



Biannual Salary Survey – Peer Group Discussion

Executive & Investment Management Positions

August 7, 2015



Introduction

California Public Employees’ Retirement System (CalPERS) asked McLagan to assess the salary, total cash compensation, and pay policy for ten executive and investment management positions:

- | | |
|--------------------------|------------------------------------|
| Chief Executive Officer | Chief Operating Investment Officer |
| Chief Actuary | Managing Investment Director |
| Chief Financial Officer | Investment Director |
| General Counsel | Investment Manager |
| Chief Investment Officer | Associate Investment Manager |

Following up on the work completed in 2013, the objectives of today’s discussion are to:

- Re-confirm the Investment Management peer group adopted by the Board in 2013.
- Review the policy and pay philosophy relevant to the Executive Management positions.
- Review and discuss alternative peer groups for the Executive Management positions.
- Confirm the scope and focus of this analysis (e.g., salary, bonus, benefits, etc.).
- Gather any additional feedback or insights the Board has on this topic.

Following confirmation of peer groups and pay philosophy, McLagan will complete a comprehensive compensation benchmarking for each covered position and present our findings at the next Performance, Compensation, and Talent Management (PCTM) Committee meeting.

Investment Management Positions

Re-Confirm Investment Management Peer Group

In 2013, CalPERS adopted a peer group for Investment Management positions that includes:

- 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.

This peer group was selected as these organizations have the following characteristics:

- Comparable to CalPERS from the perspective of (1) mission, (2) activities/functions performed, and (3) skills/capabilities required of staff.
- Represent the market in which CalPERS hires from and loses investment talent to.
- Have the breadth of activities that allow CalPERS to compare pay levels for most/all of its investment positions.

Re-Confirm Investment Management Peer Group

Importantly, this preliminary analysis excludes financial office positions (e.g., compliance, risk, treasury, etc.) now covered by the Investment Management classifications. With these functions recently added to the Investment Management classifications, the Committee should consider how, if at all, compensation policy for these functions should differ from the investment management positions. For example, the competitive market pay levels for these types of positions are different; paying all functions the same based only on classification may be inappropriate.

As shown on the following pages, an initial analysis of CalPERS' Investment Management pay positioning suggests:

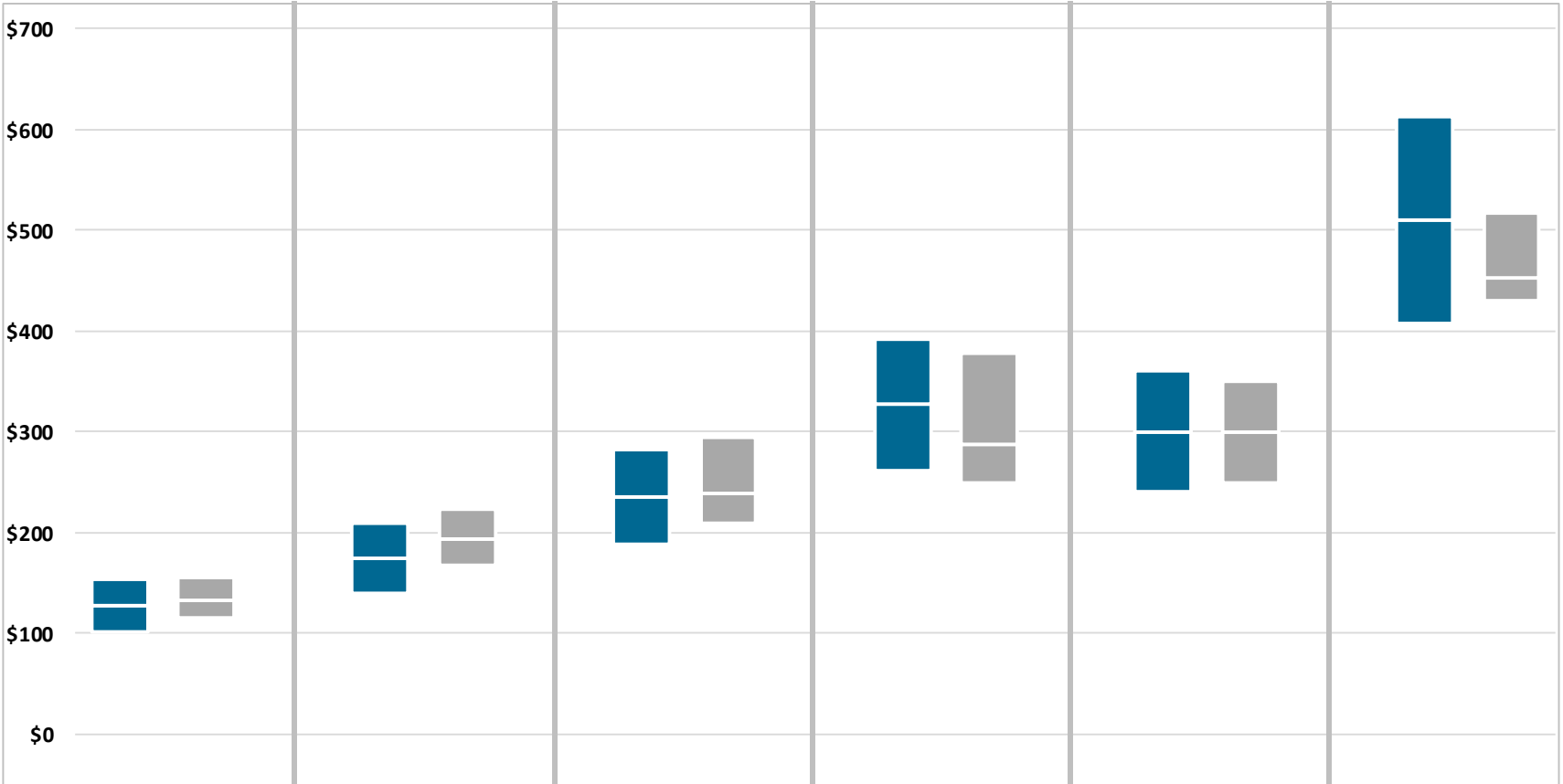
- CalPERS salaries are fairly mainstream, positioned near the competitive median.
- CalPERS target cash compensation levels (salary + target bonus) are positioned below the market 25th (low) percentile.
- CalPERS maximum cash compensation is also positioned below the market 25th (low) percentile.

