



Identifying an Alternative Compensation Comparator Group for Investment Management Staff

May 14, 2013

Introduction

- CalPERS asked McLagan to help identify an alternative pay comparator group for investment management staff that would be used to:
 1. Define competitive pay levels.
 2. Serve as a basis for anchoring CalPERS salary ranges in the competitive market.

- Following up on the April 17th Committee meeting, this report provides:
 - For investment staff, a review of the current and alternative peer groups. *This alternative group reflects the Committee's input and suggestions.*
 - The alternative peer group's associated market salary and incentive opportunities.

Alternative Investment Staff Peer Group - Defined

Current Peer Group	Alternative Peer Group
<ul style="list-style-type: none"> ▪ All US and non-US public sector funds with \$75B+ AUM (weighted 50%) ▪ Large financial institutions focusing on banks and insurance companies (weighted 50%) 	<p>A combined group consisting of:</p> <ul style="list-style-type: none"> ▪ Large and complex institutional investors (listed in <u>Appendix 1</u>): <ul style="list-style-type: none"> – 6 US public funds – 5 Canadian public funds – 4 US corporate plan sponsors ▪ Private sector asset management organizations of comparable size (\$150B to \$350B AUM) that are key competitors for CalPERS staff, including: <ul style="list-style-type: none"> – 21 investment management/advisory firms – 9 insurance companies – 4 banks

Alternative Investment Staff Peer Group - Evaluated

	Current Peer Group	Alternative Peer Group
Advantages	<ul style="list-style-type: none"> + CalPERS has been able to attract and retain staff with the current comparator group, but often faces limited candidate pools and long recruiting periods. + CalPERS is a public fund and should benchmark its pay levels versus other public funds. The 50% weighting satisfies this objective. + A 50% private sector weighting acknowledges that CalPERS competes with a broad range of firms for talent (not just public funds). 	<ul style="list-style-type: none"> + The institutional investor peers have missions similar to CalPERS and are considered leaders in pension/asset management. + The private sector firms are primary competitors for CalPERS investment staff. Shouldn't CalPERS peer group reflect its staffing strategy? + The private sector data is size-adjusted, eliminating much smaller and larger firms from CalPERS pay comparisons.
Disadvantages	<ul style="list-style-type: none"> - The Policy manual is vague with regard to peer group selection (i.e., "large" banks and insurance companies; which non-US public funds). - CalPERS is larger and more complex than all other US public funds. Are those funds relevant? - CalPERS top performers would not likely leave for another public fund. CalPERS mainly recruits from the private sector (not other public funds). 	<ul style="list-style-type: none"> - Many of the institutional peers: <ul style="list-style-type: none"> - Lack CalPERS operating complexity (e.g., \$250B AUM, of which \$160B (64%)) is internally managed). - Do not manage money internally. - Many of the private sector peers: <ul style="list-style-type: none"> - Are not mission driven. - Have different employment propositions.

