MEETING

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PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

ROBERT F. CARLSON AUDITORIUM

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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:

Mr. Henry Jones, Vice President

Ms. Dana Hollinger

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Tina Campbell, Chief, Human Resources Division

Ms. Carol Takehara, Committee Secretary

ALSO PRESENT:

Mr. Eric Gonzaga, Grant Thornton, LLP

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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. Please begin with the roll call.

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: Here.

COMMITTEE SECRETARY TAKEHARA: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

CHAIRPERSON BILBREY: Thank you. Before we move on with the agenda, I want to take a moment. As many of you know, Laurie Menchaca has accepted a promotion to become the HR Director for the Department of Insurance, and this is her last Committee meeting. Very sad.

In the course of her career at CalPERS, she has managed every functional area within the Human Resources Division, including personnel operations and compensation, selection services, talent management, and organizational and employee development programs. She's also provided leadership within the division by serving as the Interim Chief of Human Resources on three separate occasions, and has been actively involved in supporting the Committee and Board with its executive searches for both Chief Executive Officer and Chief Investment Officer.

So on behalf of the Committee and the Board, I'd like to acknowledge and thank Laurie for her 20 years of leadership and service within the CalPERS Human Resources Division, and for her dedication to the organization. Thank you so much, Laurie, for all you've done.

(Applause.)

CHAIRPERSON BILBREY: So with that, we will go to the Executive report, Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you, Mr. Chair. I just want to echo the comments about Laurie. I know we're going to miss her. She'll be a few blocks down the street. But we'll continue to pick her brain and look for her expertise as we go forward. Right down the street.

I just have one other item really for the executive report. We have one anomaly in terms of consent item 4. It -- under 4b, it talks about a June 14th Committee meeting, but the agenda material actually has a May meeting material set. So I just want to clarify, we will be meeting in May, so I didn't want to confuse anybody with that anomaly there.

Other than that, I don't have anything else to report, Mr. Chair, and just look forward to the presentation that will be presented in a couple minutes.

Thank you.

CHAIRPERSON BILBREY: Thank you.

Next, we'll move to consent items. Move approval for the minutes of March.

VICE CHAIRPERSON MATHUR: So moved.

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON BILBREY: Moved by Mathur, seconded by Taylor. I had a Henry moment, like yesterday.

(Laughter.)

CHAIRPERSON BILBREY: Any discussion on the motion?

Seeing none. All those in favor say aye?

CHAIRPERSON BILBREY: Opposed?

Motion carries.

I have not been asked to remove, other than the correction on the consent item.

So next, we'll go to number 5, compensation

Review Project, proposed design concepts. Now, today, we have with us also, I've asked, our Investment Consultants Wilshire and PCA to be here.

I'll let Ms. Campbell open it up, I believe, and then I'm going to defer to them, because I know you both have to catch planes and I want to be mindful of that, and then we'll go to Mr. Gonzaga.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank you.

(Thereupon an overhead presentation was Presented as follows.)

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good morning, Committee members. Tina Campbell, CalPERS staff.

In March 2016, Grant Thornton provided an update on the Compensation Review Project and received direction from the Committee to gather input from additional employee groups, including executive staff and investment managers, bringing back the additional feedback for further discussion and refinement at the April Committee meeting.

Today's Compensation Review Project update and proposed design concepts will be presented by Eric Gonzaga of Grant Thornton, LPP[sic]. And this concludes my opening remarks. Happy to answer questions after both the presenters.

CHAIRPERSON BILBREY: So like I said, we're being mindful of the planes you have to catch. We'll begin with PCA and then Wilshire.

MR. EMKIN: Thank you, Mr. Chairman. Allan Emkin, PCA. And I'll apologize for both of us that we have schedules, but we did not know that we would be here until Sunday morning, and so we did move things round. And we will be at the next ones, if you require it, and we've both put it in our calendars.

CHAIRPERSON BILBREY: Yes. We appreciate you being here.

MR. EMKIN: With your permission, what I'm going to do is give a short intro and some background and some observations. I have not spent lots of time looking at the analysis or really trying to figure out the numbers, because there's a lot there, and it's a short period of time.