Importantly, this preliminary analysis does not include adjustments for CalPERS' benefits (DB, health, etc.) nor were adjustments made for other perquisites (e.g., civil service protection, CalPERS prestige, etc.).

Re-Confirm Investment Management Peer Group – Institutional Peer Details 6

Leading Institutional Managers (15)				
		12/31/2014 AUM	% Internally Managed	# of Inv Staff
Canada Pension Plan Investment Board	Canadian Pension Fund	\$265.0		
Caisse de depot et placement du Quebec	Canadian Pension Fund	225.9		
California State Teachers' Retirement System	US Public Fund	188.8		
Ontario Teachers Pension Plan Board	Canadian Pension Fund	154.5		
Teacher Retirement System of Texas	US Public Fund	129.9		
GE Asset Management Inc.	US Corp. Plan Sponsor	118.0		
State of Wisconsin Investment Board	US Public Fund	96.1		
General Motors Asset Management	US Corp. Plan Sponsor	86.3		
Georgia Employees Retirement System	US Public Fund	82.4		
Lockheed Martin Investment Management Company	US Corp. Plan Sponsor	76.3		
State Teachers Retirement System Ohio	US Public Fund	73.6		
Ontario Municipal Employees Retirement System	Canadian Pension Fund	72.0		
Healthcare of Ontario Pension Plan	Canadian Pension Fund	68.0		
Virginia Retirement Systems	US Public Fund	65.9		
DuPont Capital Management	US Corp. Plan Sponsor	31.0		
	<i>US Public Fund</i>	6	40%	
	<i>Canadian Pension Fund</i>	5	33%	
	<i>US Corp. Plan Sponsor</i>	4	27%	
		15		
	High Quartile	\$142.2	89%	111
	Median	86.3	72%	74
	Low Quartile	72.8	40%	38
California Public Employees' Retirement System		\$295.8	69%	210
<i>CalPERS' Rank</i>		<i>1 of 16</i>	<i>9 of 16</i>	<i>3 of 16</i>

