that the Board wants to go.

PRESIDENT TAYLOR: Okay. So you're looking --

MR. LANDERS: So I don't think it requires a vote.

PRESIDENT TAYLOR: Okay. So you're looking for some policy file changes basically. Policy changes.

MR. LANDERS: Yeah.

PRESIDENT TAYLOR: I'm not -- and you're saying CalSTRS already has these in policy. But I think, first of all, we were able to do that and warn Investment staff well ahead of time, because of poor performance. So we have discretion already to change things, so I'm a little -- and these other two that you have outlined, if somebody is violating policy, that -- other than the CEO who reports to us, that's going to come to the CEO, who is then going to make a determination, right, of what that means based on what our rules are for State service. And that's the same with reputational risk.

If somebody is putting -- done something in their private life to risk our reputation or leaked information to risk our reputation, that's a whole different ball of wax. So I'm not sure that the Board needs to have discretionary tactics on this, unless it's the CEO.

MR. KELLY: So, Theresa -- Madam Chair, very good points. What I would -- hypothetically, you could picture what happens if an asset class gets to, you know, some very favorable results, but they violated policy along the way. Yes, Marcie can take action against those staff members themselves, but still that performance of that asset class actually contributes to the overall performance of the fund and the determination of those fund levels. And so that would have a knock-on effect to the payouts on the total fund side, on the long-term incentive payouts. And so therefore, that's where we would say, you know what, this has a significant impact and the Board needs to apply -- should apply some level of discretion.

You're right, minor -- not minor, but any policy violation from any individual should be left to Marcie and her team. But if it has more of a material impact that goes beyond just that individual or that team, that's where the Board should consider stepping in and applying some level of discretion.

PRESIDENT TAYLOR: So Brad, I'm a little confused, because -- so you're saying that along the way, the whole team basically did some sort of policy file violation, but got great returns because of it. Now, here's my hope. In the eight years that I've been here, I don't think I've ever heard something like that occur. But if you have an example you could give me, I just -- I find that really outside the box.

MR. KELLY: True. And I think it's fantastic that you haven't experienced that, but my argument would be, do you only buy insurance for your house after you've had a fire?

PRESIDENT TAYLOR: But I'm not saying -- we still have discretion, right? So I don't know that outlining these things here for discretion. The Board has discretion. That is the Board's job.

MR. KELLY: True. True. I -- but I would --

PRESIDENT TAYLOR: So I'm confused about why we would need to do this.

MR. KELLY: So if you were to look at the policy as it stands today, it will indicate that you do have discretion, but it's very vague on when it's applied. It's, I would argue, kind of convoluted to some extent. And what we're -- what we're proposing here is a more prescriptive approach where you have, you know, defined what we would call triggers that are clear to all participants and then how you can actually act on those triggering events. That's all we're doing is we're providing further clarity. You're absolutely right, you do have discretion in here, but what we're advocating is that you put a bit more of a prescriptive package around this, so that both you, as a Board, have clarity and as well as the team members that fall under these incentives.

PRESIDENT TAYLOR: Okay. So there's two things here. One, I don't see a problem we have to solve, right?

I don't have a problem about us thinking about this for the future. Maybe -- and I'm not the only one that probably wants to talk, so I should probably shut up here.

But then my secondary thing is if we're going to have discretion for this, shouldn't we have positive discretion as well that is prescriptive? I mean, you're putting something in a policy. And me as an employee would look at that and go, well, boy, that's real negative, but there's nothing to say that I'm out -- you know, outside of being so good, and I got highlighted on CNBC, and nobody is giving me extra money for that, right, so --

MR. KELLY: Madam Chair, you're absolutely right, but -- and maybe that if it's the Board's direction, we can absolutely add that in in terms of positive discretion, but I would say that the pending risk is around discretion applied negatively towards incentive payouts, because that's where you run the risk of attrition levels. No one -- no one will argue with your Board. No one will leave if you decide to pay them more.

PRESIDENT TAYLOR: True.