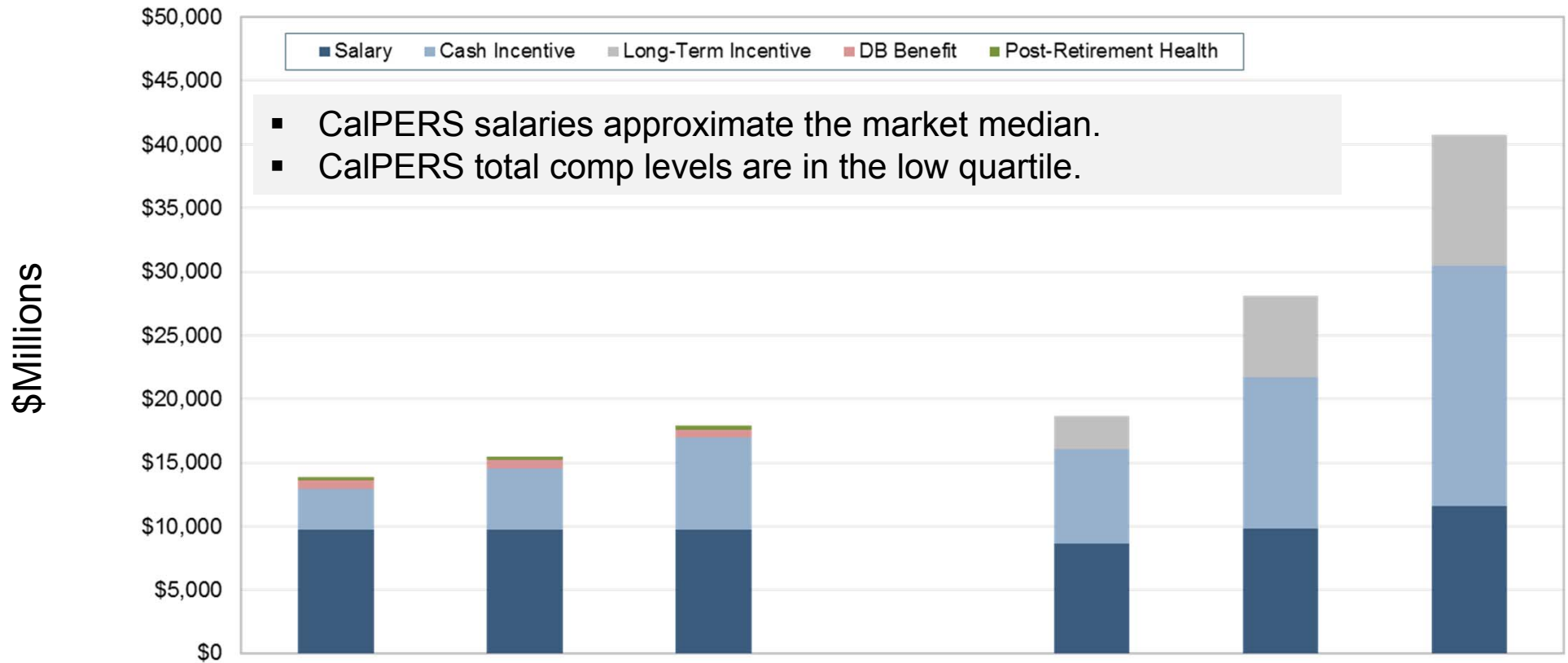
Alternative Investment Staff Peer Group – Pay Level Analysis

- McLagan completed an analysis comparing CalPERS pay with the alternative investment staff peer group.
- Our analysis focused on:
 - Base salary
 - Total cash compensation (salary + bonus)
 - Total compensation (salary + bonus + long-term incentives for the peer group and, for CalPERS*, the value of the DB benefit and post-retirement health benefit).
- Focusing on the aggregate pay of the 46** CalPERS incumbents included in this analysis, we found that CalPERS:
 - Salaries are competitive, approximating the median of the alternative peer group.
 - Actual cash compensation levels (for the 2012 performance year) were low, falling 17% below the competitive 25th percentile.
 - Total cash compensation opportunities, including bonuses paid out at maximum, are conservative.
 - Total compensation opportunities are also low, falling into the low quartile.

*Although not monetarily quantifiable, CalPERS also provides incumbents with (a) civil service rights - providing staff with greater employment security; and (b) the prestige, access and learning opportunities associated with working at CalPERS.

** Investment staff included in the analysis have both (a) actual and policy data reported for the incumbent ; and (b) market quartile data available for the applicable role (i.e., 25th, 50th and 75th percentiles).

