



# Compensation Policies and Procedures for Executive and Investment Management Positions

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## Compensation Policies and Procedures for Executive and Investment Management Positions

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### General Program Overview

#### *Purpose*

The compensation policies have been developed over years of public review, discussion and debate. They represent the strategic decision that pay must be high enough to encourage individuals to accept and remain in positions, but not so high as to attract candidates solely for the compensation. Moreover, compensation systems must be carefully structured to both recognize labor market forces, and reinforce maximum performance through placing a substantial portion of total annual compensation at risk. This pay-at-risk approach places a premium on achieving objectives that are directly connected to the CalPERS Board's strategic and business plans. As a result, the recruitment and retention of highly skilled executives and investment manager serves as the foundation for the organization's overall success.

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#### *Rationale*

The rationale for establishing compensation policies and procedures for senior executive and investment management positions covered by this policy is based on consideration of the labor market conditions affecting the recruitment and retention of professionals in the fields of institutional investing, actuarial valuation and pension administration, most who are recruited from the private sector. Especially in the case of senior investment managers, the civil service salary structure differs substantially from that of the for-profit sector, the primary recruitment source. Not only are these positions more highly compensated in the for-profit sector than traditional civil service pay scales can accommodate, but total cash compensation in the for-profit sector is tied to pay-for-performance and incentive bonuses in a manner that makes fixed civil service salary ranges and steps impractical for recruiting and compensating such executives.

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#### *Authority*

SB 269, enacted in 2003, amended Government Code Section 20098 to provide that the Board of Administration shall fix the compensation of the Chief Executive Officer, Chief Actuary, Chief Investment Officer and other investment officers and portfolio managers whose positions are designated managerial. The Government Code was further amended in 2007 and 2011 to include the General Counsel and Chief Financial Officer, respectively.

All covered positions, except the exempt Chief Executive Officer, shall be filled through general civil service appointments and are subject to most of

the civil service provisions of existing law, including the tenure provisions governing managerial employees. The positions are not eligible to receive Merit Salary Adjustments (MSA) as provided in Government Code Section 19832. These policies and procedures describe the program components of base pay, performance (incentive) awards, and other special pay provisions comprising the compensation system for covered positions.

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***Compensation Administration and Management***

The CalPERS Board of Administration reserves the right to rescind or modify these Policies and Procedures and the compensation schedules derived from them at any time.

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***Covered Positions***

**Administrative Executives:**

- Chief Executive Officer
- Chief Actuary
- Chief Financial Officer
- General Counsel

**Investment Executives and Managers:**

- Chief Investment Officer
  - Chief Operating Investment Officer
  - Senior Investment Officer
  - Senior Portfolio Manager
  - Portfolio Manager
- 

***Program Elements***

There are three components to the CalPERS Executive Compensation Program:

- Base Pay
  - Pay-for-Performance (Incentive Pay)
  - Special Pay
- 

***Base Pay Overview***

- Each covered position classification has a discrete salary range
  - Salary ranges are based on relevant public and private sector market data gathered every two years or as the Board deems necessary
  - Movement within defined salary ranges is driven by the annual employee performance appraisal process or other compelling circumstances such as equity or retention
-

***Performance  
Award  
Overview***

- A performance (or incentive) award is an annual, one-time contingent cash award reflecting an individual's achievement of measureable performance objectives documented in an annual performance plan
  - A performance award is a form of pay-for-performance which is intended to ensure that CalPERS is meeting critical organizational objectives
  - Performance award potential varies by position
- 

***Special Pay  
Overview***

Special pay provisions are designed to address specific or extenuating circumstances:

- Special within-range salary movement may be granted to address retention, internal equity or other extraordinary circumstances subject to appropriate approvals
  - Additional compensation may be granted in conjunction with interim assignment of additional responsibilities until a position is filled
  - A recruitment differential, or one-time payment upon appointment to a position, may be provided to eligible appointees based on an individual's specific circumstances
- 

**Base Pay**

***Base Pay Ranges***

Base salary ranges, rather than single rates of pay, will be established for positions covered under Government Code Section 20098(a).

Determination of base salary ranges will be based upon one or more of the following:

- Consideration of internal equity factors
  - Relevant marketplace salary survey data gathered every two years
  - A review of relevant data when a position becomes vacant
  - Data gathered when the Performance, Compensation and Talent Management Committee (PCTMC) determines a special survey is necessary, or
  - Consideration of industry standards and best practices relative to executive compensation
-

***Determining  
Base Pay  
Ranges***

**Executive Management Positions:**

Base salary ranges are established by using a blend of global private and public sector data as follows:

- Data is weighted 50% on the median of large financial services (banking and insurance) private sector, and 50% on the 75<sup>th</sup> percentile of large global (U.S. and non-U.S.) public sector (greater than \$75 billion in assets)
- If only one sector is available, weighted 100% on that sector
- If no quality position matches are available, adjustments are based on internal position relationships
- A standard range width of 50% is used for all positions

For purposes of this provision, the “median” shall be interpreted as the midpoint of any array of market salary data. Where multiple sources of market salary data are used, the average of the medians will be used to describe the median of the market.

**Investment Management Positions:**

Base salary ranges are established by using a blend of private and public sector data as follows:

- Large and complex institutional investors, including: US public funds, Canadian public funds and US corporate plan sponsors.
- Private sector asset management organizations of comparable size (\$150B to \$350B AUM) that are key competitors for CalPERS staff, including: investment management/advisory firms, insurance companies and banks.