But my observations are based upon having the privilege of working for you and your predecessors for 30 years, and also working with the staff for that same period of time. And I think that gives me a certain perspective. Not the right perspective necessarily -- thank you very much. Every time I get up here, I get choked up for some reason.

(Laughter.)

MR. EMKIN: I'm not sure if I'm allergic to this area or it's an emotional thing. But let me start with this. Everyone on all sides of this issue shares three things. They want to find and retain qualified staff, they want to provide competitive compensation, and they want to provide thoughtful and reasonable incentives. No matter what side you're on, I think everyone shares those beliefs, and everyone is well intended. So that's just important to put that as a foundation.

Other -- I don't think there's anyone in the audience, other than - and Curtis isn't here - who was around 30 years ago. But I remember when bonus compensation was initiated. And it was only initiated for one reason, the Board was unwilling to increase base compensation. And it's very, very important that that was the foundation, that was the beginning of the concept. It wasn't to look like the private sector. It wasn't to look like an investment management firm. It wasn't to provide additional incentives to the best performing employees. It was because the Board was incapable or unwilling at that time to raise salaries. And I think that's very important foundationally.

In my opinion, the people who you value the most, who add the most to the investment side -- and that's the only thing I can talk to. I can't talk to anything outside the Investment Office -- they don't need a bonus to work their butts off. That's what they do. You do not get additional work out of them by giving them a variable component of their salary that's 10 or 15 or 20 percent. Is it a meaningful number? Yes. But will they work harder? Will they generate better returns? And I'm talking about the best people in the organization. The answer is unequivocally no. They're currently working at capacity.

The bonus for people who are not working at 100 percent, the way it's been portrayed to me, would be used as a negative incentive. You won't get a bonus, which will be 10 or 15 percent or 20 percent of your salary, if you don't perform by certain metrics.

Well, in my opinion, that's not going to motivate anyone to change their behavior. And, in fact, the whole concept of the bonus in the investment world is predicated on the belief that you pay people a very low base salary. So a partner at Goldman Sachs max is making a quarter of a million dollars a year in their base salary. Their total compensation might be 20 or 30 million dollars a year. Their bonus is going to change their behavior.

They don't get zero bonuses. They get fired. All right. That is the remedy for someone who doesn't perform well. If you don't do it, if you're not a good worker, if you don't add value, you don't -- it's not you don't get a bonus this year, you don't get to go to work the next day. And, you know what, that's true for my employees. Okay. I'm talking about my own organization, not just the whole investment world.

I believe the long-term retention component of the study is brilliant. I think it's a great idea. I'm not sure how it should be structured, but keeping the best people and giving them a financial incentive to spend their whole careers at CalPERS is a brilliant idea, and I wish I had thought of it. I think that will motivate people to stay.

Whether they have a variable bonus, which isn't a huge component of their salary, in my opinion, won't make any difference at all. What will make a difference is if you believe they're worth X, pay them X. Let them know exactly what they're worth. Give the CIO some discretion, so that the people who really add the most value, that's reflected in their base compensation.

And those people who are not contributing, those people who are detracting, they need to be dealt with in whatever policies and procedures are allowed, but not using the bonus is the mechanism to remedy that.

My suggestion to you is to increase base salaries where that's deserved, give senior people more discretion to use base compensation, create a long-term incentive motivation, and get rid of this concept that what we're going to do is bring people up to market using a bonus, and be candid and honest about what people are worth.

And I -- that's my opinion, and I can promise you this, it's not scientific, but it is based upon 35 years in the industry, knowing your staff, familiarity with your Board, and -- Mr. Junkin.

MR. JUNKIN: I think Allan has covered a lot of the ground that I would cover. I do think the long-term plan makes a lot of sense. I think that's a great way to go about it. I agree that, I don't know, using the bonus is kind of a negative incentive for poor performers. It's probably ineffective. It's not even a blunt tool. It's just not -- it won't work.

And so I think that's really more of a managerial issue, how do you either improve performance or help manage people out of the organization? And it is challenging, given CalPERS as an organization, but not impossible.

I guess, it would be nice to find some more expedited way to do that.

I think the discretionary elements make a lot of sense. Having been involved in the incentive compensation calculations for a number of years, you can have a big contribution or a small contribution to the overall total fund performance, and it just kind of is what it is, right? There's no real line of sight from what you did to that component in a lot of cases. And so discretionary comp, you, employee X, did a great job. And as a result of, you know, these three things that you did, your bonus is this number. I think that is much more powerful than kind of the free-rider issue that crops up when everything is quantitative. And everything used to be much more quantitative than it is now. There's more discretion now.

