

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
PERFORMANCE, COMPENSATION &
TALENT MANAGEMENT COMMITTEE

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 16, 2015

2:25 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Michael Bilbrey, Chairperson

Ms. Priya Mathur, Vice Chairperson

Mr. John Chiang, represented by Mr. Grant Boyken

Mr. Richard Costigan

Mr. Richard Gillihan

Mr. Ron Lind

Ms. Theresa Taylor

BOARD MEMBERS:

Ms. Dana Hollinger

Mr. Henry Jones

Mr. Bill Slaton

Ms. Betty Yee

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matthew Jacobs, General Counsel

Ms. Laurie Menchaca, Acting Chief, Human Resources
Division

Ms. Carol Takehara, Committee Secretary

ALSO PRESENT:

Mr. Andrew Junkin, Wilshire Associates

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P R O C E E D I N G S

CHAIRPERSON BILBREY: I'll call this meeting of the Performance, Compensation, and Talent Management Committee to order. First item, roll call, please.

COMMITTEE SECRETARY TAKEHARA: Michael Bilbrey?

CHAIRPERSON BILBREY: Here.

COMMITTEE SECRETARY TAKEHARA: Grant Boyken for John Chiang?

ACTING COMMITTEE MEMBER BOYKEN: Here.

COMMITTEE SECRETARY TAKEHARA: Richard Costigan?

COMMITTEE MEMBER COSTIGAN: Here.

COMMITTEE SECRETARY TAKEHARA: Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: Here.

COMMITTEE SECRETARY TAKEHARA: Ron Lind?

COMMITTEE MEMBER LIND: Here.

COMMITTEE SECRETARY TAKEHARA: Priya Mathur?

VICE CHAIRPERSON MATHUR: Morning. Afternoon.

COMMITTEE SECRETARY TAKEHARA: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

VICE CHAIRPERSON MATHUR: I'm having trouble today

CHAIRPERSON BILBREY: A little confused today.

Is that everybody?

All right. Next order, Executive Report. Mr. Hoffner

1 DEPUTY EXECUTIVE OFFICER HOFFNER: Good
2 afternoon. Try to bear with me, I've got a little bit of
3 a cold today, so I am not hearing very well, and I
4 probably sound a little different than normal. CalPERS
5 staff Doug Hoffner here to present sort of the Executive
6 Report for the Perf & Comp Committee.

7 Today, we have a mix of action and information
8 items for your reviewed and approval. Two items coming
9 before you later on. Agenda Item 5 is the presentation of
10 the 2015-2016 performance plans for both the Chief
11 Executive Officer and the Chief Information(sic) Officer
12 for your approval.

13 Agenda Item 6, this is regarding the biennial
14 salary survey and comparator groups. Based on work with
15 my -- the Chair and the Vice Chair, this item is being
16 pulled from the agenda today as we work to resolve some
17 contractual issues with the vendor. I anticipate having a
18 biennial salary survey item for discussion before this
19 Committee at the August agenda.

20 Also, today are two information items before the
21 Committee. Agenda Item 7 addresses an error in reporting
22 in total fund performance, which is inadvertently excluded
23 in our securities lending reinvestment income portfolio,
24 and there's an acronym for that, impacting our incentive
25 comp for six executive and investment management staff

1 covered under the Board of Administration's executive
2 compensation program going back to year 2011-12 fiscal
3 year. And we'll talk about that shortly.

4 Agenda Item 8 is an update on our programs and
5 progress related to the Organizational Health Index
6 Survey, and the steps that we have taken to address
7 recommendations from staff based upon feedback we've
8 received, as well as discuss the upcoming survey that
9 we'll be conducting in the spring of 2016 and what that
10 might look for in the future.

11 In addition, I want to follow up to my March
12 executive report, providing an oral update on the three
13 classification proposals we had pending in various stages,
14 and I want to give you an update on that.

15 So I'm happy to report, since our last meeting,
16 this State Personnel Board in April approved the INVO,
17 FINO classification study. And staff is now working with
18 program on implementations of new Associate Investment
19 Managing bridge classification, as well as other revisions
20 to the classification title. So that's all work in-house,
21 but happy to see that that was approved.

22 The Pension Financial Accountant proposal, which
23 we've discussed is included in the Governor's budget, and
24 we anticipate approval upon the conclusion of the budget
25 being signed by the administration. Given the news today

1 that they've reach a deal, it sounds like that is just
2 days away from implementation.

3 And finally, the actuarial classification
4 proposal. As you know, we've been working diligently on
5 this with our consortium departments, which include
6 Department of Insurance, CalSTRS, SCIF, and Mental Health.
7 We've met several times, most recently back in May of
8 19 -- May 19th. With a consortium, along with CalHR
9 staff, we continue to work to address questions that were
10 raised at that point. And this issue is still currently
11 pending with CalHR, but we're very optimistic about
12 positive movement in the very near future.

13 With that, Mr. Chair, that concludes my report.
14 Happy to answer any questions.

15 CHAIRPERSON BILBREY: Thank you. Seeing no
16 questions.

17 I do want to welcome to the Committee sitting in
18 Board members Slaton, Jones, and Mr. McGuire sitting in
19 for the Treasurer -- Controller.

20 Next item, consent item, approval of the minutes.
21 Do I have a motion from the Committee?

22 VICE CHAIRPERSON MATHUR: So moved.

23 CHAIRPERSON BILBREY: Moved by Mathur.

24 ACTING COMMITTEE MEMBER BOYKEN: Second.

25 CHAIRPERSON BILBREY: Seconded by Boyken.

1 All those in favor say aye?

2 (Ayes.)

3 CHAIRPERSON BILBREY: Opposed?

4 Motion carries.

5 Next item, consent items, I've had no requests to
6 remove any of the items from the consent, which brings us
7 to Item 5, the 2015-16 Performance Plans of the Chief
8 Executive Officer and Chief Investment Officer.