At the discretion of the Performance, Compensation and Talent Management Committee, the quartile of the market salary data for the above comparator group will be determined at the time each salary survey is conducted.

See Appendix 1: *Base Pay Ranges*

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***Salary Surveys***

To ensure salary ranges are appropriate and relatively competitive with the defined market comparator group, a comprehensive salary survey of all comparable executive positions may be conducted every two years or as the Board deems necessary. Special surveys may also be done to validate the existing range or establish a new recruiting range when a position becomes vacant or a new position is established. In the intervening years, executive base salary ranges may be adjusted by an amount reflective of general annual private sector executive salary movement as reported by a reputable source, such as the American Compensation Association.

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***Salary upon Appointment***

Individual base salary is determined at the time of hire by the hiring supervisor based on factors such as appointee’s current compensation, internal equity, value of skills and/or expertise, and other relevant factors. For the Chief Executive Officer and Chief Investment Officer positions base salary is determined by the Board of Administration, based on the recommendation of the Performance, Compensation and Talent Management Committee. The individual salary upon appointment may not exceed the maximum for the established salary range of the position.

***Base Salary Increase***

Individual base salary increases are considered annually in conjunction with the performance appraisal process. An individual may be granted an increase from 0-10% based on the following factors:

- Current quartile placement in the base salary range
- Overall performance rating on annual performance appraisal as defined in the merit matrix as follows:

<b>Merit Matrix Based on a 4% General Market Increase in Executive Base Pay</b>				
<b>Performance Rating</b>	<i>Position in Range Before Increase</i>			
	<b>First Quartile or Below</b>	<b>Second Quartile</b>	<b>Third Quartile</b>	<b>Fourth Quartile</b>
Outstanding	10%	8%	6%	4%
Consistently Exceeds Standards	8%	6%	4%	2%
Meets Standards	6%	4%	2%	0%
Does Not Fully Meet Standards	2%	0%	0%	0%

Annual salary increases will be based upon the written performance appraisal, unless otherwise recommended by the Performance, Compensation and Talent Management Committee to address existing retention or pay equity considerations.

If the annual increase, as defined by the merit matrix, places the individual base salary above the maximum for the salary range, the individual will be placed at the maximum for the range. Under no circumstance can the base salary exceed the range maximum.

## Performance Plan

### *Concept of Pay-for-Performance*

The concept of pay-for-performance is that a portion of an executive’s annual total cash compensation is dependent upon making significant contributions to the achievement of key objectives of the organization. The performance objectives should be measurable, either in terms of numeric measures (quantitative) or accomplishment of specific, non-numeric outcomes (qualitative). Objectives should be within the influence or significant control of the executive, and should be “targeted,” meaning that a monetary value (expressed as a percentage of base pay) is placed on the desired level of achievement. Achievement above or below the desired level is recognized by a greater or lesser monetary award.

### *Elements of a Performance Plan*

The basis for payment of the performance award is the annual performance plan. The performance plan is comprised of the following three elements:

<b>Performance Measure</b>	<p><b>Quantitative</b> performance (or Investment Performance) measures are numerically measurable factors such as return on investment.</p> <p><b>Qualitative</b> performance (or Business Objectives) measures are factors which are not numerically measurable, such as performance on key organizational objectives.</p>
<b>Weight</b>	The relative value assigned to a performance measure (quantitative or qualitative). The total weighting of all performance measures in the plan must total 100%.
<b>Rating Scale (Multiplier)</b>	The value assigned to levels of achievement for a performance measure: Threshold (minimum), target (desired level), and maximum)

See Appendix 2: *Sample Quantitative Performance Measure with Element Definitions*

### *Annual Performance Plan Cycle*

The annual cycle of the performance plan consists of the following activities:

- Performance Plan Development
- Quarterly Performance Monitoring & Approval of Performance Plan Changes
- Performance Evaluation based upon achievement of performance plan measures

See Appendix 3: *Annual Compensation Program Cycle*

***Development of a Performance Plan***

Prior to the beginning of the fiscal year (or as soon as practical for new hires), each covered executive develops an annual performance plan comprised of quantitative and/or qualitative performance plan measures for approval as follows:

<b>Position</b>	<b>Approver(s)</b>	<b>Timeframe</b>
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)	May/June (or as soon as practical after new appointment)
Chief Actuary Chief Financial Officer General Counsel	Chief Executive Officer	May/June (or as soon as practical after new appointment)
Chief Operating Investment Officer Senior Investment Officer Senior Portfolio Manager Portfolio Manager	Chief Executive Officer Chief Investment Officer (by delegation from CEO)	May/June (or as soon as practical after new appointment)

Quantitative measures often involve the detailed construction of benchmarks and accompanying schedules by which individual performance is measured. To ensure consistency with investment asset allocation strategies and other relevant factors, prior to submitting performance plans for final approval, all quantitative measures require the review of appropriate supervisors and the Board's investment consultant as follows:

<b>Position</b>	<b>Approvals</b>					
	<b>Supervisor</b>	<b>COIO</b>	<b>CIO</b>	<b>Investment Consultant</b>	<b>CEO</b>	<b>Board</b>
Chief Executive Officer				✓ <sup>1</sup>		✓
Chief Investment Officer				✓	✓	✓
Chief Actuary				✓ <sup>1</sup>	✓	
Chief Financial Officer				✓ <sup>1</sup>	✓	
General Counsel				✓ <sup>1</sup>	✓	
Chief Operating Investment Officer			✓	✓	✓	
Senior Investment Officer		✓	✓	✓	✓	
Sr. Portfolio Manager Portfolio Manager	✓	✓	✓	✓	✓	

<sup>1</sup> If individual performance plans contain quantitative measures, they require the review of the Board's investment consultant.