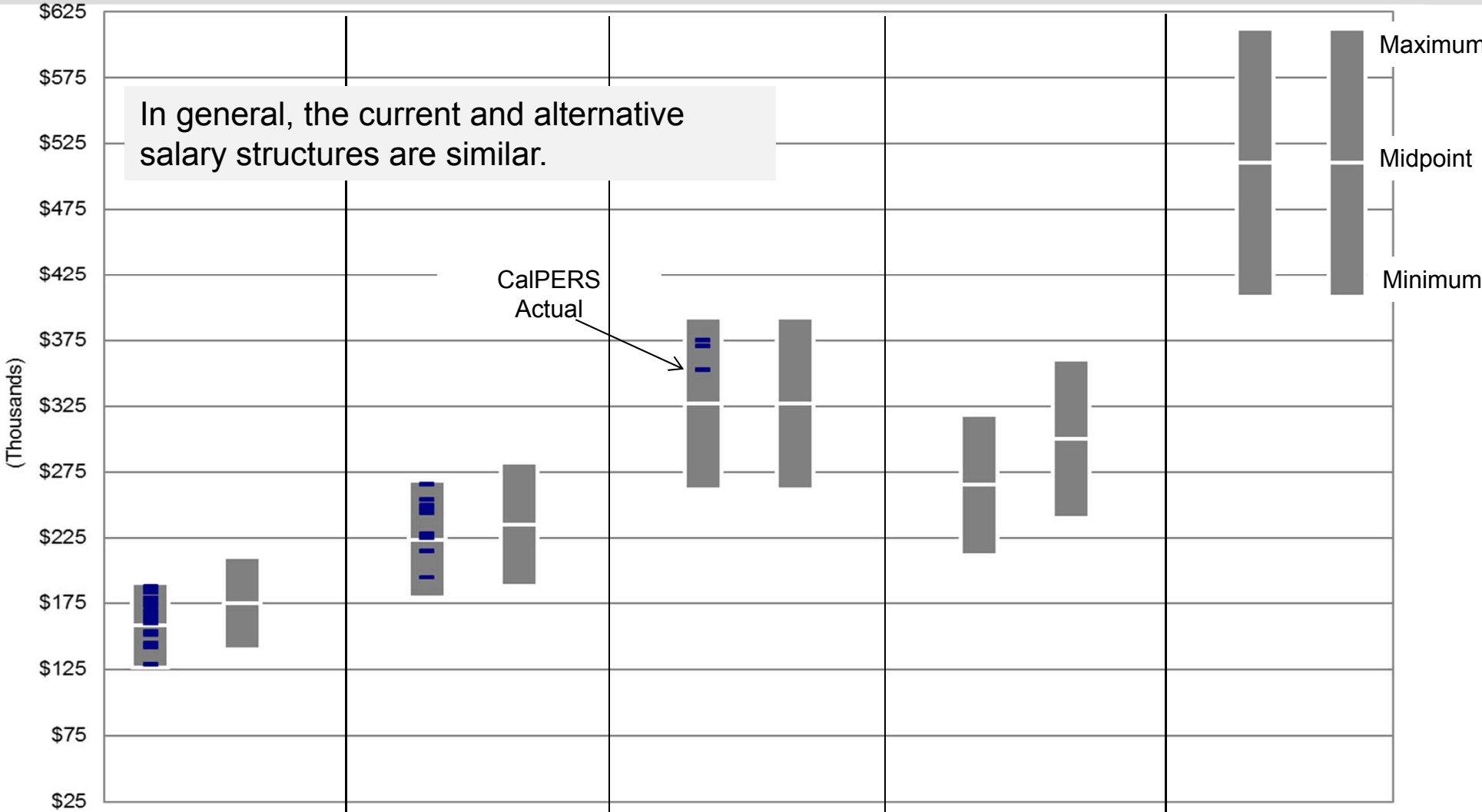
Alternative Investment Staff Peer Group – Pay Level Analysis: Aggregate Spend (46 incumbents)



	CalPERS			Alternative Investment Staff Peer Group (Leading Inst Mgrs & AM Firms \$150B-\$350B)		
	2012 Actual Pay (000s)	With Incentives Paid Out at:		LowQ (000s)	Med (000s)	HighQ (000s)
		Target (000s)	Maximum (000s)			
Salary	\$9,720	\$9,720	\$9,720	\$8,641	\$9,861	\$11,557
Total Cash	12,956	14,549	16,963	16,018	21,701	30,464
Total Comp	12,956	14,549	16,963	18,647	28,130	40,700
Defined Benefit	633	633	633			
Post-Retirement Health	315	315	315			