So I recognize that. I think continuing down that path makes some sense. I know that you're probably not going to be able to completely eliminate quantitative, but the -- and I recognize there are pros and cons with discretionary, right, that you can get personality issues. But again, that's a management issue, and I think you can put controls in place to try to limit that, and I think some of those are included here.

So overall, I agree with Allan. You know, the people that you really want in this organization and I think we can, you know, conger up some names individually, they give their all to this organization, almost regardless of how the compensation is structured. They want to feel fairly compensated for what they do. And I think the discretionary bonus there probably gives them that little extra that makes them feel that they're worth it. So I'll stop there.

CHAIRPERSON BILBREY: Thank you.

Ms. Mathur.

VICE CHAIRPERSON MATHUR: Well, I really appreciate hearing both of your perspectives. Just getting to the specifics of what has been recommended or is being offered as a recommendation by Grant Thornton, it's -- what I think I heard from you, and I would appreciate you're reflecting back to me, but is that you support the long-term component to the incentives; that you think the short term is not really valuable and should be discontinued perhaps; and that you think the base pay should be adjusted upwards more than is contemplated in the current proposal. Is that a fair assessment of your --

MR. EMKIN: Yes, but with one caveat, which I think is important. The -- keeping good people is crucial, but so is not keeping people who are not productive, because the people next door to them look over at the next desk, and if they see someone who they know isn't adding value or isn't trying to add value, that detracts from the culture, it detracts from the way people feel about an organization, and investments are team driven.

So when you look at compensation, you also have to look at the management and you have to motivate the staff to make the hard decisions, because it's really hard to tell someone that they're not doing well, and if they don't do better, they're not going to have a job or they're going to have a different job.

As a manager, I can tell you, it's the most difficult thing you can do. And it's even more difficult in the public sector, and justifiably so. But somehow or other, there needs to be a mechanism to facilitate that, because you need positive incentives, but you also need a negative incentive.

VICE CHAIRPERSON MATHUR: Okay. But -- and I hear that point. It can't really be addressed through the compensation structure, so to speak, but I hear that point. And what I'm getting as the subtext is that perhaps this is a meaningful problem in the Investment Office, that you think it's a -- that there's a real problem there.

MR. EMKIN: I don't think it's systemic. I think that any organization with having almost 300 employees will have some that are not productive and that aren't adding value that detract from the culture.

VICE CHAIRPERSON MATHUR: Okay. So maybe that's something to be taken up at another time, but -- Mr.

Junkin, is there anything --

MR. JUNKIN: No, I agree. It's -- there's not a pervasive ethos that's kind of free riders throughout the organization, but there are some places where there are individuals that are maybe miscast in a role or just not contributing. And in the private sector, I think Allan is right, I mean, in the management of our organization, those people would be transitioned out of the firm.

VICE CHAIRPERSON MATHUR: And in terms of the specific recommendations, do you think my interpretation of what you said, is that fair?

MR. JUNKIN: I think that is correct, yes, higher base, the long-term incentives make a lot of sense. I think the emphasis on discretionary makes sense as well.

VICE CHAIRPERSON MATHUR: And the short term you think is not adding value.

MR. JUNKIN: It's not adding value. I don't know whether or not you can completely eliminate it, but it's probably one of the least effective parts of the plan, I think.

MR. EMKIN: You know, once again, I say this whenever I talk about performance, but to the extent that you use investment performance as a metric as part of your component, I wish I could say that we could prove that it was skill versus luck, but there is no way to do that, unless you have thousands of data points. Statistically, you don't know whether it's skill or luck.

And so if you're basing a bonus on something which you can't prove to be the case, then it's based on hope and not facts.

VICE CHAIRPERSON MATHUR: Okay. Thank you.

Mr. Chair, I'm just wondering if it would be appropriate and permissible to hear from our CEO and CIO on this as well, as they have sort of the direct management expertise around this group of individuals. I defer to your judgment.