9 Ms. Menchaca.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: So I just
11 wanted to take a moment to introduce Laurie Menchaca,
12 which you all know, but she's been serving in the acting
13 capacity as the Human Resources Chief for the last three
14 and a half months. I just want to introduce her and again
15 thank her for all the great work she's been doing on
16 behalf of the organization in this transition period.

17 With that, Laurie will help present the Agenda
18 Item 5 related to the CEO and CIO performance plans for
19 the 15-16 fiscal year.

20 ACTING HUMAN RESOURCES DIVISION CHIEF MENCHACA:

21 All right. Thank you, Doug. Good afternoon,
22 Laurie Menchaca, CalPERS staff.

23 As Doug mentioned, Agenda Item 5 is an action
24 item. And this item presents for approval the 2015-16
25 performance plans for the Chief Executive Officer and

1 Chief Investment Officer.

2 The Board's compensation policies and procedures
3 include a schedule for approving incentive plans for the
4 upcoming fiscal year. The policy also requires the
5 quantitative performance measures be reviewed by the
6 Board's investment consultant. An opinion letter from
7 Andrew Junkin, managing director with Wilshire Consulting
8 is included as an attachment. And in addition, Mr. Junkin
9 is available today to address any questions regarding the
10 quantitative measures.

11 This year's executive plans reflect an alignment
12 of the organization's highest enterprise priorities as
13 outlined in the 2012-2017 strategic plan. These
14 organizational priorities will cascade down to all levels
15 of executive and senior management staff through the
16 course of the objective-setting process.

17 Staff recommends the Board accept the 2015-16
18 performance plans of the Chief Executive Officer and Chief
19 Investment Officer. This concludes my report on this
20 item, and I'm happy to address any questions you may have

21 CHAIRPERSON BILBREY: Ms. Mathur.

22 VICE CHAIRPERSON MATHUR: Thank you. On the CEO
23 performance plan, so on page -- sorry, of Attachment 1,
24 page one of nine, it -- there is qualitative performance
25 measures. Excuse me. And under leadership, there is one

1 bullet. It's, I think, the third from the bottom, that
2 says, "Continue to work with the Board President to
3 enhance the Board and Committee agenda planning process
4 and content...to ensure the effective and efficient flow
5 of pertinent information".

6 And that just doesn't seem to me to rise to the
7 level of leadership to really be -- that seems to me to
8 just be sort of the work of the -- the work of the CEO as
9 a general rule. So I guess I would -- I would suggest
10 that we remove that element -- that bullet.

11 ACTING HUMAN RESOURCES DIVISION CHIEF MENCHACA:
12 Okay.

13 CHAIRPERSON BILBREY: All right. Any other
14 comments or questions?

15 COMMITTEE MEMBER GILLIHAN: Which bullet was it?

16 CHAIRPERSON BILBREY: The bullet is one, two,
17 three, four, five -- it's the sixth one down under
18 leadership. It begins with, "Continue to work with the
19 Board President to enhance the Board...".

20 Mr. Jones.

21 BOARD MEMBER JONES: Yeah. Thank you, Mr. Chair.
22 In terms of future processes, I would just suggest that we
23 try to quantify some of the issues that are identified in
24 here, because just looking at one for example, the
25 California Employers' Retirement -- Retiree Benefit Trust

1 Fund. It talks about increasing the number of
2 participants. But I think to have a measurable goal, we
3 should say increase by some percentage or by some number.
4 So I think if we look at the overall performance
5 evaluation, wherever it can be quantified about these
6 goals and achievements, I think that we should add that,
7 Mr. Chair.

8 CHAIRPERSON BILBREY: All right. Thank you, and
9 I agree.

10 Ms. Taylor.

11 COMMITTEE MEMBER TAYLOR: I think I might have
12 been saying the same thing that Mr. Jones was saying,
13 because I had circled under create a risk mitigation
14 strategy to encourage additional employer contributions.
15 So is this something that we're working on -- the risk
16 mitigation strategy we're working on right now, that's --

17 DEPUTY EXECUTIVE OFFICER HOFFNER: It very much
18 speaks --

19 COMMITTEE MEMBER TAYLOR: Okay. I wanted to make
20 sure that that's what --

21 DEPUTY EXECUTIVE OFFICER HOFFNER: -- to the work
22 that's ongoing right now, yes.

23 COMMITTEE MEMBER TAYLOR: Okay. That's what
24 I -- and then the only other comment I had was in
25 deference to Ms. Mathur, I get -- continue -- I get

1 thinking to pull that out, but my only issue with pulling
2 that third bullet out is how much of her time is taken up
3 with that information?

4 I'm sorry, the third but from the bottom, the
5 sixth bullet. Sorry. So that's -- that would be the only
6 thing that I would question with pulling that out.

7 CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you.
8 Anne Stausboll. It's up to the Committee whether to pull
9 it out. I just maybe could explain where it came from --
10 from where it came. When we did our Governance Project
11 probably three or four years ago now, this was one of the
12 items -- you know, follow-up items that came out of the
13 Governance Project, so it went into the plan. And then
14 we've continued to put it in there.

15 I do think it's kind of incorporated into core
16 workload, but whatever the Committee desires is fine.

17 And then if I could just follow up on the issue
18 about the quant measures. I mean, that's what we wanted
19 to do last year. And unfortunately, you know, we're
20 having to start over on our process, and start over with
21 the comp consultant. So I'm very hopeful we'll get there
22 for next year.