MR. KELLY: So I think the risk lies in negative pressures that could have some sort of impact on your -- on your attrition rates or on your retention rates. And so that's what we're doing, we're trying to, you know, safeguard you against that. But if it's the Board's -- if it's the Board's view that we should have, you know, positive discretion in there outlined, absolutely, we can easily add that in there as well.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Ms. Taylor, just a --

PRESIDENT TAYLOR: It was -- go ahead, Michelle.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Pardon me. Sorry. There is language now that the CEO can either positively or negatively adjust. So there is that language now. What's not there is the detailed criteria of specifically like when that would be automatically applied, but Ms. Frost, our CEO, does have that authority and actually applies that every year.

PRESIDENT TAYLOR: Okay. And again, I'm going to reiterate -- and I hope somebody else besides me talks. I'm not seeing anybody's hands raised yet. But the investment total fund or asset class miss, right, the -- and we're talking about a bad year, we did that this year, right? We made that recommendation this year. We did the discretionary. And there was plenty of previous notice to our investment staff.

Any of these other violations to me is such a problem that if -- if the person leaves that did this, that would be no skin off our nose, I think. But Mr.

Carlin, do you have any thoughts. Mr. Miller is asking maybe if you have some thoughts on this.

SENIOR ATTORNEY CARLIN: Ms. Taylor, the only -- the only thought I would express is that your consultant is here just soliciting feedback at this point in order to put forward some language changes to bring forward to the -- to the Board at a subsequent meeting, or the PCTM committee. So I think they're getting some of that feedback from you right now. And if any other Committee members or Board members have thoughts in this regard about the kind of clarity they want to see or their thoughts there with respect to authority to defer, eliminate, or reduce compensation, that's -- this is the appropriate time to provide it.

PRESIDENT TAYLOR: Okay. I appreciate it, Mr. Carlin.

MR. LANDERS: If it's the Board's will that you think everything is okay the way it is, then we can proceed that way as well. So, yeah, it would be great to get everyone's views on if there -- they feel there needs to be more clarity or if you're comfortable with the way it's currently worded now and the discretion you already have.

PRESIDENT TAYLOR: I'm not seeing any other questions from Board members. But Michelle, what do you think about this? Do we need -- I'm thinking we maybe need a different thought process on the triggers, right --

HUMAN RESOURCES DIVISION CHIEF TUCKER: Well --

PRESIDENT TAYLOR: -- if we were to accept this. I'm thinking the triggers are so outside -- the two at least are kind of outside bounds that we would keep the employee anyway.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Well, as Mr. Carlin mentioned and Mr. Kelly, this today would just be a discussion. And so we can always bring back a few scenarios for you in February to kind of give you time to think on this. This was just part. This was an action vote item. This is just to kind of engage in conversation around this topic and see what you might be comfortable with. There is criteria now to allow this, but as they said, it's not specific. So it would be up to you if you wanted to prescribe when it must occur or leave it with the CEO for when it may occur.

PRESIDENT TAYLOR: Okay. Let me take David's question. And I'm thinking maybe we want to defer it and get a little more detail for February, but go ahead, David.

BOARD MEMBER MILLER: Yeah, I guess one of the things that kind of I was thinking about as we talked about this is that it seems like, you know, it's a relatively extraordinary thing for us to do. And so it seems like something that - maybe I'm wrong - but could have the potential for legal action, if we deny -- if we take this stuff away. And so I guess what I'm wondering is whether in terms of our current policy that gives us discretion, does it help us to have more detail and to more clearly identify things or does that kind of hem us in and constrain us if things don't fit well with, you know, these qualifying triggers? Are we better off to have something a little bit more vague or -- I don't know.

I can't -- the possibilities seem almost endless, so I don't want to jump into too many hypotheticals. But that's kind of why I was kind of nodding to see if Mr. Carlin had any thoughts on it, because our Legal Office would be the one trying to defend our decisions, if we applied this discretion with and without more additional language

SENIOR ATTORNEY CARLIN: Mr. Miller, Robert Carlin from the CalPERS Legal Office. I would just say to your -- I think it's a great point. I would just add that having more clarity does have the unfortunate side effect of limiting you in some respects, but it does create a more defensible framework as well, when action needs to be taken that fits squarely within those parameters. So I think there can be some benefit. And my suggestion would be if your consultant is interested in bringing the language back, that it's probably worth the Board's attention at least to take a look at that and consider it at that time.

