



Performance, Compensation and Talent Management Committee

California Public Employees' Retirement System

Agenda Item 5

October 20, 2015

ITEM NAME: 2014-15 Performance Awards and Base Pay Increases of the Chief Executive Officer and Chief Investment Officer

PROGRAM: Administration

ITEM TYPE: Action

RECOMMENDATION

Approve the FY 2014-15 performance awards and base pay increases for the Chief Executive Officer (CEO) and Chief Investment Officer (CIO) that resulted from their annual performance evaluations.

EXECUTIVE SUMMARY

This agenda item provides an overview of the annual performance plan cycle for the CEO and CIO positions, including the pre-established process by which any performance awards and/or base pay increases are determined. Having completed its evaluation of the CEO's and CIO's performance in closed session, this item presents the results of that pre-established process and affords the Committee the opportunity to approve them.

STRATEGIC PLAN

This agenda item supports Goal B of the 2012-17 Strategic Plan in cultivating a high-performing, risk-intelligent and innovative organization. The Executive Compensation Program provides a means for recruiting and retaining highly-skilled executives and senior leadership, investment managers and financial services staff for the benefit of the CalPERS organization as a whole.

BACKGROUND

The annual cycle of the Executive Compensation Program in which the CEO and CIO participate includes several milestones: performance plan development, semiannual performance reporting, and a performance evaluation at year-end. The results of the performance evaluation, in turn, drive the amount of the performance award and base pay increase, if any.

ANALYSIS

Annual Performance Cycle

The annual cycle of the performance plan is:

- **Performance Plan Development** – The Board develops and approves a performance plan for each position prior to the start of the plan year. (Attachment 1 to this agenda item is the CEO's FY 2014-15 Performance Plan that the Board approved on June 17, 2014, and Attachment 2 is the CIO's

FY 2014-15 Performance Plan that was finalized upon his appointment in September 2014.)

- **Semiannual Performance Monitoring and Reporting** - Reports are presented to the Board at mid-year and year-end.
- **Performance Plan Changes** – Changes to the performance plan are presented to the Board for review and approval on a quarterly basis, as needed.
- **Performance Evaluation** – Based upon the achievement of performance plan measures and overall Executive Leadership Competencies, as set out in the performance plan at the beginning of the year, the performance evaluation and numeric ratings determine the amounts of any performance award and/or base salary increase.

Performance Plan Components

The performance plans consist of quantitative and qualitative measures. Quantitative performance (or Investment Performance) measures are numerically measurable factors such as return on investment.

Qualitative performance measures (or Business Objectives) are factors that are not numerically measurable, such as performance on key organizational objectives, but that may be ranked subjectively on a numeric scale. Status reports are submitted for all quantitative and qualitative measures at mid-year and year-end.

Year-End Evaluation – Performance Award and Base Pay Increase Determination

Performance Award

The performance evaluation process consists of rating the executive’s achievements on the performance measures in his or her performance plan (Attachments 1 and 2). Quantitative performance is calculated by one of the Board’s investment consultants based upon the investment performance data provided by State Street and other sources.

For the CEO, the assessment of qualitative performance measures is conducted by the Committee, for approval by the Board. For the CIO, the assessment of qualitative performance measures is conducted by the Committee and CEO, for approval by the Board. Both assessments use the scale and rating definitions below:

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

Definitions for the Performance Ratings above are as follows:

Qualitative Performance Rating Definitions
<p>Far Exceeds High Expectations 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>Meets High Expectations 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>Does Not Meet High Expectations 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>

Based on the Board's performance evaluation of the CEO and the Board's and the CEO's joint performance evaluation of the CIO, Human Resources staff aggregate the quantitative factor multipliers, add in the impact of qualitative factor ratings, and calculate the dollar value of the performance award, if any,

Base Pay Increase Determination

A separate Overall Performance rating based upon the CalPERS Executive Leadership Competencies (included in the performance plans) determines the base salary increase, if any, as outlined in the matrix below:

Merit Matrix Based on a 4% General Market Increase in Executive Base Pay				
Performance Rating	Position in Range Before Increase			
	1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile
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%

For the CEO, assessment of the criteria that may result in a base pay increase is conducted by the Committee, for approval by the Board. For the CIO, this assessment is conducted by the Committee and the CEO, for approval by the Board.

2014-15 Performance Awards and Base Pay Increase

Based upon the Committee's consideration and evaluation of the CEO's and CIO's performance in closed session, Human Resources staff calculates the performance award and base pay increase, if any, for each position. These figures will be presented to the Committee at the meeting for approval and subsequent ratification by the Board.

BUDGET AND FISCAL IMPACTS

The cost of performance awards and base pay adjustments that arise from this item will be funded from existing resources.

BENEFITS/RISKS

The establishment of competitive compensation levels for these positions is critical to the recruitment and retention of highly-skilled investment managers, and to the overall success of the organization.

ATTACHMENTS

Attachment 1 – 2014-15 Performance Plan of the Chief Executive Officer
Attachment 2 – 2014-15 Performance Plan of the Chief Investment Officer

TINA CAMPBELL, Chief
Human Resources Division