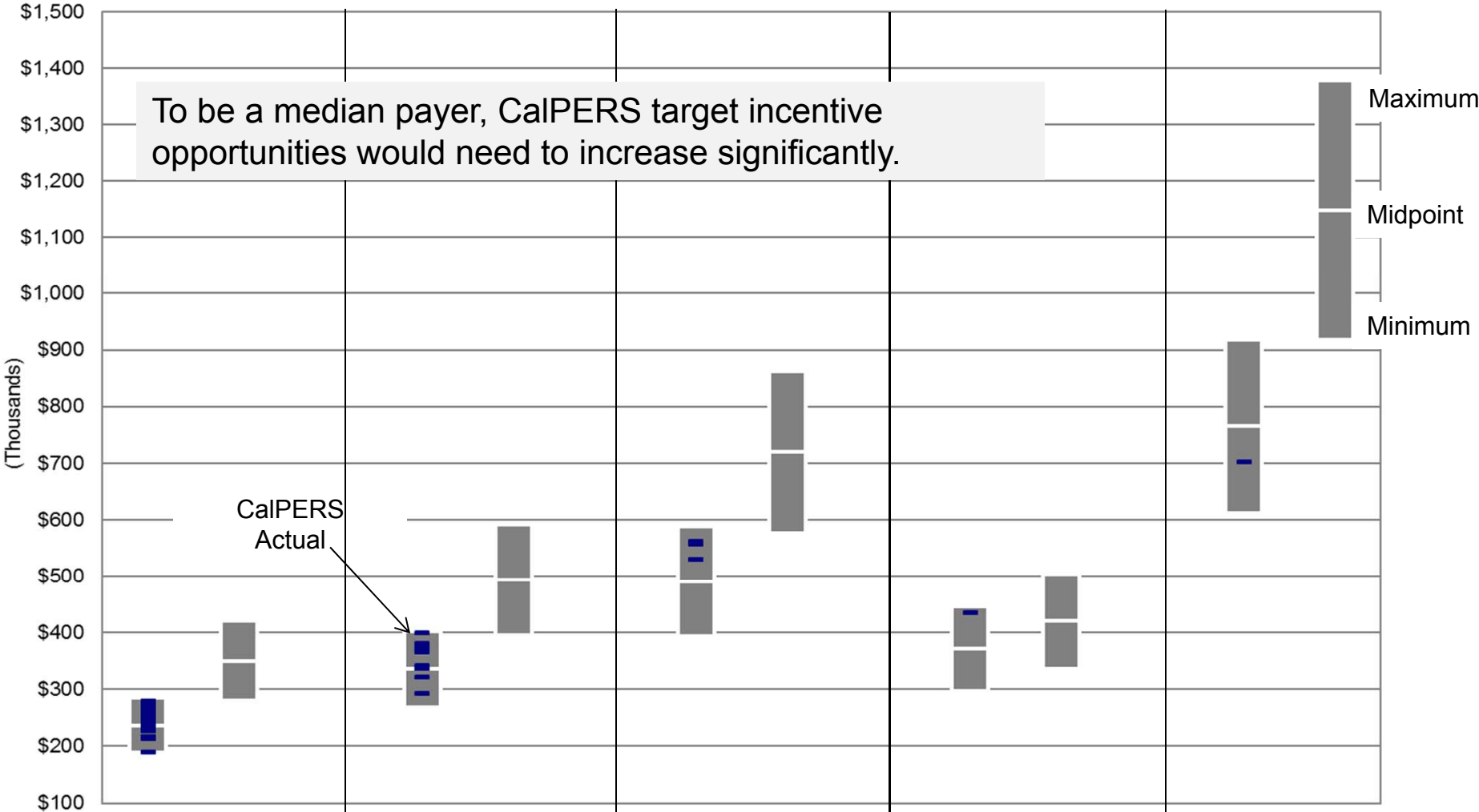
Note: Based on 46 CalPERS incumbents for which (a) actual and policy data is reported for the incumbent; and (b) market quartile data is available for the role (i.e., 25th, 50th and 75th percentiles). Defined benefit value provided by CalPERS; Post-retirement health values are from the *State of California Retiree Health Benefits Program*, as compiled by, Gabriel Roeder Smith & Company.