***Status Reports  
and Plan  
Changes***

At the end of every quarter in the fiscal year, each covered executive must prepare a short status report on both quantitative and qualitative performance measures. If necessary, performance measures may be added, amended or deleted as part of the quarterly review process.

Quarterly status reports and requests for changes to performance plan measures require the following approvals:

<b>Position</b>	<b>Approver(s)</b>	<b>Timeframe</b>
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)	December (1 <sup>st</sup> ), February (2 <sup>nd</sup> ), May (3 <sup>rd</sup> ), September (year-end)
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer	December (1 <sup>st</sup> ), February (2 <sup>nd</sup> ), May (3 <sup>rd</sup> ), September (year-end)
Chief Operating Investment Officer Senior Investment Officer Senior Portfolio Manager Portfolio Manager	Chief Executive Officer Chief Investment Officer (by delegation from CEO)	December (1 <sup>st</sup> ), February (2 <sup>nd</sup> ), May (3 <sup>rd</sup> ), September (year-end)

Quantitative performance measure changes also require review by the Board’s investment consultant prior to approval and integration into the plan. The Chief Operating Investment Officer serves as the coordinator for and the independent check in this process by overseeing the review of performance measures for consistency with established performance objectives, investment policies and compliance procedures.

**Performance (Incentive) Award**

***Performance  
Award***

A performance (incentive) award is part of an individual’s total compensation, a one-time payment based on achieving specific organizational objectives as defined in an annual performance plan.

***Performance  
Award  
Ranges***

The Board, upon recommendation of the Performance, Compensation and Talent Management Committee, sets the performance award ranges for all covered positions. The performance award range represents the percentage of base pay available to be earned based on the level of achievement (threshold, target, or maximum) on the performance plan objectives.

Performance award ranges will be periodically reviewed by Performance, Compensation and Talent Management Committee and may vary by position (see Appendix 1). Any change to an established performance award range must be approved by the Board of Administration.

See Appendix 4: *Performance Award Ranges*

***Movement  
Between  
Performance  
Award Ranges  
(Sr. Portfolio  
Managers and  
Portfolio  
Managers  
Only)***

For Senior Portfolio Managers and Portfolio Managers, any movement from one established performance award range to another, must be fully documented in a request from the appropriate Senior Investment Officer to the Chief Operating Investment Officer and Chief Investment Officer, which identifies the specific criteria and justification for change. The Chief Investment Officer will carefully review and assess the criteria and determine if a schedule change is warranted. Once approved, the change request is forwarded to the Chief Executive Officer. Final approval of all schedule changes resides with the CEO.

Criteria considered in support of a change to an individual’s Performance Award Range include the following:

- Achieving the maximum performance rating on all qualitative performance measures for two successive years
- Having 20% or more of assets within an asset class under direct control or management
- The specialized nature of the position or the unique talent level of the individual

Retention or attraction factors for key personnel

***Performance  
Award  
Computation***

Annual performance (incentive) awards are computed using the following formula:

<b>Performance Measure Weight</b>	<b>X</b>	<b>Level of Achievement (Multiplier)</b>	<b>X</b>	<b>Target Award</b>	<b>=</b>	<b>Performance Award</b>
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**Multi-Year  
Performance  
Awards**

Quantitative performance measures will be based on multi-year performance against relevant benchmarks, utilizing an award schedule approved by the Board of Administration. The schedule is applicable to all covered employees who have quantitative performance measures in their annual performance plan. The purpose of the schedule is to align the performance award schedules for individuals with the long-term investment objectives of the organization.

The multi-year performance measurement period and the provisions of the instructions for calculation are effective July 1, 2010 and will remain in effect until the issuance of a replacement schedule by the Board of Administration.

**Multi-Year  
Performance  
Award  
Calculation  
(Quantitative  
Measures)**

The performance award for each quantitative performance measure for all employees covered under this section who have been in their positions for three or more years will be calculated based on performance in the respective components of the CalPERS portfolio versus discrete predetermined benchmarks over a three year period.

**Example of Application of Multi-Year Performance Award Calculation**

This example of the basic schedule is applicable to individuals with three years of experience in their current positions.

<b>Step 1</b>	<p><b>(Three Year performance): Excess Return</b></p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%;">CalPERS Return:</td> <td style="text-align: right;">3.66%</td> </tr> <tr> <td>Benchmark Return:</td> <td style="text-align: right;">3.25%</td> </tr> <tr> <td colspan="2" style="border-top: 1px solid black;"></td> </tr> <tr> <td></td> <td style="text-align: right;">+0.41%</td> </tr> </table>	CalPERS Return:	3.66%	Benchmark Return:	3.25%				+0.41%
CalPERS Return:	3.66%								
Benchmark Return:	3.25%								
	+0.41%								
<b>Step 2</b>	<p><b>Determination of factor multiplier</b></p> <p>Band width from incentive plan: +40 basis points -&gt; 1.0x +80 basis points -&gt; 1.5x</p> <p>Excess basis points from Step 1: 41</p> <p>Interpolation to determine multiplier within band width:  <math>[41 - 40 / (80 - 40) \times (150\% - 100\%)] + 100\%</math>  <math>= [(1.0 / (40) \times (50))] + 100\%</math>  <math>= 1.25\% + 100\%</math>  <math>= 101.25\%</math></p> <p>Multiplier expressed as a decimal: 1.0125x</p>								

The application of the basic schedules to individuals with fewer than three years of employment in their current positions is presented below:

Year	Performance Period*	Weight	Total Weight
<b>First Year</b>	Current Year	100%	100%
<b>Second Year</b>	Two Year Annualized Return	100%	100%
<b>Third Year</b>	Three Year Annualized Return	100%	100%
* All periods longer than one year are compound annualized numbers.			