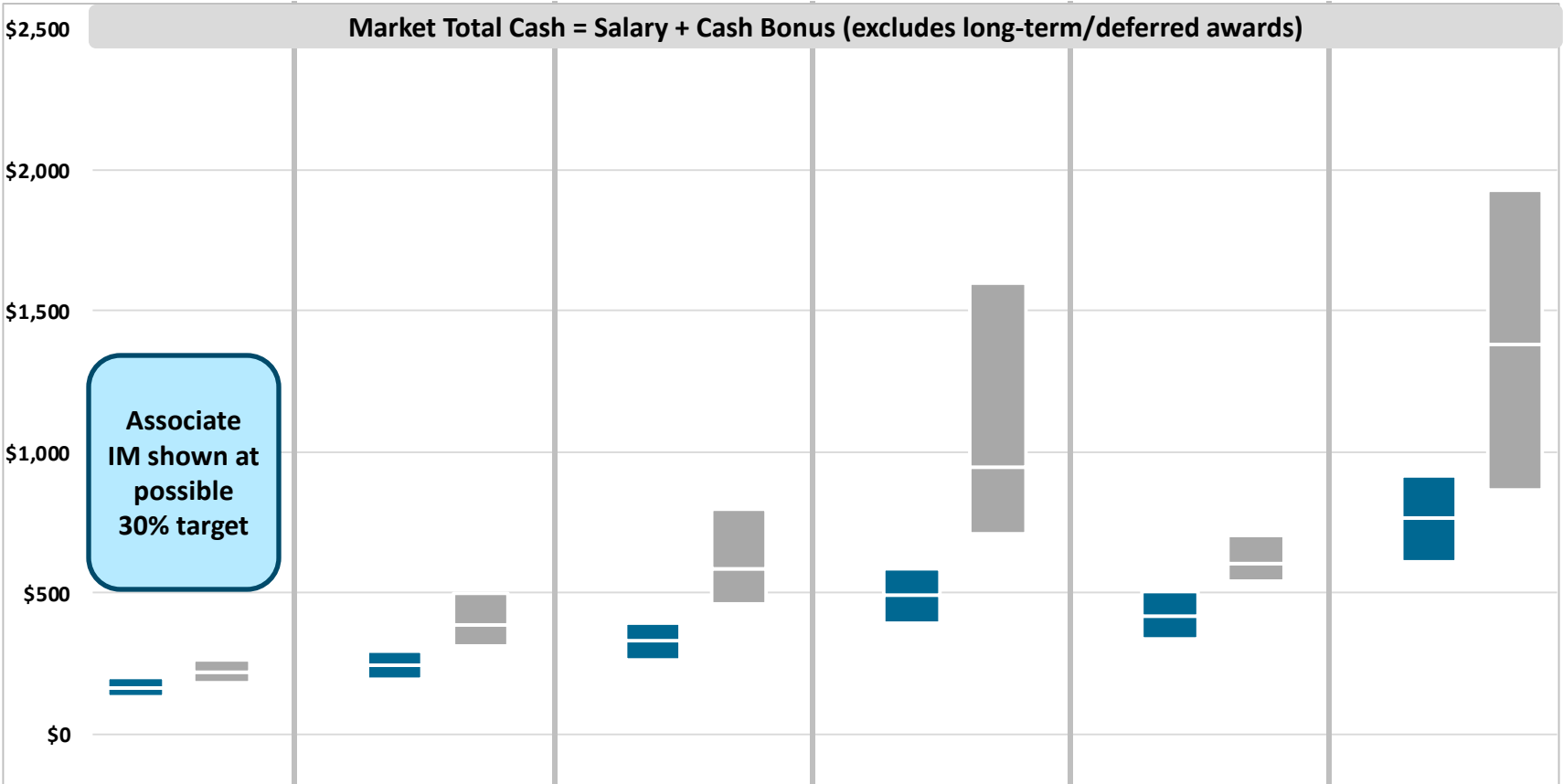
Re-Confirm Investment Management Peer Group – Salary vs Market



	Associate IM		Inv. Manager		Investment Director		Managing Inv. Dir.		COIO		CIO	
	CalPERS	Market	CalPERS	Market	CalPERS	Market	CalPERS	Market	CalPERS	Market	CalPERS	Market
Max / 75th	153	155	210	223	282	294	392	377	360	350	612	518
Mid / Median	\$128	\$134	\$175	\$194	\$235	\$238	\$327	\$288	\$300	\$300	\$510	\$453
Min / 25th	102	115	140	167	188	210	262	250	240	250	408	430