23 CHAIRPERSON BILBREY: Thank you.

24 Mr. Boyken.

25 ACTING COMMITTEE MEMBER BOYKEN: Thank you.

1 So on that point for next year, is this the first
2 time that we usually see the performance plan in June and
3 then it's effective for the -- beginning July 1? So I'm
4 just thinking if we want to do more work, if want to take
5 a look at how we do the performance plan, if we could
6 build that into the calendar, so we start it earlier in
7 the spring next year.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, we'd be
9 happy to do that earlier in the process.

10 ACTING COMMITTEE MEMBER BOYKEN: Thanks.

11 CHAIRPERSON BILBREY: Mr. Costigan.

12 COMMITTEE MEMBER COSTIGAN: Thank you, Mr.
13 Chairman. So just a couple of questions so I can
14 understand it a little bit better. So the 70 percent, the
15 performance -- the investment performance, that's a higher
16 percentage than it's been in the past, is that correct? I
17 just have too many notes.

18 DEPUTY EXECUTIVE OFFICER HOFFNER: Are you
19 speaking of the Chief Information Officer's plan? I mean,
20 Investment Officer's plan?

21 COMMITTEE MEMBER COSTIGAN: Oh, I'm sorry, yes,
22 because we're covering both, right?

23 DEPUTY EXECUTIVE OFFICER HOFFNER: No, I
24 understand. I just want to make sure I'm clear.

25 So that -- yes, we did send out an addendum,

1 because that was an error that we had administratively
2 placed in the file. It's a 50/50 weighting now, and that
3 speaks to the Wilshire opinion letter that was identified
4 in the material. So the 70/30 weighting was something that
5 we erred on in our shop putting forth, and that was then
6 followed up with a --

7 COMMITTEE MEMBER COSTIGAN: So I guess the
8 question that I'm just trying to get to, just so I -- why
9 do we devalue leadership in a role -- I mean, I understand
10 the significance of the fund -- of the return of the fund,
11 okay. And I do not profess to understand what Ted does
12 and how you achieve return, and try to grasp it. But
13 here, slightly beating our benchmarks, there's a reward.
14 So he could be a whole -- I'm not saying that you are Ted,
15 so. He could be a horrible manager, you know, and there's
16 no value in that as long as he beats the benchmark. He
17 could be the best CIO we've ever had, and will ever have,
18 and there's now way to reward him, and has -- and we don't
19 beat the benchmark.

20 So, I mean, I just throw that out there from -- I
21 get he's the Chief Investment Officer and it's tied into
22 performance, but we seem to be so overweighted -- am I
23 reading this right or no? You guys are all talking
24 amongst yourselves.

25 CHIEF EXECUTIVE OFFICER STAUSBOLL: First, I

1 would just say it's up to the Committee and the Board how
2 you want to do this. This has been heavily debated in the
3 past, when you've had various comp consultants come in
4 fronted, and this is where we've landed, and we brought it
5 forward as it had been approved in the past. So I --

6 COMMITTEE MEMBER COSTIGAN: So in the past was it
7 70 or 50?

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Last year, it
9 was a 50/50 with a 40/10 split or something to that
10 effect.

11 COMMITTEE MEMBER COSTIGAN: So it's a 70/30 now?

12 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, but
13 that's the inaccurate piece. That's the error, Richard,
14 that we -- we then reposted the attached item that was
15 corrected.

16 CHIEF EXECUTIVE OFFICER STAUSBOLL: Why don't
17 you -- can you get them to the right document?

18 CHAIRPERSON BILBREY: So in the Board books if
19 all the -- if the Committee is looking at the same
20 documents. At the very bottom when you open up your
21 agenda part, the very last item should have an update,
22 which has the ones we are looking at.

23 COMMITTEE MEMBER COSTIGAN: Attachment 2. Okay.
24 So we're still at 10 percent on leadership.

25 DEPUTY EXECUTIVE OFFICER HOFFNER: Right.

1 COMMITTEE MEMBER COSTIGAN: Which still gets me.
2 Why -- is it because Wilshire, or the consultant, has said
3 that leadership -- and these are my words -- is not as
4 significant value in the role? I mean, it just seems that
5 leadership -- I mean, what this organization strives for
6 is leadership. Yet, the one that we value the least in
7 performance is leadership. So I know, I'm throwing it
8 out -- a recommendation was brought to us, and I'm still
9 trying to understand.

10 CHAIRPERSON BILBREY: So you're trying to figure
11 out where we've come -- how we got there.

12 DEPUTY EXECUTIVE OFFICER HOFFNER: So, I mean,
13 let me, from my perspective, look at the other piece that
14 relates to the other -- the 40 -- so it's a 50/50 split.
15 Part of that is leadership. The rest of that has to do
16 with enterprise business planning piece, which takes
17 leadership to drive to conclusions and get success out of
18 all those things with the Investment Office and the rest
19 of the organization.

20 So while one is specifically carved out as
21 leadership as a component. It's leadership to drive to
22 conclusion to get success in those other components. And
23 I think it's a combination of those factors outside of the
24 quantitative.

25 What we're talking about here is just the non --

1 the qualitative pieces of it. So personally, I would look
2 at that as those are a combination of factors that will
3 get to that piece. If he was a horrible leader and we
4 didn't achieve any of these other things and the
5 quantitative stuff was still good, there's a number that
6 drives out of that. But I think it's a combination of all
7 these things, and it's clearly a discussion by the
8 Committee wants to make a change or recommendation, you
9 know, we're happy to have the discussion.

10 COMMITTEE MEMBER COSTIGAN: And one -- just a
11 couple last questions. Back to the weighting for the
12 performance on the investment side, because I know it's 20
13 basis points or 30 basis points. And so we have cap out
14 at 30 basis points. But there, I guess, are two ways to
15 lie, higher risk, higher return or preservation of the
16 assets.