CHAIRPERSON BILBREY: I think I'd like to get through the Board members, and then we'll go back to that for a minute and see what other questions may come up.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Mr. Chair. So I hear what you all are saying, because I come from a similar background. So let me rephrase and see if I heard correctly, because I think I agree with about 99 percent of what you're saying.

So in a perfect world, given that we have an Investment Office with investment professionals who are expected to perform, and perform well, on behalf of this organization, and there is a lot of potential variable that can occur as a result of their activities, some of which is -- can be documented and a lot of it, you're right, it can be luck being in the right place at the right time, et cetera, but their performance, which is highly variable on its impact on the organization, needs to be reflected also in compensation.

So if I could wave a magic wand and have the Investment Office compensated in a way that had a good base -- I'm not sure that where it is today is -- needs to be adjusted, but with a much bigger variable compensation, much bigger than it is today, but they were at-will, where we had the ability to have good performers stay and lesser performers find another home. Am I close to what you're saying?

MR. EMKIN: I'll only speak for myself. In an idealized world, the answer is yes. You live in a unique environment where the ability to accomplish that is, to the best of my knowledge, is doubtful. And so I based the recommendation upon what I believe was obtainable. But theoretically, the answer -- if it was in quote the private sector, that would be the solution.

But the base wouldn't be where it is now, the base -- you might have a draw of five or six or seven hundred thousand dollars, but your base salary would be $150,000, and that could offset your bonus, and you could end up owing money at the end of the year. It's just --

BOARD MEMBER SLATON: It's a totally different compensation formula than what is being -- what's on the table today for us?

MR. EMKIN: That's accurate.

BOARD MEMBER SLATON: Okay. So I would just challenge the Committee to not assume that we can't get there. You know, we've talked before about the Canadian model. We've talked about, you know, how they operate, and gee, you know, could we build that kind of an organization? And maybe that's not appropriate, but I wouldn't automatically assume that we can't build an Investment Office compensation arrangement. And by the way, things like whether it's at-will or civil service are inherently apart of the whole package. It's a package.

So I would just suggest that we ought to explore whether, in fact, we can create a package that actually further accomplishes the mission of CalPERS. And if adjustments need to be made, whether it's legislatively or whatever, then I say explore it, see what's possible.

CHAIRPERSON BILBREY: Thank you.

Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Chair. So I guess I will be a little bit of a wet napkin on this, and sort of let's reset. Mr. Slaton, you're correct, but that's not how the Constitution reads. These are civil servants at the end of the day. There is no waving a magic wand and dismissing anybody. There is a process. There is a well-documented process and there is a Constitutional right to that process.

And I think, at some point, we have to recognize, as much as we'd like to say contracting out, these are State employees. There is one exempt, Mr. Stausboll. After that, everybody else is a State worker. And I think part of it is, whether you want to say in your private sector, exactly the same in mine, if we're not performing, thank you very much, out you go.

That's not how civil service works. And I think we've got to recognize that. We're stuck in a quandary here. I value our Investment staff, incredible people, but we cannot be dismissive inside of a State civil service system of employees in other organizations that do just as much work.

And we're setting these precedents. I mean, whether we can create more exempts or not, we're limited by the Constitution. Would I like to have more exempts? It makes life so much easier when you can hire and fire people.

Now, that's not how the system works. And so you make great points. I do think we need to get out of our lexicon that, because we're not going to change the system. And so now the field is shortened in half, because you've taken off an option of underperforming people. And I would argue, although don't hold me to it if you come in front of me in my other role, I'm not sure performance, because you didn't pick the right building or the right stock, is justification for termination. That's not the way I would interpret it.

Now, that might be if you're at Goldman Sachs and you didn't get it, out you go. But I just want us to level set somewhat that we have to work within the framework of which we have. And that also is the context that we have 340,000 other State workers inside of this system who do a lot of work as well.

So I'm just very concerned when we start talking about waving magic wands and terminations and all that. There's a process. And so I just want to caution as we move forward with this study, Mr. Chair, that we recognize what we're starting from. Thank you.

CHAIRPERSON BILBREY: Thank you, Mr. Costigan.

MR. EMKIN: I fully understand that and respect that. And that is, in fact, the way I looked at it with the recommendations. What my opinion, and it's important, otherwise I wouldn't rejoin, is that the bonus scheme isn't a way to deal with someone who isn't performing. It's to use the system that you've described to accomplish the objective. It's that the bonus scheme is not a tool to manage the goals.