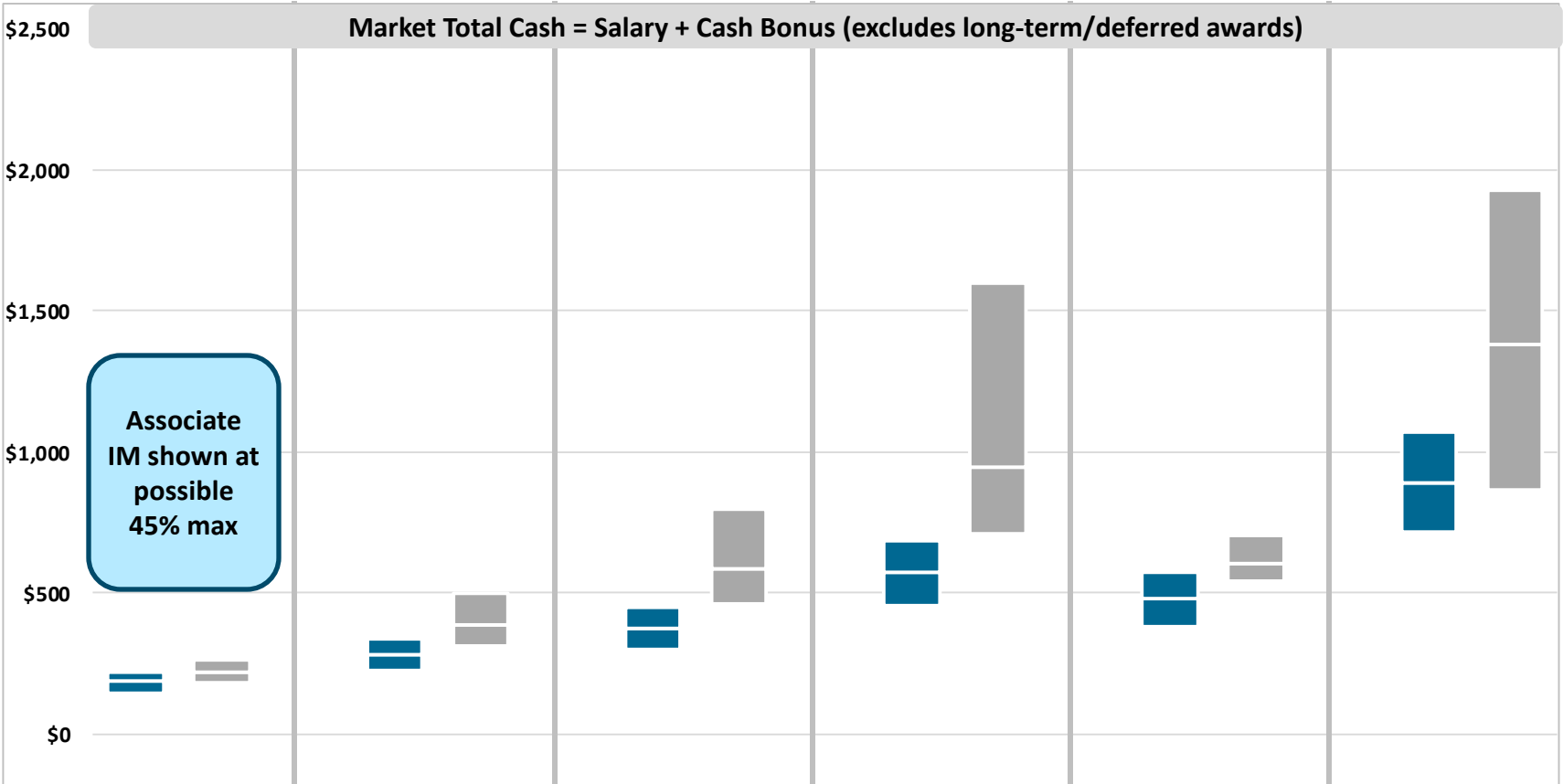


Re-Confirm Investment Management Peer Group – Target Cash vs Market



	Associate IM		Inv. Manager		Investment Director		Managing Inv. Dir.		COIO		CIO	
	CalPERS	Mkt TCash	CalPERS	Mkt TCash	CalPERS	Mkt TCash	CalPERS	Mkt TCash	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	199	263	294	499	395	800	588	1,595	504	702	918	1,928
Mid / Median	\$167	\$222	\$245	\$390	\$329	\$585	\$491	\$948	\$420	\$603	\$765	\$1,381
Min / 25th	133	182	196	311	263	465	393	709	336	542	612	868

Re-Confirm Investment Management Peer Group – Maximum Cash vs Market ⁹



	Associate IM		Inv. Manager		Investment Director		Managing Inv. Dir.		COIO		CIO	
	CalPERS	Mkt TCash	CalPERS	Mkt TCash	CalPERS	Mkt TCash	CalPERS	Mkt TCash	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	222	263	336	499	451	800	686	1,595	576	702	1,071	1,928
Mid / Median	\$186	\$222	\$280	\$390	\$376	\$585	\$572	\$948	\$480	\$603	\$893	\$1,381
Min / 25th	148	182	224	311	301	465	459	709	384	542	714	868

Executive Management Positions

Executive Management Pay Policy

While CalPERS' *Compensation Policies and Procedures for Executive and Investment Management Positions* has been updated for determining salary for Investment Management positions, the Executive Management policy has not been reviewed since 2010. There are a number of incomplete policies:

- The Policy's language for the Executive Management peer group needs clarification about the types of organizations and which "non-US" geographies to include (e.g., Which banks? Which insurance companies? Which non-US countries?).
- The Policy is specific about the Executive Management peer group targeting salaries at the competitive "median", but states the PCTM Committee will determine which quartile to target for Investment Management staff each time a salary survey is conducted.
- The Policy does not state how incentive opportunities or total pay levels are calibrated (e.g., does CalPERS intend for base + target incentive to be "median"?). Should CalPERS look only at market total cash, or also consider the value of long-term/deferred awards? How should CalPERS factor in other perquisites of employment (e.g., prestige of working for CalPERS, civil service protection, DB plan, etc.) when determining the targeted market positioning?