17 So to do a degree, which is -- should there be
18 reward for, preservation of the assets in a down market,
19 okay, that shows that we would get -- he would -- that
20 there would be a zero, because it's zero basis points, if
21 we get lower than the return, gets nothing, but
22 preservation of the assets may be of the most value at the
23 time. And yet we don't take -- see, Ted, I'm looking out
24 for you. It doesn't take into consideration -- I mean, so
25 we have a downturn of '08, and we're scrambling, and

1 there's no -- we don't beat the benchmarks.

2 CHIEF EXECUTIVE OFFICER STAUSBOLL: Yeah, I think
3 we should have Wilshire address that. Who's there,
4 Andrew?

5 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, Andrew
6 Junkin is here from Wilshire Associates.

7 MR. JUNKIN: Good afternoon, Andrew Junkin with
8 Wilshire. So that's a relative performance measure. The
9 Board is in charge of setting the strategic asset
10 allocation, which really drives the performance through
11 various markets. A 50 percent weight in public equities,
12 which is the current target, Ted really has a few levers
13 to pull that can improve the performance beyond that sort
14 of strategic weight. But if we get back into 2008 and the
15 public markets are down 30 percent, the PERF is going to
16 have a negative return. He can still earn a bonus by
17 being down less during that year. Can he stop out the
18 losses at zero? No, because he'd violate the investment
19 policy.

20 COMMITTEE MEMBER COSTIGAN: But the bonus -- I'm
21 sorry. The bonus -- and I like the beard. The bonus is
22 earned -- the bonus is earned on enterprise and
23 leadership, not on the fund return.

24 MR. JUNKIN: I was speaking to the quantitative
25 measure.

1 COMMITTEE MEMBER COSTIGAN: No, I -- but that's
2 what I'm just trying to --

3 MR. JUNKIN: So that's the 0, 20, 30 that you
4 referenced is the quantitative measures.

5 COMMITTEE MEMBER COSTIGAN: All right. Thank
6 you. Thank you, Mr. Chair.

7 CHAIRPERSON BILBREY: Okay. Mr. Slaton.

8 BOARD MEMBER SLATON: Thank you, Mr. Chair. On
9 this issue of leadership, you know, I've seen other
10 performance plans where the way to get value out of the
11 leadership section is to say that if you do not meet
12 expectations in leadership, then there's no bonus. So
13 it's kind of the stop-loss that you have to demonstrate
14 that in order to call -- so you can't be a bad leader, and
15 even if, you know, the allocation happens to get there,
16 then you're still penalized.

17 So that's a thought about a way to enhance the
18 issue of leadership in the organization without affecting
19 the percentages that are done. I don't know if there's
20 any reaction by --

21 ACTING HUMAN RESOURCES DIVISION CHIEF MENCHACA:

22 Yes, actually I can address that question. The
23 expectation of leadership is inherent in the job of the
24 CIO. And that is addressed in their overall performance
25 appraisal. There is a measure -- there is an opportunity

1 to evaluate their overall leadership performance at the
2 end of the year. And that rating will actually address
3 the bonus as well. So if the rating is given that overall
4 as a leader your performance does not meet our
5 expectations, the policy does allow for you to not give
6 the individual a bonus.

7 BOARD MEMBER SLATON: I see. Okay. So you're
8 saying that we have that flexibility --

9 ACTING HUMAN RESOURCES DIVISION CHIEF MENCHACA:
10 Correct.

11 BOARD MEMBER SLATON: -- in terms of the actual
12 award? We're not bound by the number up in the
13 quantitative part, if we feel -- I'm just trying to
14 understand how much flexibility does this Committee have
15 if the leadership is not adequate?

16 ACTING HUMAN RESOURCES DIVISION CHIEF MENCHACA:
17 Right. So if the -- if you feel the overall
18 leadership is not adequate, you can address that in the
19 overall performance rating at the end of the year. And
20 that overall performance rating would then eliminate --
21 effectively eliminate a bonus if he's given a does not
22 meet expectations. The policy specifically gives you that
23 trigger to say you're not meeting our expectations,
24 therefore you don't get a bonus.

25 BOARD MEMBER SLATON: Well, then I would say even

1 thought the weighting is 50/40/10, in fact, the weighting
2 is on -- is kind of equal in all of them in terms of the
3 perception of the Committee -- or the Board.

4 Okay. Thank you.

5 CHAIRPERSON BILBREY: Thank you.

6 Mr. Jones.

7 BOARD MEMBER JONES: Yeah. Thank you, Mr. Chair.

8 Yeah, I -- maybe I'm interpreting this leadership piece
9 differently. The 10 percent appears to me to be an
10 outward leadership paradigm, where he's dealing with the
11 executive. He's dealing with the Board and dealing with
12 the external, et cetera, but the 40 percent on enterprise
13 business plan, it requires leadership also. If you look
14 at the activities in terms of the adjusted -- the
15 risk-adjusted investment returns, integrate CalPERS
16 Investment Beliefs and ESG risk considerations, that takes
17 leadership to integrate that throughout the organization.

18 So I think there's leadership up in the top box,
19 but it's just not identified, but it requires leadership
20 to run 400 staff office.

21 CHAIRPERSON BILBREY: Thank you.

22 Mr. Lind.

23 COMMITTEE MEMBER LIND: Thank you.

24 So I've been, you know, kind of critical of this
25 process, since I got on this Committee, and I still am. I

1 thought we were going down a road with a consultant, and
2 you know, we hit a deadened. I get that. Now, we're
3 going to I guess find a different road to go down.