CHAIRPERSON BILBREY: Ms. Stausboll, would you like to have any comments?

CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you, Mr. Chair. I might just comment on this, the management issue. It is very complicated, but it does -- as Mr. Costigan said, it calls into play the Constitution, bargaining, a whole host of things. And we have done a lot of work on trying to address it or figure out if there's a way without bearing much fruit, I might add.

But, you know, I think that one thing -- and there is a way, there is process for civil service employees. For progressive discipline, it requires documentation. It's hard work. And maybe we could do a better job with our Investment Managers of training them, how to do that. A lot of them come from the private sector, so they're not necessarily familiar with the process. So I think that's one place we could do better.

And the other thing that we looked at, and we haven't acted on, but is the idea -- there's one thing that we probably could do through statute, I think, or possibly through an SPB rule, is to look at increasing the probation period for certain Investment staff. And that might give some additional flexibility for newer employees. It's generally one year now, and we had thought about possibly changing to two. So I know that's not really the subject of today, but those are a couple of thoughts that we could come back to.

CHAIRPERSON BILBREY: Thank you. So I have a couple more Board members, and then I do want to get to Mr. Gonzaga because he has put together this update that is very comprehensive and I'd like us to get through that as well.

So, Mr. Lind.

COMMITTEE MEMBER LIND: Thank you. First, I think I'm going to send a union organizer over to Wilshire's office and PCA's office here when we're done with the meeting.

(Laughter.)

COMMITTEE MEMBER LIND: No, to your point, I feel like this morning we've skipped ahead a few steps, because we do have this report from Grant Thornton that I think takes into account a lot of these issues that we brought up, what the system is, what the parameters are within which we can would. I think they've already talked to the CIO and the CEO and gotten their perspective.

So, you know, before we sort of jump to where we're going to go, I'd like to hear that report and kind of of walk through it.

CHAIRPERSON BILBREY: Right. And that was the actual intent was to have this after. But unfortunately the way timing worked out, it didn't work that way this time.

Ms. Taylor, are you --

COMMITTEE MEMBER TAYLOR: I turned it off.

CHAIRPERSON BILBREY: Okay. All right. Thank you, gentlemen. We appreciate it.

Mr. Gonzaga, let's hear from you

(Thereupon an overhead presentation was presented as follows.)

MR. GONZAGA: Great. You know, appreciate the opportunity to be here. You know, and obviously a lot of, you know, issues to deal with as we go through the process. And, you know, I just want to say before we get started, you know, we're going to go through the report. And we certainly have, what we believe, you know, are recommendations based on the mission and based on the state of the organization now.

And we think it's, you know, highly customized to this organization, you know, in terms of how do you drive the mission of the organization, recognizing that a compensation plan is part of that. And so as part of the process, I mean, I think, you know, just hearkening back to I think it was the March 15th meeting, where we had some good discussion around concepts.

And generally, you know, there was some acknowledgement, you know, that these concepts are worth considering. And so what we did, based on your feedback, was, you know, conducted, you know, just some research interviews with respect to management talking and brainstorming a little bit about our ideas, and getting their perspective on potential metrics, and how things would work.

And so we're coming back with you, you know, as your independent consultant. You know, we spoke with management and we're just coming back here with another turn, in terms of what our recommendations are.

And I think the way to look at it is that we're coming back with you a balanced portfolio, a balanced compensation program that we think can work quite well at your organization. There certainly are many positives. There are some negatives that we need to talk through, and there's also -- always going to be challenges with respect to implementation.

Our ideas, you know, we're excited to talk to you about them today. We also recognize that there will be some issues that we have to work with -- work through along the way. But, you know, that's kind of the kick-off.

--o0o--

MR. GONZAGA: Now, I'm just going to go through. There's a lot of words there. And, you know, I'm a consultant, and so I have to use a lot words. But, you know, as we go through the deck, I just wanted to put up a slide that really summarizes what we're talking about here. It's taking existing State -- how do we get to that future State where, you know, we have a customized program that's consistent with your mission and strategy, you know, blending in all of the different variables at your organization.