The remainder of this document is intended to serve as a discussion document for the PCTM Committee to determine the most appropriate peer group(s) for Executive Management Positions. Where possible, McLagan has prepared initial implications of any proposed peers.

Executive Management Pay Policy...

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 75th 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

Executive Management Pay Policy...

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*

Possible Executive Management Peer Group – For Discussion

Identifying an Executive Management peer group for CalPERS is particularly challenging:

- In addition to their investment management responsibilities, CalPERS executives also oversee:
 - Pension administration for ~3,000 employers.
 - Health benefits purchasing for over 1.4 million members (2nd largest public purchaser).
 - Customer service for ~1.7 million members.
 - Asset liability management/funding requirements.
- Some of CalPERS executives were recruited from government; others from the private sector.
- Any decisions about executive pay at CalPERS will be subject to scrutiny.

To serve as a basis for discussion with the PCTM Committee, McLagan suggests that, at a minimum, CalPERS Executive Management group should include:

- The same US and Canadian public funds included in the Investment Management peer group.
- Asset management departments/subsidiaries of banks and insurance companies with AUM of \$100B to \$500B. Compared to the \$150 to \$350B peer group for Investment Management, the Executive Management peer group companies generally have:
 - More complex operating structures.
 - Call center / customer service operations, often in support of a retirement services business.
 - Higher staffing levels.

Possible Executive Management Peer Group – For Discussion . . .

A possible Executive Management peer group would be comprised of:

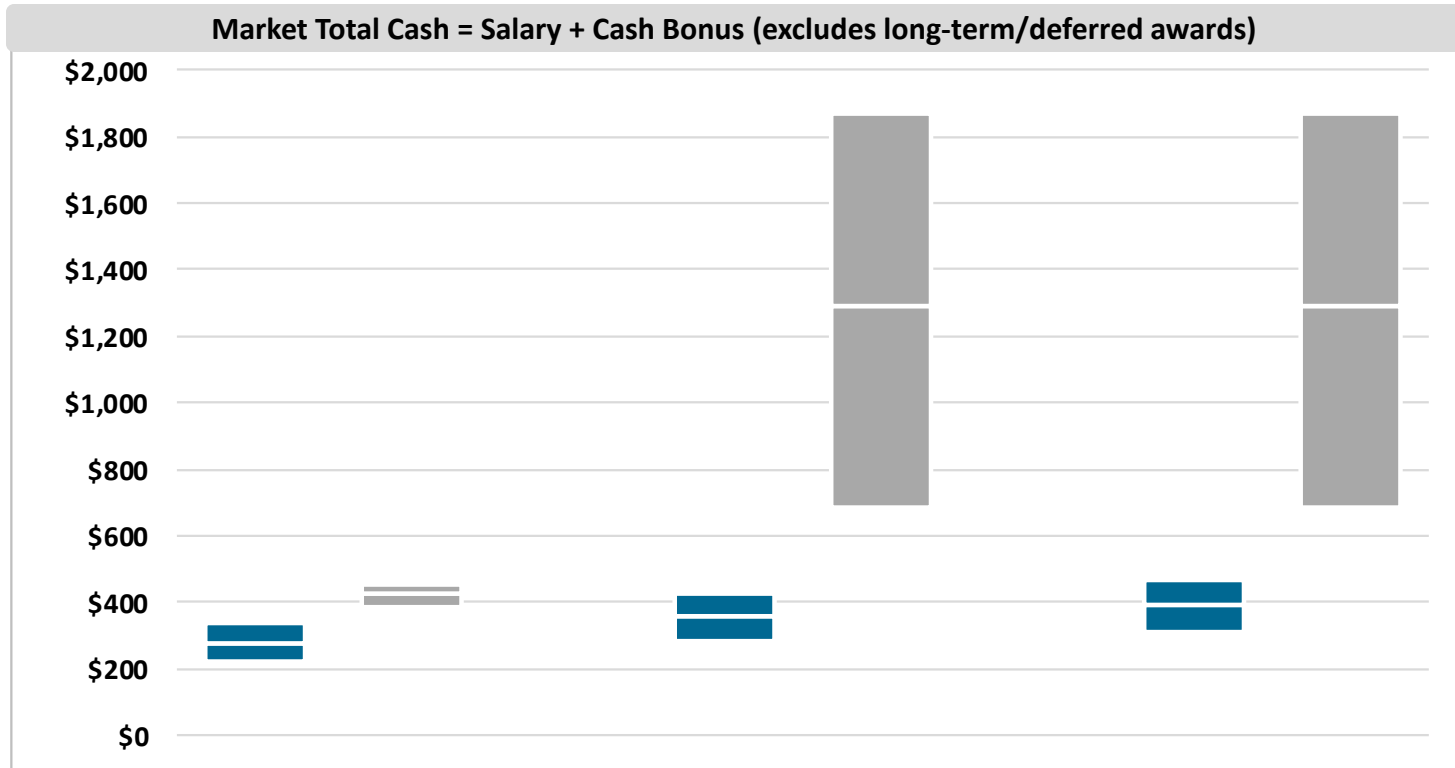
	Investment Function	Call Center	Asset Liability Mgmt	Mission-Driven	EE Size	Complexity	Comments
Government							
Leading US Public Funds	✓	✓	✓	✓		✓	Same as Inv Group
Leading Canadian Public Funds	✓	✓	✓	✓		✓	Same as Inv Group
Select CA-Based Agencies		?	✓	✓	?	✓	TBD of similar size and complexity (e.g., State Compensation Insurance Fund, etc.)
For-Profit							
Banks	✓	✓	✓		✓	✓	AUM \$100 to 500B
Insurance Companies	✓		✓		✓	✓	AUM \$100 to 500B
Committee Feedback Sought							