BOARD MEMBER MILLER: Okay. Thanks. That's very helpful.

PRESIDENT TAYLOR: Thank you, Mr. Carlin. I appreciate it. Ms. Middleton and then Mr. Pacheco.

BOARD MEMBER MIDDLETON: All right. Thank you. I'm not sure what the reason is that we need to proceed on this. What it seems to me we are doing is limiting our discretion, and I'll defer to Mr. Carlin, but opening up new avenues for legal complaints when we find that we need to use our discretion to change the rules or to change the system. So I would like to see us revisit whether or not we need to get into specific identifying qualifying triggers or leave very broad discretion to the Board and to the CEO.

PRESIDENT TAYLOR: Thank you, Ms. Middleton.

Mr. Pacheco.

BOARD MEMBER PACHECO: Thank you, Madam Chair. I appreciate this -- appreciate this discussion. Brad, this is very enlightening. I just want to ask. You had mentioned earlier in the conversation I believe that our sister pension fund across the river, CalSTRS, also has some sort of language that addresses these triggers and so forth. You know, how did they land where they landed and are they -- I just wanted to get your understanding there, because I think it may help us give us some clarity on this. Thank you.

MR. LANDERS: I'm happy to try and address this. This is policy language that CalSTRS has had in place for several years now. They specifically highlight these qualifying triggers. They actually, on an annual basis, will audit and make sure that on the -- at least on the investment side, they will highlight if any of the triggers have been hit or not hit. And they actually will share that information with the Board, so the Board is clear, at least on the investment side, on if the triggers have been -- have been hit.

I'll admit that the other two areas are a little bit harder to necessarily quantify, but they have actually, you know, highlighted them in their policy and. Most recently, this was two or three years ago when sort of the outbreak of COVID, the Board did have a pretty detailed discussion, especially on the reputational risk trigger. And it was in relation to sort of they had hit their returns. They'd hit their returns for that -- you know, that three-year fiscal period, but, of course, COVID had really shocked the system downward in terms of stock prices that last sort of quarter of the fiscal year. And so it sort of brought up this discussion on, you know, are we -- is it a trigger that we're, you know, creating a reputational risk by paying out, even though we've had this big drop in the short run.

And they ended up not applying the discretion and changing anything, but it at least allowed the Board and gave the Board an opportunity to have that discussion on whether that reputational risk was there. So I think where they use it more is just to have a check-in point to have a discussion, and, you know, have a discussion and figure out does this level of, whether it's a reputational risk, policy violation, or level of investment underperformance, warrant us making a change.

So I think it's more again just allows them the ability to have those discussions. But to my knowledge, they have never really -- they haven't actually used much of their discretion, outside of many, many years ago I think during the financial crisis, there might have been some use of it there. But it's been more of an area for them to just have a discussion more broadly before finalizing those incentive awards.

BOARD MEMBER PACHECO: Thank you very much for that comment. Appreciate it.

PRESIDENT TAYLOR: So -- and I will say, Jose, every year I've been on, I think we've had discussion about reputational risk and paying out, if we've had a down year. I mean, I got on in what '15, so Rob went through the whole crash. I did not. But we had some down years when I first got on the Board and we were at 63 percent funded. And we really had to have a discussion around, you know, incentive pay and all of that stuff. And that's -- so -- but I think it's a good idea for us to take a look at this.

So maybe bring it back for our February meeting. And if you want to add, or subtract, or, you know, change these. Reputational risk is something we have to deal with much more than CalSTRS does. So we discuss it all the time when we're talking about returns, et cetera. But anyway, yeah, I think maybe having another discussion with maybe a well -- more well-rounded trigger mechanism, rather than just these three. And what do you mean by -- maybe describe what you're talking about reports that get done annually about these triggers.