How do we take a comp plan and more align with the interests of the Board and management, in addition to, of course, the members of the organization. You know, subsequent, we also want to make sure there's some flexibility included in the plan with paper -- pray for performance, as well as pay differentiation. One of the critical aspects, if we proceed, you know, moving ahead on these ideas is really just making sure that there's ample room, both at the Board level, CEO/CIO level to recognize and reward outstanding performers. And I think the gentlemen before said it quite succinctly, the ability to, you know, penalize poor performers, to make sure that there is that appropriate differentiation.

So as you go through this, I think one of the things that, you know, we'll talk about is the great majority of our recommendations are cost neutral. And what does that include?

A reallocation of the annual incentive over to salary. It takes the risk out of the plan. It still has an appropriate annual incentive in terms of focusing leadership. A new annual incentive plan that is actually truly focused on outcomes, and a very select few outcomes that are organizationally important shared both with respect to both sides of the house, whether it's, you know, pure management, the pure executives, 20098s, however you want to use the nomenclature versus Investment Office, making sure that there's plenty incentive for their own purview of responsibility, as well as a coordinated team system-wide incentives.

And the other component is if we are going to talk about something that moves pay up in terms of fixed salary with downside in terms of moving annual incentives down, how do we make sure that there's appropriate salary administration, and there's a recognition within the context of whatever salary ranges we're using, you can position folks higher or lower based on performance, you know, as opposed to, you know, this concept that we all kind of get in this habit of just moving folks sequentially along based on experience.

Now, the other thing that we're talking about, there are some potential additive costs. And we just -- we wanted to show this to you, in terms of if we were to implement the long-term incentive plan, you know, what are those potential additive costs as part of the phase-in.

The other component is that we do think that if we are going to do this, we have to be very finite in terms of there are potential salary structure or structure adjustments for certain positions that we think are likely. It's not everybody that we're talking about. We think it's probably from a minority perspective. It's -- those high performers are those folks that would typically be positioned higher from an equity perspective performance standpoint.

The other thing that we're talking about is although we certainly believe in outcome-oriented incentives, discretion is -- certainly needs to be a powerful tool in terms of modifying incentives up or down based on overall global performance of that executive of that manager, providing the Board the CEO and the CIO with that ability, you know, to recognize high performers versus low performers out of something above and beyond just the outcomes that we're talking about.

And again, we talked about this before, just putting in a good long-term incentive plan, which has the benefit of in a coordination in terms of getting everybody on the same page, in terms of overall fund performance, overall organizational performance, while still providing plenty of retention value to make sure that we're recruiting and retaining who we want to at this organization or we have as optimal of tools to make that happen as this organization.

It's not going to make you keep every single person here, because we're not talking about a situation where we're moving directly to industry-level compensation levels, but it is a tool that can be used quite successfully.

So those are the concepts that we're going to be talking about, you know, as we go through the process. There is -- there's plenty of slides that we just wanted to illustrate it a few different ways. If we move down this path, how would this be restructured, what are the potential changes that need to be made? And then we will go into kind of the calibration in terms of anything related to pay for performance how is that going to work.

So the first part is kind of movement into the structure what are the -- how is that going to look in terms of reallocation, realignment, and then we go into the plan design. So any questions on that?

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MR. GONZAGA: Okay. Well, just to go back to what we talked about March 15th, I just want to make sure that we're all on the same page here. What we talked about was potential pay reallocation. Oh, woops, I'm sorry. Turning it on the wrong slide.

We're talking about -- what did we talk about? You know, one, you know, we talked about the philosophy in terms of market parameters. We also talked about pay reallocation. Taking the existing pay structure and how do we move it more to fixed pay, reduce the leverage from an annual incentive plan standpoint. And how do we -- if we're going to do that, how do we make sure there's appropriate pay for performance criteria. That was one of the takeaways.

You know, the second component again is what are the right metrics? If we're going to move to what is a relatively novel move in comparison to what was there before, what needs to be done in terms of what are potential metrics, what are these areas that we're going to make sure that we evaluate performance in.

And third, it is expanding the horizon from, you know, pay for performance, recognizing that this is an organization that endorses significant teamwork all through the organization. How do we make that happen via long-term incentives? Sustain that long-term performance horizon.

After that, as we indicated, you know, based on your delegation, we spoke with the 20098s, CEO, as well as with key members of the Investment staff just to get their perspective on our ideas, so -- and this is where we're coming at.