4 I just hope that when we get to the end of this
5 process, and we're actually doing the evaluations, that we
6 leave plenty of time to work through it and have robust
7 discussion, particularly the areas that are not
8 quantitative, but are qualitative. I think that would
9 give me a little better feeling about the process.
10 Because it seems once we get there, it's, you know, like a
11 20 minute discussion and we're done on something that does
12 so much planning, so much work around. So I just want to,
13 you know, make sure when that time comes that we have
14 plenty of time to make it happen.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, so I
16 think -- I mean, based on direction from the Chair, I
17 mean, what I heard earlier is bringing some of these
18 things back in an earlier phase, earlier in the year to
19 develop and have a discussion. And then maybe sort of
20 almost -- I want to say first draft, but I mean some
21 opportunity for dialogue and further input before a
22 formalized vote. So I'm happy to work with the Chair and
23 the Vice Chair address those comments.

24 CHAIRPERSON BILBREY: Thank you.

25 Ms. Mathur.

1 VICE CHAIRPERSON MATHUR: Thank you. Back on
2 this leadership issue. I think one -- you know, what's so
3 changing about the leadership component is that it's very
4 hard to anticipate at the beginning of the year what
5 actually is going to require leadership over the coming
6 year. Who could have known that a couple of years ago we
7 would have had, you know, pension reform and that that
8 would have required leadership on the part of the CEO, and
9 others in the organization.

10 And so it's almost -- to me, leadership -- the
11 leadership piece, while I appreciate there being some
12 specificity, also has to include some wiggle room or, I
13 don't -- that's not the right word but -- terminology,
14 but, you know, some kind of flexibility for things that
15 come up, because that's when you really -- when there's a
16 crisis, that's when you need leadership. You also need
17 leadership around long-term planning, of course. And
18 those might be things that you can anticipate better. But
19 I wonder if there could be a bullet in there that is a
20 little bit more general.

21 ACTING HUMAN RESOURCES DIVISION CHIEF MENCHACA:

22 So if I could just add, one of the attachments to
23 the leadership measure is actually the CalPERS executive
24 leadership competencies. And I think some of the things
25 that you're speaking to, Priya, in terms of leading change

1 is identified throughout that document

2 VICE CHAIRPERSON MATHUR: Okay. That's fair.

3 ACTING HUMAN RESOURCES DIVISION CHIEF MENCHACA:

4 So I think that, you know, in the case that you
5 just mentioned addressing an issue that wasn't anticipated
6 could be covered under one of those competencies.

7 VICE CHAIRPERSON MATHUR: Okay. Thank you.

8 That's helpful. You're right, that does cover --

9 DEPUTY EXECUTIVE OFFICER HOFFNER: I think it
10 speaks to the flexibility you're looking for, and it
11 covers a broad -- a broad area of subject matters. So it
12 could be internal/external. It could be, you know, the
13 business side of the business -- you know, the operations.
14 So I think it's more how we report that back and the work
15 that was done, does that meet the level of expectation
16 that was assigned or developed early on, based upon maybe
17 what came about during that year?

18 And there's a way to articulate that, but I think
19 that's sort of a broad opportunity to speak to those
20 issues.

21 VICE CHAIRPERSON MATHUR: You're right. That's
22 fair. So this is -- is this an action item? It is,
23 right?

24 CHAIRPERSON BILBREY: Yes, it is.

25 VICE CHAIRPERSON MATHUR: So with the one change

1 that I suggested under the CEO's plan, and I didn't hear
2 any other specific changes from the Committee, so I would
3 move the recommendation. I'd move both the plans.

4 ACTING COMMITTEE MEMBER BOYKEN: Second.

5 CHAIRPERSON BILBREY: So moved by Mathur,
6 seconded by Boyken with the one addition of removing
7 Bullet 6.

8 Any discussion on the motion?

9 Seeing none.

10 All those in favor say aye?

11 (Ayes.)

12 CHAIRPERSON BILBREY: Opposed?

13 Motion carries. Before I move on to the next
14 item, I think it's apparent from this discussion that we
15 need to retain a new executive compensation consultant to
16 advise us on streamlining and improving the incentive
17 compensation policies and policies of our Investment staff
18 and senior leadership. It will be important that the
19 consultant is able to readily understand the governmental
20 restraints within which we operate, as we have seen a
21 difficulty in the past, while also being able to balance
22 with being responsive to the complex nature of CalPERS
23 mission.

24 While the consultant will need to work with
25 staff, it will be important that they also have an

1 independent relationship with the Board. So I've asked
2 staff to come back in August with a draft scope of work
3 and a proposed selection process for retaining an exec
4 comp consultant. And I will work with staff over the next
5 couple of months as we prepare the item for August.

6 Item 7, Mr. Hoffner.

7 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you, Mr.
8 Chair.

9 So today is another information item presenting
10 and answering questions, if need be. Cheryl Eason, our
11 Chief Financial Officer, is also here. Andrew Junkin who
12 has previously spoke with Wilshire Consultants is here. I
13 want to, by way of background, I want to provide some
14 history here.

15 So in June of 2011, the Investment staff created
16 a portfolio that captured the security lending
17 reinvestment income. And due to an oversight, that
18 portfolio was not included in our total fund incentive
19 comp calculations for that fiscal year. We discovered
20 this error subsequently to that action and the
21 compensation paid out in the last three years.

22 Staff from the Investment Office, the Financial
23 Office, Human Resources, Wilshire Consulting, and State
24 Street Bank have worked to correct this error. It
25 impacted basically six participants, five of which

1 currently still work at CalPERS, that are also members of
2 the compensation program.

3 As a result, these revised calculations it has
4 been determined that we had an error resulting in an
5 underpayment of incentive comp for those six individuals
6 for just over \$16,000 for that period of time.

7 In addition to correcting the incentive awards, a
8 new total fund composite had been created to include
9 securities lending performance to ensure historical
10 portfolio performance is captured accurately as we go
11 forward in the total fund identifiers and for those
12 impacted performance plans.