MR. LANDERS: Yeah.

PRESIDENT TAYLOR: Does that make sense?

Okay. And Ramon has to go. I don't think we have to vote on thinking, right? So that was it.

MR. KELLY: So, Madam Chair, if it's -- if it's your direction, what we'll do is we'll provide some wording within a red-lined version of the policy, so you can see specifically, you know, the detail of what we're -- what we're recommending. And then you can see specifically how it's outlined and whether or not you feel it truly, you know, protects you and is useful. If not, then we can look in a different direction.

PRESIDENT TAYLOR: Okay. Sounds good. I appreciate it. Perfect.

MR. KELLY: Excellent. And I guess can we get to the last slide.

--o0o--

PRESIDENT TAYLOR: There you go.

MR. KELLY: Session wrap-up. So we just want to make sure. So in today's session, we have agreement on the revised peer group. We also have an agreement on the salary adjustment and performance matrix framework. There was two key objectives that we strive to get through today and we did. Thank you very much. And then finally, we walked through some of the elements around the incentive design, so we have some direction from the Board in terms of working with Marcie and Nicole on talking about the incentive design. We also are looking at the -- and then we'll also be coming forward with some recommended wording around the authority to defer, reduce, and eliminate. Is there anything I'm missing? I think -- I think those were the key elements.

MR. LANDERS: That's everything. And the principles too. I think we got some.

MR. KELLY: Yes. And we have some direction on the principles. And we will be incorporating that in the red-lined version as well for your consideration and review.

PRESIDENT TAYLOR: Perfect. I don't -- am I missing anything, anybody?

Okay. I appreciate it. We do -- Ms. Tucker, anything in closing?

HUMAN RESOURCES DIVISION CHIEF TUCKER: I just have a few notes. President Taylor, just a few things in addition. I have that we are going to bring forward the special item in January for the adjustment for the four positions that are current at max and then also that we are going to look to expand our sharing kind of marketing of the LTIP opportunities with the year-end appraisals for team members.

And that's all I have, so thank you very much today.

PRESIDENT TAYLOR: I was talking and I was muted. Yay me.

Sounds good. That's what I remember also. And we do have one public comment, Mr. Teykaerts.

STAKEHOLDER RELATIONS ASSISTANT DIVISION CHIEF TEYKAERTS: Thank you, Madam President. We do have one public commenter. Randy Cheek. Go ahead, Randy.

MR. CHEEK: Hi. This is Randy Cheek with the Retired Public Employees Association. I just wanted to respond to something that was said some time ago about retirees being opposed to bringing in more in-house work to CalPERS. That is absolutely a false statement. In fact, I have been up and down the state meeting with retirees, and we all agree we'd like to see the outsourced jobs come in-house and save CalPERS money. We think that's a great idea. The only thing we've been opposed to is the lack or transparency by the number of closed meetings the Board has had, and by the fact that you've tried to pass legislation to do investments in secret. We've opposed that. We will still oppose that. But I just want you to know that we are not opposed to bringing more of the jobs in-house and cutting your costs. We think it's a great idea and we firmly agree with the firm's recommendation.

That's my comment.

PRESIDENT TAYLOR: All right. Thank you, Mr. Cheek.

Anything else, Mr. Teykaerts, from the public?

STAKEHOLDER RELATIONS ASSISTANT DIVISION CHIEF

TEYKAERTS: No Madam President.

PRESIDENT TAYLOR: All right. Thank you.

Anything else from the Board?

All right. Well, I'm going to adjourn our special meeting. I want to thank Peter and Brad. These were -- this was a great presentation. Thank you very much and everybody have a good afternoon.

Meeting adjourned. I don't have a hammer to hammer.

(Thereupon, the California Public Employees' Retirement System, Board of Administration meeting open session adjourned at 1:10 p.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 open session meeting was recorded by CalPERS, and was thereupon transcribed in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, 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 12th day of January, 2023.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063