**Rating Scale  
 for Qualitative  
 Measures**

The following scale describes an individual’s level of achievement on qualitative performance measures and the corresponding multiplier used when computing the performance award:

<b>Performance Rating Scale</b>	
<b>Rating</b>	<b>Rating (Multiplier):</b>
Significantly Exceeds Standards	1.5
Exceeds Standards	1.25
Meets Standards	1.0
Meets Some, Not All Standards	.5
Does Not Meet Standards	0

<b>Performance Rating Scale for Qualitative Measures</b>	
<b>Rating</b>	<b>Rating (Multiplier)</b>
<u>Far Exceeds High Expectations</u>	<u>1.5</u>
⋮	⋮
<u>Meets High Expectations</u>	<u>1.0</u>
⋮	⋮
<u>Does Not Meet High Expectations</u>	<u>0</u>
<i>Intermediate points are interpolated</i>	

Definitions for the Performance Ratings above are as follows:

<b>Performance Rating Definitions</b>
<p><b><u>Far Exceeds High Expectations</u></b>                      Continuously delivered results that significantly exceeded expectations. Successfully met challenges which were at times beyond the employee’s control and required sustained extraordinary effort. The quality of program management, work products, and leadership is superior.</p>
<p><b><u>Meets High Expectations</u></b>                      The quality of employee performance is consistent with expectations. The quality and timeliness of work products achieved desired results. Responsiveness to priorities and overall leadership has been completely demonstrated and work produced is satisfactory.</p>
<p><b><u>Does Not Meet High Expectations</u></b>                      Results were not achieved or were achieved at significantly lower than expected levels. Responsiveness to changes in priorities has been slow, work products are incomplete, and/or the quality of leadership is below expectations.</p>

***Pro-Rata  
Awards***

Performance awards may be prorated based on months of service for executives who are appointed during the fiscal year. The recommendation for a pro-rata performance award will be based on the nature of the performance measures, the level of progress in their achievement, as well as overall performance.

An executive appointed during the second half of a fiscal year will normally not receive a performance award until after completion of the following full fiscal year, at which time the award will be pro-rated to reflect the entire period of performance in the covered position.

At the discretion of, and upon the recommendation of the CEO and the Committee, the Board may grant a partial year pro-rata award to an individual who has served fewer than six months in a covered position, if the award is based entirely on performance measures designed to cover the period of time between the appointment and the end of the fiscal year.

An executive who vacates a covered position within six months of appointment shall not receive an award.

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***Authority to  
Defer, Reduce  
or Eliminate  
Performance  
Awards<sup>1</sup>***

Payment of performance awards shall be subject to and conditioned upon all of the following:

If the one-year absolute return on the Total Fund for a fiscal year is less than zero percent (0%) the Board may elect to defer, reduce or eliminate payment of all or a portion of an employee's performance award. In the event that the Board elects to defer payment of an award to a subsequent fiscal year, payment of the award may be deferred up to 115 days beyond the end of the first subsequent fiscal year in which the one-year absolute return on the Total Fund exceeds zero percent (0%), or, as to an individual who has been involuntarily terminated without cause by the State of California (as determined by the Board in its sole discretion) ("Terminated Without Cause"), died, becomes "disabled," or "retires," up to 115 days after the end of the fiscal year in which the individual was Terminated Without Cause, died, became "disabled" or "retired." To the extent payment is deferred for more than 120 days after the end of the fiscal year for which the performance award is payable, the performance award shall be credited with earnings that approximate the absolute return of the Total Fund for the deferral period as determined by the Board, but not in excess of 15% annually. The Board shall not be obligated to treat all employees eligible to a performance award alike in determining whether to defer, reduce or eliminate a performance award,

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<sup>1</sup> The terms "disabled," "disability," "retired," "retires" and "retirement" throughout the policy are used as defined in California Public Employees' Retirement Law sections 20026, 20027 and 20060.

how large a portion to defer or reduce, and when to pay the deferred or reduced performance award.

- a) An employee will be entitled to a performance award for any period only if the employee has complied with the CalPERS Investment Policy and CalPERS ethics-related policies, such as, but not limited to, CalPERS Fraud, Criminal Acts, and Internal Investigations Policy, CalPERS Statement of Incompatible Activities, CalPERS Conflict of Interest Code, and regulatory requirements (collectively, Performance Award Policies) throughout the period, as determined by the Board in good faith. A Performance Award Policies violation in a prior period shall be treated as a continuing violation in each subsequent period through the date as of which the Board determines that the violation was adequately remedied. All references to the Board in this subsection and the following subsections also refer to the Board's delegate or CalPERS staffing on behalf of the Board, and all references to "employees" in these subsections refer both to current employees and former employees.
- b) If the Board believes an employee is not entitled to a performance award due to a Performance Award Policies violation, it will notify the employee in writing by certified mail or personal service on the employee. If the employee disputes that finding, the employee must so notify the Board in writing within 15 days of receiving the Board's notice. If the employee does not timely notify the Board, the employee will be deemed to have admitted the violation. If the employee admits or is deemed to have admitted the violation, the employee will not receive the performance award in question. If the employee timely denies the violation, the Board will conduct such further investigations as it deems appropriate ("Investigation"). The Investigation must be completed within 90 days of the date the performance award would have been paid but for the violation. Within 60 days after the Investigation has been completed, the Board shall determine whether the violation occurred. Its good faith determination shall be final and binding. The Board shall delay payment of the performance award pending that determination. If the Board determines that there was no violation, the employee will receive the performance award plus interest at the annual rate of 6% interest for the period of late payment in excess of 60 days. This payment will be made by the earlier of (1) 30 days after the Board's determination following the Investigation, or (2) December 31 following the Board's determination.
- c) If a performance award is paid to an employee but, within three years after the payment, the Board determines that the employee was not entitled to the payment because of a Performance Award Policies violation, it will notify the employee in writing by certified mail or personal service on the employee. If the employee disputes that finding,