13 With us today is, of course, Wilshire Consulting
14 and Andrew Junkin. He's provided an opinion letter to
15 this item, which is an information item, should you have
16 any questions. But I just wanted to bring this to your
17 attention. We've remedied this error, and we'll make the
18 overpayments to the impacted employees.

19 CHAIRPERSON BILBREY: And have we put anything in
20 place that we won't be seeing these errors in the future?

21 DEPUTY EXECUTIVE OFFICER HOFFNER: Well, I mean,
22 I think -- yeah, I mean, we've learned from the
23 challenges. And again, this goes back to 2011 time frame.
24 I think it speaks to the complexity of our systems, and
25 some of the incentive programs we have. I think to the

1 fact that it was such a small performance portfolio that
2 had a 16,000, you know, dollar impact. It got missed and
3 that's unfortunate. And we have remedied steps between
4 State Street Bank and ourselves and the Investment Office
5 with the Financial Office oversight as well.

6 I'm not going to say we'll never have another
7 mistake again, but I think the fact that we had the due
8 diligence to get through it, understand what it was, and
9 the impacts, in this case were not significant, but we
10 didn't know what that was until we did the analysis.

11 I think the challenge moving forward is, you
12 know, making sure we have structure in place that address
13 these kinds of issues going forward. I'm confident that
14 we are -- we have learned and we will be doing better in
15 the future.

16 Thank you.

17 CHAIRPERSON BILBREY: Thank you.

18 Ms. Mathur.

19 VICE CHAIRPERSON MATHUR: Thank you. I think
20 it's certainly appropriate that we -- since we had last
21 year made an adjustment to the negative to some of our
22 employees, this year we're making an adjustment to the
23 positive. But I do think that moving forward we should
24 consider -- and I recognize that there's a lot of work
25 going in -- that goes in to determining what the scope of

1 this -- and an error like this is, but, you know, I think
2 we should consider whether we take action if there's
3 like at a certain de minimis amount, because I think
4 once -- once you identify how much it is, there's still
5 work to be done to figure out who goes -- what goes to
6 whom and -- anyway, I don't know if that's an effort
7 that's really worth undertaking, but \$16,000 seems like a
8 very small amount to have spent a lot of staff time on.

9 DEPUTY EXECUTIVE OFFICER HOFFNER: So I think
10 it's definitely something for consideration moving
11 forward. And to the Chair's comment about working with
12 another consultant to come back with some concepts in
13 August, I think it's something to put on our plate looking
14 forward.

15 You know, we did underpay these employees. I
16 think we should make that whole. I think there should be
17 maybe a discussion about what de minimis might look like.
18 You know, we've gone back and forth. We've corrected
19 these things when they've occurred in the past, but I
20 think there's always an opportunity to look at issues
21 again in anew, and I think we can do that going forward.

22 CHAIRPERSON BILBREY: Mr. Gillihan.

23 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

24 Do we have the authority to go back and pay
25 retroactive? And is there a statute of limitations on

1 this? And is there an other administrative remedies to
2 have to be sort of pursued before we get to this point?
3 I'm just curious. I don't know how this process works.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: So we have the
5 ability to go back and make them whole. I believe the
6 statute is three or four years, in terms of the past
7 payment issues that have occurred. There is no other
8 administrative remedy that I'm aware that needs to happen
9 before. We've addressed the error, we've identified who
10 the impacted employees are, and we're able to essentially
11 pay them back.

12 In the instance that occurred a year ago, last
13 year, we reported around the same time period. The
14 administrative piece of that was in the event that we
15 had overpaid employees, we established a process to have
16 them recoup -- the system recoup those dollars that was
17 directed as to how they would want to pay us back. And
18 there was an accounts receivable created. That was
19 predicated more of a process on the employees that were
20 impacted if they wanted to pay us back in whole or in part
21 or over a time period. So on this case, there's no other,
22 I think, hurdles in our way to address this right now.

23 COMMITTEE MEMBER GILLIHAN: Is there any interest
24 calculated, either to the good or the bad, on overpayment
25 or underpayment?

1 DEPUTY EXECUTIVE OFFICER HOFFNER: I don't know
2 that offhand. I'd have to go back and look at the data,
3 if that includes an interest component or not.

4 COMMITTEE MEMBER GILLIHAN: Just curious.
5 Thanks.

6 CHAIRPERSON BILBREY: Thank you.

7 Seeing no one else to speak. Thank you.

8 We'll move on to Item 8, Organizational Health
9 Index. Mr. Hoffner

10 DEPUTY EXECUTIVE OFFICER HOFFNER: Okay. Thank
11 you.

12 Item 8 is an informational update. As I spoke
13 earlier, this is -- we've done two Organizational Health
14 Index Surveys, one in 2010 and one in 2013. Really this
15 is just an update to report I gave maybe a year ago, in
16 terms of the activities that we engaged in based upon
17 feedback from the employees. Again, I want to highlight
18 we had 81 percent of the employees participate in 2013,
19 which is astonishing and great to see that their level of
20 interest to, one, tell us about how we're doing, and two,
21 provide recommendations on things we think we can do
22 better as an organization.

23 Coming out of that survey were several things
24 that we identified. Try not to boil the ocean, we
25 identified three couple -- a couple three things to work

1 on. One has to do with accountability and process-based
2 capabilities. As you recall, we were just coming off the
3 my|CalPERS system and implementation of that. And a
4 considerable amount of work between the whole organization
5 went into really sort of redefining roles within that new
6 work that they were doing with the new system.

7 And the other major one had to do with
8 innovation. The employees felt there was a lot of
9 opportunity for what they considered bottom-up innovation.
10 It was internal discussions and thoughts that thinks that
11 we can make the organization, the system, and CalPERS
12 better.

13 So having looked at those things, we identified
14 two enterprise-wide action committees that included a
15 variety of employees across the organization from all
16 levels, including executives on down. We had some that
17 were volunteered and some that were voluntold(sic), I
18 think, essentially --

19 (Laughter.)