We acknowledge that, in contrast to the Investment Management peer group, the Executive Management peer group does not include investment management/advisory firms. We believe that:

- CalPERS can source executive talent from banks, insurance companies and other public funds.
- It would be unrealistic for CalPERS to match (or attempt to match) executive pay levels at investment management/advisory firms.

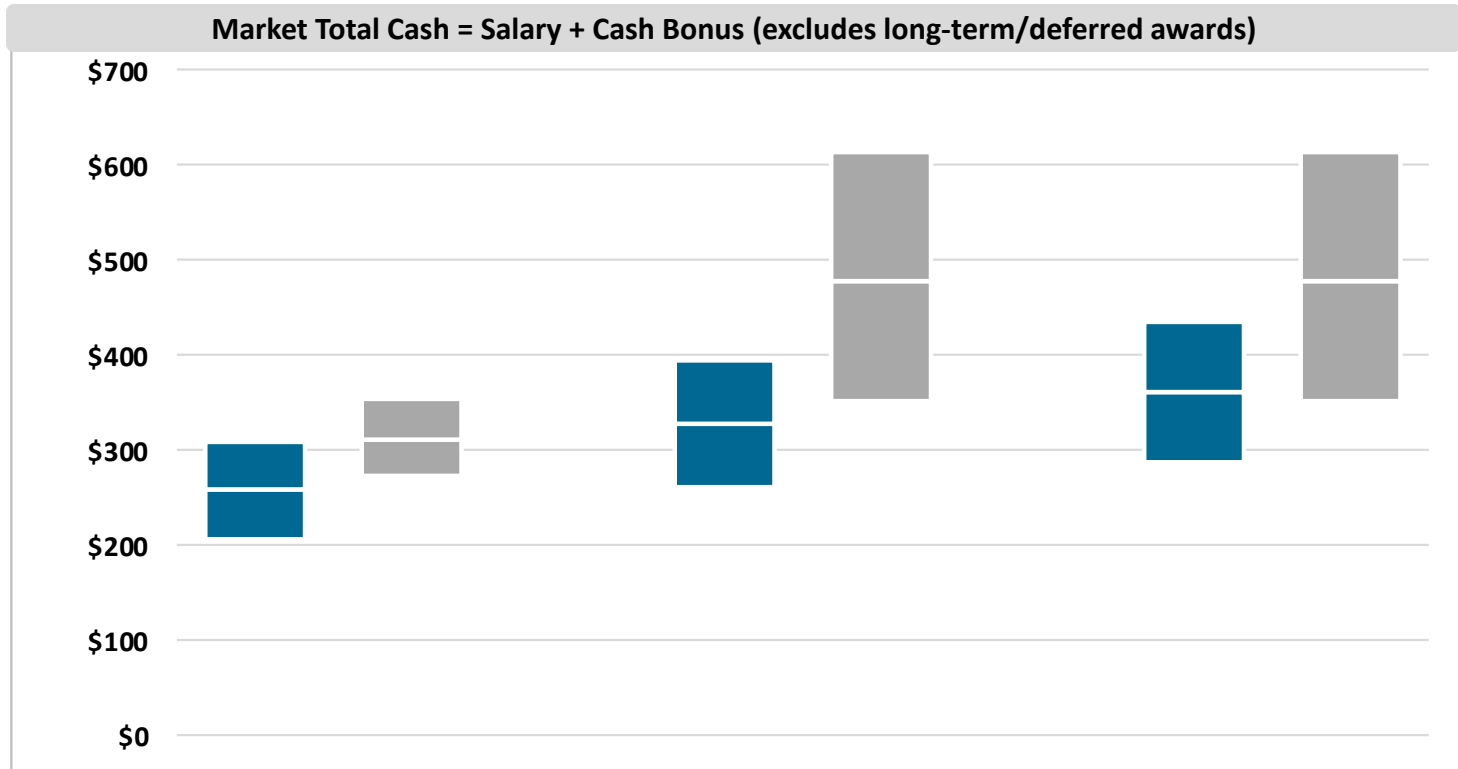
Corporate pension plans were excluded from the Executive Management peer group as they do not have comparable executive management positions.