the employee must so notify the Board in writing within 15 days of receiving the Board's notice. If the employee does not timely notify the Board, the employee will be deemed to have admitted the violation. If the employee timely denies the violation, the Board will conduct an Investigation. When the Investigation has been completed, the Board shall determine whether the violation occurred. Its good faith determination shall be final and binding. If the Board determines that there was a violation, or if the employee admits the violation or is deemed to have admitted it, the employee must repay the performance award, plus interest at the annual rate of 6% interest for the period from payment to repayment, within 365 days after the Board's determination following the Investigation.

- d) If at any time the Board determines the criteria used to determine an employee's performance award were, with hindsight, improperly designed or otherwise mistaken, the Board may correct those criteria in any way, even if correction reduces or eliminates the performance award the employee would otherwise receive.
- e) Notwithstanding anything else, an employee shall not be entitled to a performance award to the extent the Board determines that payment of the performance award would violate applicable law.

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***Action Upon  
Unsatisfactory  
Performance***

Individuals who receive an individual performance rating of 'Does Not Fully Meet Standards' in their annual performance appraisal will be ineligible to receive any portion of the incentive compensation award at any time for the year in which the unacceptable rating was received.

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***Action Upon  
Separation***

Employee must be employed by CalPERS on the payment date to receive an award, except in the case of death, "disability," or "retirement" or "Termination Without Cause."

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**Special Pay**

***Special Within-  
Range  
Base Pay  
Adjustment  
(Investment  
Managers)***

The Chief Investment Officer may, at any time during the year, recommend granting a special within-range base salary adjustment of up to 15% of annual base salary to an investment management staff member covered by these policies, to address retention or internal equity issues. In extenuating circumstances, the within-range adjustment may exceed 15% of annual base salary. All adjustments (up to and exceeding 15%) must be approved by the

Chief Executive Officer by delegation from the Board, and will be reported to the Performance, Compensation and Talent Management Committee.

Criteria considered in support of a Special Within-Range Base Pay Adjustment include the following:

- **Performance:** Consecutive years of investment performance that significantly exceeds the benchmark
- **Equity:** Demonstrated value of incumbent and / or inequity with newer hire
- **Retention:** To retain competent investment staff at risk of leaving to accept offers from other money managers / employers

***Special Within-Range Base Pay Adjustment for Extraordinary Circumstances – Non-Investment Executives***

There may be extraordinary circumstances that warrant a covered executive’s base salary rate be increased, in conjunction with or outside of the annual performance appraisal process, to address unique retention or pay equity considerations. The following approval process applies:

<b>Position</b>	<b>Approver(s)</b>	<b>Timeframe</b>
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)	When deemed necessary by recommendation of PCTMC
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer (by delegation from the Board)	When deemed necessary by recommendation of Chief Executive Officer

***Interim Appointment***

Interim appointments to covered positions may be made in instances where it is necessary to temporarily assign a staff member the full range of responsibilities in a position until a new permanent appointment is completed. Such assignments shall typically be at least 60 days in duration and at a compensation level determined by the appointee’s current pay rate in relation to the base salary range of the vacated position. Performing additional higher level duties for a period of less than 60 days is typically considered an Acting Assignment and may not include additional compensation.

Interim appointments and temporary additional compensation require the following approvals:

Position	Approver(s)
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of (PCTMC))
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer (by delegation from the Board)
Chief Operating Investment Officer Senior Investment Officer	Chief Executive Officer (upon recommendation of Chief Investment Officer)

The Chief Executive Officer will report interim appointments and additional temporary compensation to the Performance, Compensation and Talent Management Committee and the Board.

***Recruitment Differential***

In order to attract and retain highly skilled executives, a recruitment differential may be provided when hiring executives from outside State service. It is a one-time front-end payment upon appointment and is designated as an incentive to accept a position. The amount of the differential is specific to each eligible executive's personal circumstances. In no case shall a recruitment differential exceed 60% of a new hire's annual base salary. The following approval and payback provisions apply:

Position	Approver	Amount	Repayment Provision
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)	Not to exceed 60% of first year's base salary	0 - 12 months / 100% 12 - 24 months / 50%
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer	Not to exceed 60% of first year's base salary	0 - 12 months / 100% 12 - 24 months / 50%
Chief Operating Investment Officer Senior Investment Officer Senior Portfolio Manager Portfolio Manager	Chief Executive Officer (upon recommendation of the Chief Investment Officer)	Not to exceed 60% of first year's base salary	0 - 12 months / 100% 12 - 24 months / 50%

Any exception to the repayment schedule requires approval of the Chief Executive Officer and/or other approving authority as listed above.