Alternative Investment Staff Peer Group – Salary Structure for Investment Staff (at median)



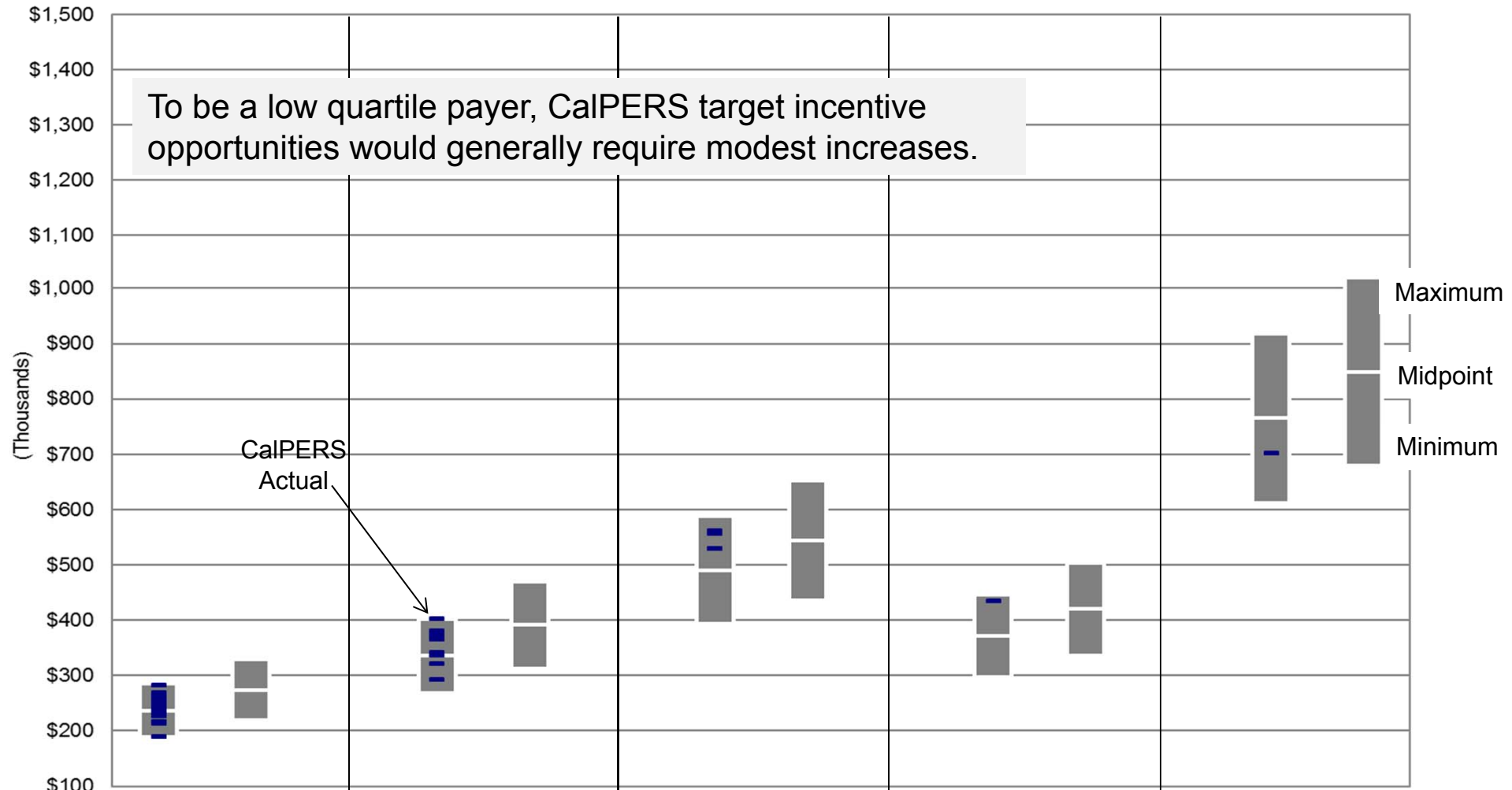
	<u>Portfolio Manager</u>		<u>Sr Portfolio Manager</u>		<u>Sr Investment Officer</u>		<u>COIO</u>		<u>CIO</u>	
	Current	Alternative	Current	Alternative	Current	Alternative	Current	Alternative	Current	Alternative
Minimum	\$126	\$140	\$179	\$188	\$262	\$262	\$212	\$240	\$408	\$408
MidPoint	158	175	224	235	327	327	265	300	510	510
Maximum	190	210	268	282	392	392	318	360	612	612