Implications of Possible Executive Management Peer Group – CEO



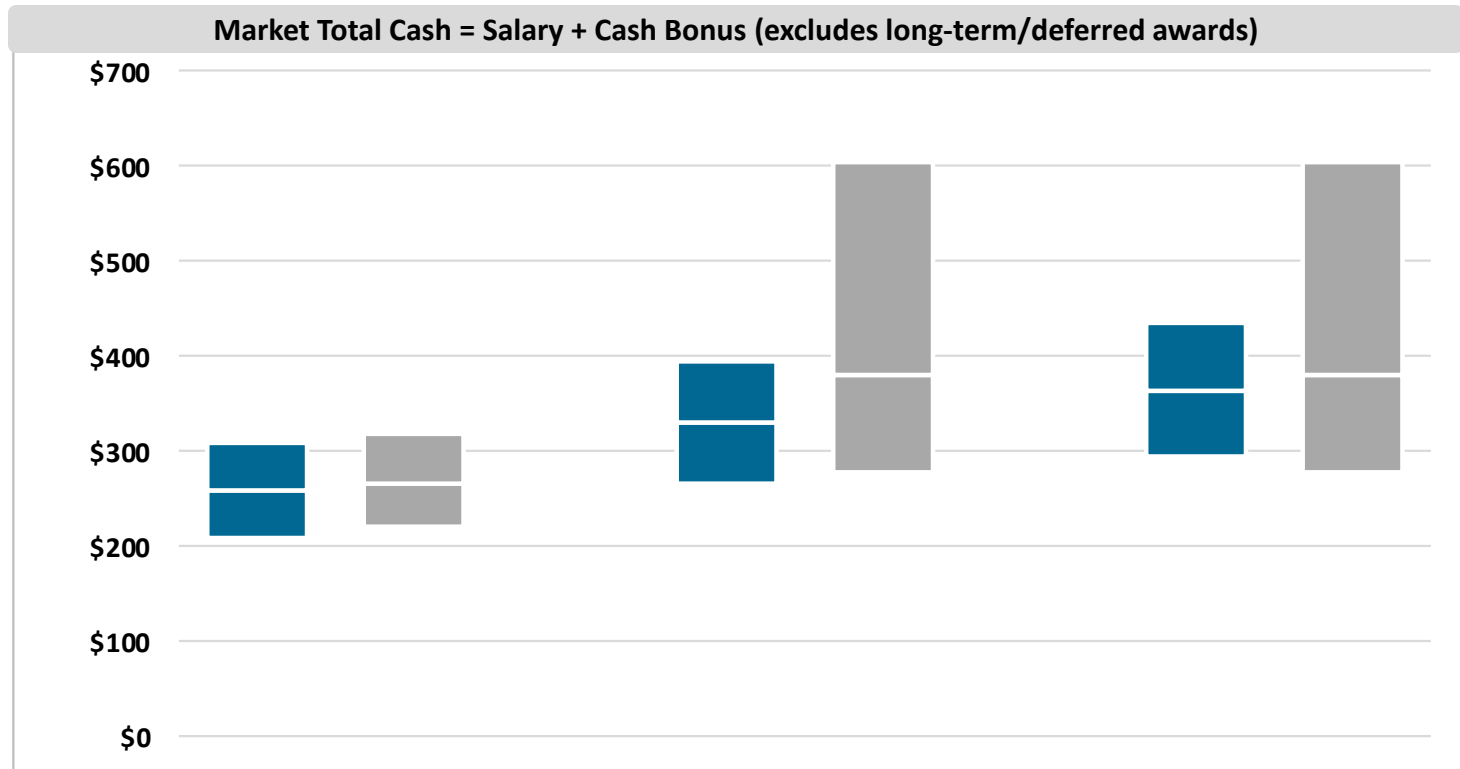
	Salary		Salary + Target		Salary + Max	
	CalPERS	Market	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	336	453	427	1,869	470	1,869
Mid / Median	\$280	\$425	\$356	\$1,291	\$392	\$1,291
Min / 25th	224	384	284	682	314	682