***Retention  
 Differential<sup>2</sup>***

In order to retain highly skilled investment managers, a retention differential may be provided to those whose skills and experience is deemed critical to the successful management of the fund. The differential may be provided in addition to any other compensation policy provision and may be paid at any time during the fiscal year. This provision applies to the following classifications and expires June 30, 2012:

- Chief Investment Officer
- Chief Operating Investment Officer
- Senior Investment Officer
- Senior Portfolio Manager
- Portfolio Manager

The differential award is limited to no more than 15% of eligible staff in the classifications identified above per fiscal year. Differential eligibility criteria include:

- Employee may receive the differential only once in a 24-month period
- Employee must be employed with CalPERS for at least 12 months
- Employee must have received an overall rating of Consistently Exceeds Standards on their most recent employee evaluation
- Employee may receive an amount up to 20% of his/her base salary
- Payment of the differential for the Chief Operating Investment Officer, Senior Investment Officer, Senior Portfolio Manager, and Portfolio Manager classifications requires the approval of the Chief Investment Officer and Chief Executive Officer
- Payment of the differential for the Chief Investment Officer requires the approval of the Board of Administration, upon recommendation of the Performance, Compensation and Talent Management Committee
- For all classifications, repayment of the entire differential is required in the event the employee does not continue employment with CalPERS for two years from the date the payment was awarded.

The following approvals are required:

<b>Position</b>	<b>Approver</b>
Chief Investment Officer	Board of Administration (based on recommendation of PCTMC and Chief Executive Officer)
Chief Operating Investment Officer Senior Investment Officer Senior Portfolio Manager Portfolio Manager	Chief Executive Officer (based on recommendation of Chief Investment Officer; by delegation from the Board)

<sup>2</sup>The Retention Differential provision will remain in the policy until the repayment period has expired for all recipients.

## **Year-End Performance Appraisal Process (Performance Award and Base Pay Increase)**

***Performance Appraisal Process Overview*** The year-end performance appraisal process is the basis of the payment of the annual performance (incentive) award and the individual base pay increase. The performance appraisal document is completed at the end of the plan/fiscal year and covers both individual achievement on the annual performance objectives and general managerial performance as described below.

The Chief Executive Officer, with partial re-delegation to the Chief Investment Officer for the investment management positions, will complete performance appraisals and recommend base salary increases within the established ranges for covered executives. The Performance, Compensation and Talent Management Committee completes the performance appraisal for the Chief Executive Officer and Chief Investment Officer.

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***Performance Award Determination Process*** The 4<sup>th</sup> quarter status report is the basis for the annual performance award. As part of the performance appraisal process, at the end of the plan/fiscal year (June 30), each covered executive submits a year-end (4<sup>th</sup> quarter) status report to his/her immediate supervisor reflecting the final status of all performance objectives.

For purposes of determining the award amount, the following occurs:

- The primary evaluator assigns performance ratings (for qualitative measures) and comments, soliciting additional input if appropriate.
- Performance ratings on quantitative measures are determined by calculations performed by the Board's Investment Consultant, Wilshire Consulting, based upon investment performance data provided by State Street and other sources.
- Using calculations received from Wilshire Consulting, Human Resources staff aggregates the quantitative factor multipliers (ratings), adds in the impact of qualitative factors ratings, and calculates the dollar value of the performance award.

Final approval of performance awards is defined as shown in the *Performance Appraisal Approval Process* section of the policy.

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**Base Pay  
Increase**

The general assessment of managerial performance and the overall performance rating is the basis of an individual base pay increase. At the end of the plan/fiscal year (June 30), all covered executives prepare a year-end summary highlighting their most noteworthy achievements not covered in the performance plan. The primary evaluator completes the assessment of the individual’s general managerial performance and assigns an overall performance rating.

The overall rating, as indicated below, is the basis for recommending a base pay increase as defined in the merit matrix (see pg. 7).

<b>Overall Performance Rating Scale</b>
<b>Outstanding:</b> Continuously delivered results that significantly exceeded expectations. Successfully met challenges which were at times beyond the executive’s control and required sustained extraordinary effort. The quality of program management, work products, and leadership is superior.
<b>Consistently Exceeds Standards:</b> Overall performance exceeded expectations and was characterized by applying a high degree of initiative and resourcefulness in addressing several key issues during the year. The quality of work products and responsiveness to priorities is exceptional.
<b>Meets Standards:</b> The quality of executive performance is consistent with expectations. The quality and timeliness of work products meets expectations. Responsiveness to priorities and overall leadership has been completely demonstrated and work produced is satisfactory.
<b>Does Not Fully Meet Standards:</b> There is a pattern of less than anticipated quality in program performance. Responsiveness to changes in priorities has been slow, work products are incomplete, and/or the quality of leadership is below expectations.