20 DEPUTY EXECUTIVE OFFICER HOFFNER: -- to bring
21 their expertise to participate. Effectively, what came
22 out of that was some real processes and changes and
23 recommendations to move forward.

24 In terms of accountability, we did several
25 things. A lot revolved around training and development

1 and our supervisory skills enhancement. So we've got a
2 leader program, which is effectively an 80-hour management
3 training session that's required by State service in the
4 Government Code.

5 What we did was just said, look, people go
6 through it as managers, but you only had to do it once.
7 And the realty is you need a refresher. Just because you
8 did it 10, 15, 20 years ago doesn't mean that things
9 haven't changed, right? I mean, we've got different
10 employees and different generations that work here. And
11 the concept and belief was we need to refresh those
12 trainings and remind folks that what they forget a long
13 time ago was effectively things that they can -- they can
14 learn anew from.

15 And so based upon that, we took more of an
16 innovative approach. We developed some web-based
17 instructor training in the classroom. We videotaped that.
18 We made it available to the employees and the supervisors,
19 so they can sort of invest in time, training, and
20 development opportunity on-line at their finger tips
21 whenever they need to do it.

22 We focused on things like communication, job
23 expectations, an overview in hiring, what that's like.
24 Not everybody hires a lot of staff all the time.
25 Sometimes they just do it infrequently. And so we wanted

1 to bring those things back to them. We talked about
2 performance management and coaching within the
3 organization. And then positive employee relations was
4 another aspect of this web-based instructor training.

5 We also then expanded on our informal mentoring
6 program, which we talked a lot about in some other areas.
7 We created, what you call, mentor your manager. And we
8 said, you know, it's one thing to have a peer-to-peer
9 relationship and mentor folks, it's also an opportunity to
10 have a level of engagement where the employees come to you
11 and say I really want you to know more about what I do
12 every day.

13 So we kicked this off in April. It's Mentor you
14 or Manager Week. We've rolled this out effectively asking
15 supervisors and managers to engage as they are requested
16 by employees throughout the organization.

17 Anne Stausboll, our CEO, has been highly involved
18 in this. Many of her monthly updates to the employees
19 have to do with the sessions she's participated in. And
20 it's a real, I think, eye-opener to see what various
21 programs are doing on a daily basis.

22 And so I've participated. I've established a
23 calendar with my staff to bring me ideas of things that
24 they want to show me and have me learn about. And we're
25 doing that across the organization. So it's a true

1 benefit. I think it's also the ability for
2 cross-collaboration in terms of what we may be able to do
3 to automate and bring improvements to the employees in the
4 organization. So that's something that's been highly
5 successful and very well thought of, and in response to
6 something we just kicked off.

7 I'll also highlight a little bit the second
8 initiative was dealing with innovation. And so we created
9 a group again, an action committee. They focused and
10 created a group called the Enterprise Internal Innovation
11 group. And this is really taking innovative concepts, and
12 instead of having just, you know, the suggestion box
13 perspective, we're leveraging some technology we have
14 on-line, which is pretty much social media internal to
15 CalPERS. It's called The Spark.

16 And we're leveraging the technology and
17 capability to allow employees to provide feedback and
18 suggestions that can be voted and commented on, but we're
19 providing some rigor to it. So it's not just a popularity
20 contest. It's not just feedback. It's thoughts and
21 suggestions that would help improve the organization. And
22 we've developed a committee and a team, again
23 cross-functional, that would be there to help vet and
24 provide feedback to.

25 So if you're making a suggestion that's going to

1 cost dollars, and/or resources, or take personnel hours
2 and stuff to do, we're running it through sort of screen
3 to essentially help identify things that can provide
4 value, not only to the enterprise or a division or a unit,
5 but we want to have folks to vet it, really think it
6 through, provide other feedback to it, and some rigor.

7 And we're using that to help communicate back.
8 So we're taking -- logging all these things in. We're
9 getting feedback from others within the organization, and
10 we've done several pilots. So we're kind of testing it
11 out on ourselves within several division, with ESPD, and
12 Enterprise Strategy Performance area before we launch it
13 in a broader audiences to CalPERS.

14 But the feedback there is essentially internal
15 suggestions, recommendations, and some are big and some
16 are small. But at the end of the day, they're all getting
17 sort of input and comment. And we're going to take sort
18 of the learnings from that and expand upon it and see what
19 we can do to drive innovation throughout the organization,
20 again based on employee feedback.

21 So excited about all of those. We'll be
22 highlighting more of them in the next year or so, as we
23 roll them and continue to roll them out. But I'm excited
24 about the opportunity to, one, make sure that the
25 employees' voices are heard, and that we're responding to

1 their thoughts and comments.

2 In continuation with that is a communication plan
3 that helps tie those altogether, so they can really see
4 the tangible feedback from the last survey as we ramp up
5 to the next one that their comments and feedback was
6 heard, and we've taken them to heart.

7 So with that, that concludes Agenda Item 8,
8 unless you have any questions?

9 CHAIRPERSON BILBREY: Thank you. Very good
10 report.

11 Ms. Mathur.

12 VICE CHAIRPERSON MATHUR: Well, I just think it's
13 so exciting how proactively this organization is taking on
14 some of these organizational challenges, and really coming
15 up with such creative ideas.

16 Can I just ask a little bit more depth on the
17 ideation, The Spark program, is there a panel or a
18 rotating panel that evaluates the ideas that come through
19 and vets them to determine which are worth pursuing and
20 when and --

21 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, so we
22 actually put out a request for people to participate.
23 Again, cross-functionally we want different viewpoints and
24 perspectives in the organization. The funny thing was it
25 almost became -- they knew there was -- we only take so

1 many per any one unit, right?