Alternative Total Cash/Incentive Structure for Investment Staff (with median salaries and median total cash)



	Portfolio Manager		Sr Portfolio Manager		Sr Investment Officer		COIO		CIO	
	Current	Alternative	Current	Alternative	Current	Alternative	Current	Alternative	Current	Alternative
Minimum	\$189	\$280	\$269	\$395	\$393	\$576	\$297	\$336	\$612	\$918
MidPoint	237	350	335	494	491	719	371	420	765	1148
Maximum	285	420	402	592	588	862	445	504	918	1377
Target Inc %	50%	100%	50%	110%	50%	120%	40%	40%	50%	125%
Max Inc %	75%	150%	75%	165%	75%	180%	60%	60%	75%	187%

Alternative Total Cash/Incentive Structure for Investment Staff (with median salaries and low quartile total cash)



	Portfolio Manager		Sr Portfolio Manager		Sr Investment Officer		COIO		CIO	
	Current	Alternative	Current	Alternative	Current	Alternative	Current	Alternative	Current	Alternative
Minimum	\$189	\$217	\$269	\$310	\$393	\$432	\$297	\$336	\$612	\$673
MidPoint	237	271	335	388	491	540	371	420	765	842
Maximum	285	326	402	465	588	647	445	504	918	1010
Target Inc %	50%	55%	50%	65%	50%	65%	40%	40%	50%	65%
Max Inc %	75%	83%	75%	98%	75%	98%	60%	60%	75%	98%

Alternative Investment Staff Peer Group: Leading Institutional Investors

Leading Institutional Managers (15)				
		12/31/11 AUM *	% Internally Managed	# of Inv Staff
Canadian Pension Plan Investment Board	Canadian Pension Fund	\$160.3		
Caisse de depot et Placement de Quebec	Canadian Pension Fund	157.3		
California State Teachers' Retirement System	US Public Fund	144.8		
General Motors Asset Management	US Corp. Plan Sponsor	127.0		
GE Asset Management	US Corp. Plan Sponsor	121.0		
Ontario Teachers Pension Plan Board	Canadian Pension Fund	115.9		
Teacher Retirement System of Texas	US Public Fund	101.6		
State of Wisconsin Investment Board	US Public Fund	77.2		
Division of Investment Services, State of Georgia	US Public Fund	64.6		
State Teachers Retirement System of Ohio	US Public Fund	61.7		
Ontario Municipal Employees Retirement System	Canadian Pension Fund	54.4		
Virginia Retirement System	US Public Fund	51.0		
Healthcare of Ontario Pension Plan	Canadian Pension Fund	39.9		
Lockheed Martin Investment Management Company	US Corp. Plan Sponsor	28.0		
DuPont Capital Management	US Corp. Plan Sponsor	25.6		
	<i>US Public Fund</i>	6	40%	
	<i>Canadian Pension Fund</i>	5	33%	
	<i>US Corp. Plan Sponsor</i>	4	27%	
		15	100%	
	High Quartile	\$124.0	81%	180
	Median	77.2	53%	85
	Low Quartile	52.7	32%	62
California Public Employees' Retirement System		\$225.0	64%	194
<i>CalPERS' Rank</i>		<i>1 of 16</i>	<i>5 of 12</i>	<i>5 of 16</i>