***Performance  
Appraisal  
Approval  
Process***

The following depicts the primary evaluator and final approver for all performance appraisals:

<b>Position</b>	<b>Primary Evaluator</b>	<b>Provides Input</b>	<b>Approver(s)</b>
Chief Executive Officer	Performance, Compensation and Talent Management Committee	Board members not on Committee	Board of Administration
Chief Investment Officer	Performance, Compensation and Talent Management Committee	CEO, Board members not on Committee	Board of Administration
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer	Committee and other Board members (optional)	Chief Executive Officer (Board retains veto authority)
Chief Operating Investment Officer Senior Investment Officer	Chief Investment Officer	Chief Executive Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of CIO)
Senior Portfolio Manager	Senior Investment Officer	Chief Investment Officer Chief Operating Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of CIO)
Portfolio Manager	Senior Portfolio Manager	Senior Investment Officer Chief Operating Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of CIO)

## Appendices

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- Appendix 1: Base Pay Ranges
- Appendix 2: Sample Performance Plan Measure with Element Definitions
- Appendix 3: Annual Compensation Program Life Cycle
- Appendix 4: Performance Award Ranges

### BASE PAY RANGES

Position	Pay Range	Maximum of Quartile Range			
		Q1	Q2	Q3	Q4
<b>Chief Executive Officer</b>	\$224,000 - 336,000	\$252,000	\$280,000	\$308,000	\$336,000
<b>Chief Actuary</b>	\$206,000 - 310,000	\$232,000	\$258,000	\$284,000	\$310,000
<b>General Counsel</b>	\$214,000 - 322,000	\$241,000	\$268,000	\$295,000	\$322,000
<b>Chief Financial Officer</b>	\$210,000 - 310,000	\$210,000	\$260,000	\$285,000	\$310,000
<b>Chief Investment Officer</b>	\$408,000 - 612,000	\$459,000	\$510,000	\$561,000	\$612,000
<b>Chief Operating Investment Officer</b>	\$240,000 – 360,000	\$270,000	\$300,000	\$330,000	\$360,000
<b>Senior Investment Officer</b>	\$262,000 - 392,000	\$294,500	\$327,000	\$359,500	\$392,000
<b>Senior Portfolio Manager</b>	\$188,000 – 282,000	\$211,500	\$235,000	\$258,500	\$282,000
<b>Portfolio Manager</b>	\$140,000 – 210,000	\$157,500	\$175,000	\$192,500	\$210,000

**Sample Quantitative Performance (or Investment Performance) Measure  
 with Element Definitions**

# Elements of a Performance Plan

## Quantitative Performance Measures

There are three elements of individual Quantitative performance factors:

Weight	Performance Measure	Incentive Schedule
45%	Net of Fees, excess return in basis points relative to: Domestic Fixed Income (FI), Internal - CalPERS Custom LEH LPF {SW4KA1 – CALCCLP2}	0 basis points = 0 +40 basis points = 1.0 +60 basis points = 1.5

**Weight**  
 Relative value of each measure  
 in a performance plan  
 (total weight of plan = 100%)

**Performance Measure**  
 What portfolio / composite is being measured and to which benchmark it is compared

- All incentive compensation is "relative" - performance versus a benchmark
- No incentive compensation is based on "absolute" performance
- Awards are still paid when total results are down if they are better than the benchmark
- No awards are paid despite fantastic market returns if the portfolio does not keep pace

**Schedule**  
 Yardstick used to measure level of success

- Generally speaking, the 1.0x level of performance is the "expected" performance of that portfolio or composite relative to the benchmark
- The 0.0x level is the minimum acceptable
- The 1.5x level is considered outstanding
- There is no additional reward or penalty if performance exceeds the top of the range (1.5)
- A rolling 3-year structure is used to calculate award amounts

**ANNUAL COMPENSATION PROGRAM CYCLE**

	MAY	JUNE	JULY	SEPTEMBER	NOVEMBER	FEBRUARY
<b>Performance Plan Development</b>	1 <sup>st</sup> Reading of Performance Plans	2 <sup>nd</sup> Reading of Performance Plans				
<b>Quarterly Performance Monitoring</b>	3 <sup>rd</sup> Quarter Status Reports				1 <sup>st</sup> Quarter Status Reports	2 <sup>nd</sup> Quarter Status Reports
<b>Performance Evaluations</b>			New Plan Year Begins July 1 <sup>st</sup> ..... 4 <sup>th</sup> Quarter / Year-End Reports Prepared	Committee completes appraisals of CEO & CIO Award and base salary adjustment determinations		

### PERFORMANCE AWARD RANGES

Classification	Award Schedule	Target Award	Approval Criteria for Award Range Changes
Chief Executive Officer	0 - 40%	27%	Board approval
Chief Actuary	0 - 40%	27%	Board approval
Chief Financial Officer	0 - 40%	27%	Board approval
General Counsel	0 - 40%	27%	Board approval
Chief Investment Officer	0 - 75%	50 %	Board approval
Chief Operating Investment Officer	0 - 60%	40%	Board approval
Sr. Investment Officer	0 - 75%	50 %	Chief Investment Officer approval
Sr. Portfolio Manager	0 - 60%	40%	Newly appointed Sr. Portfolio Managers and those not meeting the criteria for higher award schedule.
	0 - 75% <sup>1</sup>	50%	Newly appointed Sr. Portfolio Managers are required to complete one annual performance review cycle before being considered for this award schedule. See footnote for additional criteria.
Portfolio Manager	0 - 45%	30%	Newly appointed Portfolio Managers and those not meeting the criteria for higher award schedules.
	or 0 - 60%	40%	
	0 - 75% <sup>1</sup>	50%	Newly appointed Portfolio Managers are required to complete one annual performance review cycle before being considered for this award schedule. See footnote for additional criteria.

<sup>1</sup> The CIO, upon final approval of the CEO, will have discretion to increase the award schedule up to 0 – 75% based on consideration of:

- a) Achievement of the maximum performance award on all quantitative performance measures for two successive years;
- b) Having 20% or more of assets within an asset class under direct control or management;
- c) The specialized nature of the position or the unique talent level of the individual; and
- d) Retention or attraction factors for key personnel.