2 And what we got was folks basically posting their
3 resumes, and their expertise and certificates and really
4 saying, here's all the experience that I can bring to
5 this. So it was almost like trying to up the ante a
6 little bit.

7 But essentially it's a cross-functional group.
8 We're going to try to do that virtually, so that we have
9 folks across, again, the regional offices and other places
10 that aren't all housed here can participate. We can do it
11 on-line, real-time. They can look at the posts and
12 comments at their leisure, essentially, because it's
13 on-line. It does not require any period of time to do so.

14 We wanted them to come up with some feedback
15 loops and communication responses, so the folks that
16 submitted ideas know if it's not going to go anywhere, the
17 comments about ideation is you need to let them know. We
18 want them to submit more. Just because the first one may
19 not be implementable doesn't mean we don't want them to
20 continue to be thinking about how to improve the
21 organization.

22 And so that's kind of built in, and we're going
23 to run it through a pilot, so we can kind of workout the
24 kinks. I participated as sort of an overseer or, you
25 know, just watching kind of the dialogue. We had 110

1 comments on certain items probably within three days, just
2 trying to capture that feedback from -- and that was a
3 handful of employees. It's probably, you know, 25 or so
4 folks that participated at that point.

5 So we're distilling that. We're going to get the
6 lessons learned from that. And we're going to take it
7 back to make sure before we move forward, it's a more
8 refined product. But I think the exciting part is it's
9 built upon a system we have internally, you know, brought
10 into the organization that folks are utilizing. Probably
11 at least half the staff are on the Spark now. And it's
12 another way to channel their comments and perspectives and
13 thoughts. Again, they're not shy about that, so...

14 VICE CHAIRPERSON MATHUR: And if there is a
15 particular challenge within the organization, do you post
16 a challenge to the organization?

17 DEPUTY EXECUTIVE OFFICER HOFFNER: So that's the
18 other thing is, you know, posting what do we want folks to
19 be focusing on. If there's a specific thing that we think
20 is a challenge that we should post as an item, we
21 definitely have the capability of doing that. And that's
22 another challenge.

23 Before we do so, we want to probably do it at a
24 division level or so to see what that impact is. We've
25 done a couple sort of town hall pieces with executive

1 staff and a division or two just to kind of get the feel
2 of the flow of it. Because these real-time questions,
3 people can type faster than I can, and I guess just based
4 upon part of the organization that I work in, I got a lot
5 of questions.

6 So some of that may be dividing up the subject
7 areas that we want to focus on and then put that out
8 there. And again, that's an opportunity to really tee up
9 a few items that we think are super important and we want
10 to get different perspectives on. So it's capable of
11 doing that as well.

12 VICE CHAIRPERSON MATHUR: Great. Thank you.

13 CHAIRPERSON BILBREY: Very good.

14 Mr. Boyken.

15 ACTING COMMITTEE MEMBER BOYKEN: Thanks for the
16 report, Doug. I would echo Ms. Mathur's comments, but I
17 had a specific question. The Spark, you referred to it a
18 couple times. Could you elaborate a little bit. If we've
19 heard about it before --

20 DEPUTY EXECUTIVE OFFICER HOFFNER: Okay. I
21 apologize, if I've -- hadn't said anything about it. So
22 we have -- it's an internal -- on-line internal
23 communication mechanism. We've basically -- Socialcast is
24 the provider. It's a free app you can download from, you
25 know, the Apple store or whatever.

1 But effectively, we've renamed it -- rebranded it
2 The Spark. It's effectively think about sort of an
3 internal Facebook kind of perspective, but built on
4 content related to subject matter within the organization.
5 So it's voluntary. Employees can go on there. And we
6 want you to put, you know, sort of a picture, your name,
7 and kind of what your title, and some information, so I
8 can -- when you see things you know who they are, where
9 they're coming from or maybe what division they work in.

10 But effectively, it's a tool to help put out
11 ideas. It's not email, so you get sort of a channel of
12 thought on a subject matter, not a bunch of email that
13 comes back and forth. We heard a little bit of this
14 concept last year at the Educational Forum, where one of
15 our guest speakers said for internal discussions they use
16 a similar kind of product.

17 So emails they sort of see as coming externally,
18 and these other channels tend to be more of an internal --
19 you know it's an internal employee or an internal person
20 working on something. So there's -- you can set it up by
21 policy area, you can set it up by your division, the full
22 enterprise. You can design and develop it in a way to be
23 a management tool to help communicate across the
24 organization.

25 Lots of Millennials coming on-line, and it's

1 clearly another way to help disseminate information
2 throughout the organization, and it's been around -- we've
3 had it just over a year now, and it's been quite
4 effective.

5 So I say we leverage it, so we didn't provide a
6 new tool. We kind of saw what it could do and decided to
7 build upon that. So again, there's some continuity to the
8 organization in terms of that new technology.

9 ACTING COMMITTEE MEMBER BOYKEN: Interesting. I
10 just asked, because I hadn't heard about it.

11 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. Happy
12 to show you. We'll do a demo.

13 CHAIRPERSON BILBREY: That would be great. I'd
14 like to see it too. Seeing no other comments from the
15 Committee. Thank you.

16 Brings us to --

17 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you very
18 much.

19 CHAIRPERSON BILBREY: -- Item 9, Public Comment.
20 I have no public comment. So, at this time, the meeting
21 is adjourned.

22 (Thereupon the California Public Employees'
23 Retirement System, Board of Administration,
24 Performance, Compensation, & Talent Management
25 Committee meeting adjourned at 3:08 p.m.)

1 C E R T I F I C A T E O F R E P O R T E R

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

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

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

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

16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 22nd day of June, 2015.

18
19
20 

21
22
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24 Certified Shorthand Reporter
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