



# Performance, Compensation and Talent Management Committee

California Public Employees' Retirement System

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## Agenda Item 7

June 16, 2015

**ITEM NAME:** Total Fund Investment Performance Restatement

**PROGRAM:** Administration

**ITEM TYPE:** Information

### **EXECUTIVE SUMMARY**

Staff has discovered an error in the reporting of Total Fund performance which inadvertently excluded the Security Lending Reinvestment Income portfolio, impacting the incentive compensation of six Executive and Investment Management staff covered under the Board of Administration's Executive Compensation Program for the 2011-2012 Fiscal Year.

### **STRATEGIC PLAN**

The Executive Compensation Program supports Goal B of the 2012-2017 Strategic Plan in cultivating a high-performing, risk-intelligent and innovative organization. The program provides a means for recruiting and retaining highly-skilled executives to the benefit of the CalPERS organization as a whole.

### **BACKGROUND**

In June 2011, Investment staff created the SWPO portfolio, which captures Security Lending Reinvestment Income. Due to an oversight, the SWPO portfolio was not included in Total Fund incentive compensation performance calculations. Staff from the Financial Office, Investment Office and Human Resources Division has engaged the Board's Investment Consultant, Wilshire Consulting, and State Street Bank to correct the error and identify any staff whose compensation may require adjustment due to the changes in Total Fund performance. Although the error affected historical performance for Fiscal Year 2011-2012, Fiscal Year 2012-2013 and Fiscal Year 2013-2014, incentive compensation was only impacted for Fiscal Year 2011-2012.

### **ANALYSIS**

Staff and Wilshire Consulting recalculated the numbers to correct the error. The error affected the 2011-2012 fiscal year performance awards for five current participants and one former participant in the Board's compensation program. Staff from the Financial Office reviewed the revised calculations and incentive compensation amounts. All of the errors resulted in an underpayment of incentive compensation totaling \$16,034.

In addition, in order to ensure this historical portfolio performance is captured accurately for Fiscal Year 2014-2015 and future incentive compensation calculations, a new Total Fund composite has been created to include the Securities Lending performance. The Total Fund composite identifier has been corrected in all impacted FY 2014-15 performance plans. In accordance with the Policy, Wilshire Consulting has provided an opinion letter on the error, which is included as Attachment 1.

**BUDGET AND FISCAL IMPACTS**

The establishment of competitive compensation levels for these management positions is critical to the success of the organization. Any costs related to performance awards that arise as a result of this item have funding available within the existing budget.

**BENEFITS/RISKS**

One benefit provided by researching the absence of the SWPO portfolio in Total Fund and its impact on incentive compensation, and subsequently taking action to correct, is assurance that the incentive compensation program is administered appropriately, and that awards are based upon accurate performance data.

**ATTACHMENTS**

Attachment 1 – Opinion Letter from Wilshire Consulting

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Operations and Technology

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