## Approval Forms

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- Performance Plan Measure Change
- Sr. Portfolio Manager Performance Award Range Change
- Portfolio Manager Performance Award Range Change
- Special Within-Range Base Pay Adjustment - for Investment Management Staff
- Special Within-Range Base Pay Adjustment for Extraordinary Circumstances - for Non-Investment Staff
- ~~Retention Differential~~
- Recruitment Differential

## PERFORMANCE MEASURE CHANGE REQUEST

Name \_\_\_\_\_ Position \_\_\_\_\_

Part A: Addition of Performance Measure			
Recommend the following performance measure be added to the performance plan:			
Weight	Factor Title	Performance Measure <i>(Include effective date of new Quantitative factor, and indicate whether the new factor is linked to an existing or prior factor)</i>	Incentive Schedule
Reason for Proposed Addition:			

Part B: Deletion of Performance Measure			
Recommend the following performance measure be deleted from the current performance plan:			
Weight	Factor Title	Performance Measure <i>(Include effective date)</i>	Incentive Schedule
Reason for Proposed Deletion:			

Part C: Modification of Performance Measure			
Recommend the performance measure(s) listed below be modified as indicated:			
Input current performance measure below, and indicate changes in <u>underline</u> and <del>strikeout</del> format			
Weight	Factor Title	Performance Measure	Incentive Schedule
Reason for Proposed Change:			

CIO Approval \_\_\_\_\_ Date \_\_\_\_\_  
(Required for Investment Management Positions only)

CEO Approval \_\_\_\_\_ Date \_\_\_\_\_



## SR. PORTFOLIO MANAGER PERFORMANCE AWARD RANGE CHANGE REQUEST

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Appointment Date: \_\_\_\_\_

Proposed Award Range:  0 – (50) – 75%\*

*\* Employees must complete an annual review cycle in order to be eligible for this award range*

Proposed Effective Date: \_\_\_\_\_

### COMPLETE ALL OF THE FOLLOWING TO JUSTIFY PROPOSED CHANGE

**a) Number of subordinates at various award schedules:**

0 – (30) – 45% \_\_\_\_\_ 0 - (40) - 60% \_\_\_\_\_ 0 - (50) - 75% \_\_\_\_\_

**b) Achievement of the maximum performance award on all quantitative performance measures for two successive years:**

Quantitative Performance Measures	Total Number in Incentive Plan	Number for Which Maximum Award Earned
Past Year		
Preceding Year		

**c) Having 20% or more of assets within an asset class under direct control or management**

Approximate total value of asset class: \$ \_\_\_\_\_

Approximate value of asset class under individual's direct management: \$ \_\_\_\_\_

Percentage of total under individual's direct control or management: % \_\_\_\_\_

**d) The specialized nature of the position or the unique talent level of the individual:**

Describe specialized nature of position:

**e) Retention or attraction factors for key personnel:**

*Fully explain all relevant considerations, including employment contacts. Attach offer letters if applicable.*

Describe unique talent of individual:

SIO Signature \_\_\_\_\_

Date \_\_\_\_\_

CIO Approval Signature \_\_\_\_\_

Date \_\_\_\_\_

CEO Approval Signature \_\_\_\_\_

Date \_\_\_\_\_





### SPECIAL WITHIN-RANGE BASE PAY ADJUSTMENT FOR INVESTMENT MANAGEMENT STAFF

Name \_\_\_\_\_ Position \_\_\_\_\_

Current Base Salary \_\_\_\_\_ Current Performance Award Schedule \_\_\_\_\_

Date Appointed to Current Position \_\_\_\_\_

*The Chief Investment Officer may grant a special within-range base pay adjustment of up to 15% of annual base salary to an investment management staff member to address retention or internal equity issues.*

Proposed Adjustment: \$ \_\_\_\_\_ / \_\_\_\_\_ % Effective Date: \_\_\_\_\_

#### JUSTIFICATION FOR SPECIAL WITHIN-RANGE BASE PAY ADJUSTMENT

PERFORMANCE Consecutive years of investment performance that significantly exceeds the benchmark  
\_\_\_\_\_

EQUITY Demonstrated value of incumbent and / or inequity with newer hire  
\_\_\_\_\_

RETENTION To retain competent investment staff at risk of leaving to accept offers from other money managers / employers  
\_\_\_\_\_

MEDIAN PAY POLICY Adjustment to be consistent with Board's policy of pay at the median of salary survey data  
\_\_\_\_\_

OTHER Please explain  
\_\_\_\_\_

#### APPROVAL:

\_\_\_\_\_  
Chief Investment Officer

\_\_\_\_\_  
Date

\_\_\_\_\_  
Chief Executive Officer

\_\_\_\_\_  
Date





## REQUEST FOR RECRUITMENT DIFFERENTIAL

Name: \_\_\_\_\_

Position: \_\_\_\_\_

Proposed Start Date: \_\_\_\_\_

Proposed Salary: \$ \_\_\_\_\_ Proposed Recruitment Differential:\* \$ \_\_\_\_\_

*\* In no case shall a recruitment differential exceed 60% of a new hire's annual base salary.*

### Justification for Recruitment Differential:

Requestor Signature \_\_\_\_\_

Date \_\_\_\_\_

Approval Signature\* \_\_\_\_\_

Date \_\_\_\_\_

*\* Refer to policy for appropriate approval criteria*