Implications of Possible Executive Management Peer Group – Chief Actuary



	Salary		Salary + Target		Salary + Max	
	CalPERS	Market	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	310	355	394	614	434	614
Mid / Median	\$258	\$311	\$328	\$477	\$361	\$477
Min / 25th	206	274	262	352	288	352

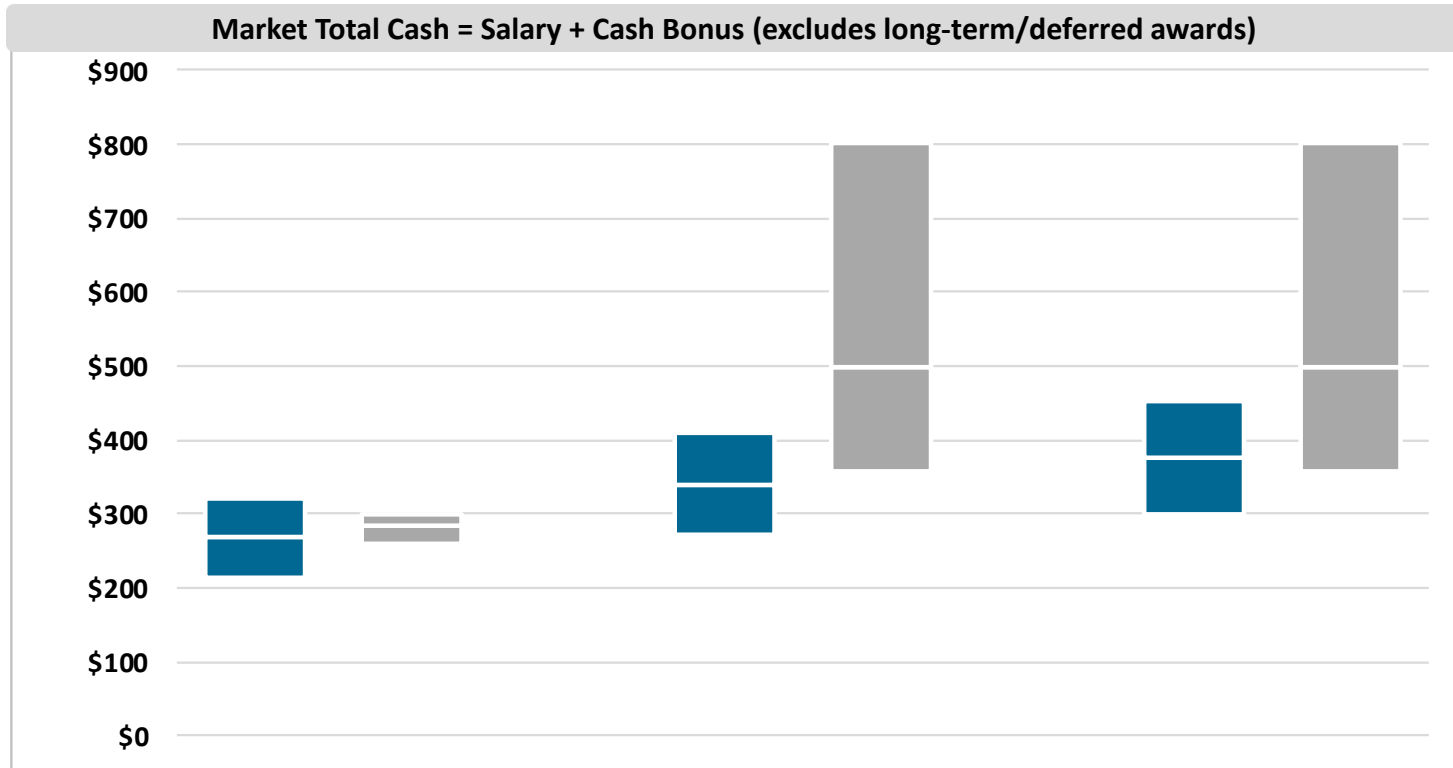
Implications of Possible Executive Management Peer Group – CFO



Note: Market includes State Compensation Insurance Fund and High Speed Rail Authority.

	Salary		Salary + Target		Salary + Max	
	CalPERS	Market	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	310	319	394	603	434	603
Mid / Median	\$260	\$266	\$330	\$379	\$364	\$379
Min / 25th	210	220	267	277	294	277

Implications of Possible Executive Management Peer Group – General Counsel¹⁹



	Salary		Salary + Target		Salary + Max	
	CalPERS	Market	CalPERS	Mkt TCash	CalPERS	Mkt TCash
Max / 75th	322	300	409	801	451	801
Mid / Median	\$268	\$284	\$340	\$498	\$375	\$498
Min / 25th	214	258	272	359	300	359