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MR. GONZAGA: It is -- turning to page three, again, movement to salaries and lowering -- increasing salaries and lowering annual bonuses. Why are we recommending that? And it's simply just to take the risk out of it and make sure that the salary is kind of the staple feature in terms of recruitment and retention of your executives, your INVO staff.

Now, that being said, we are talking about enhancing the annual incentive plan, not from an opportunity perspective, but really from the standpoint of what are better metrics, and a little bit more simplistic formula in terms of how you can evaluate performance, you know, at your organization.

We are recommending a discretionary modifier, where you can take the award up or down by 50 percent. You know, and the reason for that again is this is a mission driven organization. Not everything is outcome oriented. There needs to be a qualitative assessment, whether it be with respect to not just investment performance, not just with respect to performance on the 20098 side, but as well as who are we as an organization? Are we good leaders of the organization. Are we good stewards for the organization? Are we acting consistent with our mission, as well as to recognize that there are high performers, low performers and we need that flexibility to go up or down.

It's certainly an additive long-term incentive. It isn't aggressive. It is enough that we think it could enhance retention ability, as well as motivating for sustained long-term performance relative to the organization.

And so over time, you know, the way we modeled it out there is going to be, you know, particularly when the potential for a modest increase in compensation, but it's -- we're certainly not talking about anything that is -- it's going to be earned based on performance, one; and two, if there's additions, it certainly isn't highly aggressive. It's just to move into the competitive sphere with which we spoke about earlier.

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MR. GONZAGA: Now, how is this going to look?

You know, as you can see in terms of the side by side structural adjustments, there's a lot of data in there. But we took all the sampling of your positions, and what you can see is that cost neutral perspective. We have the purple and, you know, we have the candy-striped purple lines as well.

And so really what we're talking about is a reallocation of increasing salaries to a very meaningful degree. They're probably right around that 75th percentile in the marketplace. But annual incentives would go down, and hence it's cost neutral.

The additive component would really be with respect to the long-term incentive plan design, as we're recommending. Now, that has to be earned, so it's only going to be there if performance warrants it. But, you know, that would be kind of where we're looking at in terms of, you know, movement in this direction.

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MR. GONZAGA: And if you turn to page five, you know, you see where one of the things that we wanted to make very clear is just to see what types of salary adjustments that we're talking about to make this work, and we have some samples there for you. But we also want to point out that, you know, in terms of competitive adjustments, there's an opportunity to make competitive adjustments with respect to salary. If you choose to go down this route, we would expect there to be some discretion in terms of moving people into the appropriate arena rewarding them.

So, in some respects, for many of the folks, it will be cost neutral, but other folks there will be additions in terms of making sure they fall into the salary structure appropriately, in other words, those high performers.

You know, the other component is really with respect to again -- I want to emphasize this, we have -- even though we're lowering the annual incentive bonuses, there is some discretion to move that up or down, and we're also adding a long-term incentive plan.

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MR. GONZAGA: Now, with respect to, you know, how we costed this out, I mean, what you have in front of you on page six, we talked about kind of a seven percent impact. And we estimate, if you move down this route -- and we are talking about, you know, a modest addition in terms of the long-term incentive plan. If you take into account the fact that it appears that there may be some -- a minority of folks that may need some adjustments in terms of the salary, some of it's internal equity, some of it may be to reward those high performers, you know, what you end up with is the potential earned on a long term of an increase of approximately seven percent.

And what we're showing is an existing pay budget of about 29 million. And if you add the long-term incentive component, you know, there -- and the salary structure adjustments, there's a potential for a $1.4 million increase to the overall budget, the way that we looked at it right now. Now, these are just kind of modeled numbers at this point.

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MR. GONZAGA: Any questions on the numbers as they work so far?

Okay. Well --

CHAIRPERSON BILBREY: Yes, we do. We have a question.

Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair. So relative to being cost neutral, and I don't know if -- in moving incentives -- some of the incentive pay into base pay, did you all consider the impact to other costs, because that would theoretically make it a pensionable salary that's not pensionable now? And then we have to pick up employer and employee contributions on that. But I don't know if we're over the federal limits anyhow with the incomes we're talking about. So I'm not sure how that would play out. Maybe you --

MR. GONZAGA: Yeah, there is the potential for some cost impact to that. I mean, I think -- I can't remember the exact year, but it depends on, you know, the change in the pension benefits, which were changed in recent history, and those that, you know, were earlier. There is --

COMMITTEE MEMBER GILLIHAN: Yeah, the vast majority of these folks, that would be January 1 of 2013. So I assume everybody we're talking about her predates that. But aren't there federal limits anyhow on defined benefits?

CHAIRPERSON BILBREY: Ms. Stausboll.

CHIEF EXECUTIVE OFFICER STAUSBOLL: There are. And it depends -- you know, there's a couple of different buckets, depending when people came to work. But one thing, just kind of a side effect of this, is that as you -- if you're increasing the base pay across the Board, it has a much different impact on people who are here before PEPRA went into effect before 1113, because everyone who came after that has the limit that's the comp limit around 115, so it's a side effect.

CHAIRPERSON BILBREY: Okay.

MR. GONZAGA: Okay. Well, you know, as we go through this, I mean we just want to make sure -- I mean, our job, as your independent advisor, is really just we want to make sure if we come up with a comp plan and it helps to complement and drive the strategy of the organization. And I'll be the first person to say there is no perfect comp plan.

So we ran it through, you know, kind of the SWOT analysis, so to speak. And, you know, these certainly are issues that we're picking up as we go through the process. You know, in terms of strengths, you know, the way that we're, you know, designing this potential plan, is it does minimize, you know, the costs by talking about reallocation of pay.

You know, the other issue that we feel strongly on is that, you know, as we design the annual incentive plan or we design the long-term incentive plan, it realigns very clearly in terms of those key focus areas, both as an organization and as an individual, in terms of what are the outcomes that this organization is trying to drive. And it focuses in on them, you know, very clearly, as well as again extending that long-term, you know, horizon.

Now, the other issue is, you know, in terms of retention of your key individuals, you put in a long-term incentive plan, you know, the way we have it structured. It does provide, you know, ample room to ensure that, you know, it is a strong strategic retention tool for your key players who you let participate in the annual incentive plan.

And, you know, we're talking about numbers that, you know, are very meaningful, and, you know, would make folks think twice about leaving because there's potentially a lot to give up the door, because there's always going to be a five-year give up in terms of the long-term incentive opportunity.

Now, you know, in terms of weaknesses, and these are important, you know, to think about. And, you know, Richard we identify that issue is there is the potential for the impact to the pension costs. And, you know, we'd have to take that into account as part of the process.

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MR. GONZAGA: You know the other issues that we talk about is, you know, in terms of the Investment Office mindset - you know, I know this gets spoken about with some frequency - you know, taking into account the oftentimes short-term nature and significant leverage in the industry -- in industry from which you recruit many of these folks, it is a different methodology reducing the amount of annual incentive and expanding, you know -- whether it's fixed pay or, you know, the long-term incentive component.

So it is -- you know, what I'd say is that it's unique relative to industry. You know, certainly not unique to other like organizations, where we're talking about a mission-driven organization.

You know, the other thing -- and, you know, I think it's an important point to raise. I mean, we're talking about, you know, this move in terms of participation in long-term incentive, modification to the annual incentive plan, and, you know, offset by an increased salary.

You know, outside of the incentive metrics, this won't impact the CEAs. And so it's important to note that this is something -- this will be -- there will be a different pay plan for many of the senior leaders, the executives in the organization. There will be an internal equity issue. And this just, you know, reinforces that.

So now, you know, opportunities. You know, what we would need to do -- what we need to do, I mean, of course, is, in terms of thinking through this recommended plan, what it does is it allows you to come up with a highly competitive base salary, based on where folks should be positioned. This is an opportunity, if you implement this, for the Board, for the Committee, for the executives themselves to right set who should be positioned where from a salary standpoint.

And certainly, there's high performers, there's low performers, there are very good performers that can be recognized as part of this process.

You know, the other issue, you know, just to talk about is that the opportunity here is to create common incentives for the organization. You know, we can talk about that with respect to -- certainly, you know, all of the incentives will have a significant component focused on folk's individual purviews of responsibility. But there's a significant teamwork component to it, whether it is with respect to each side, or whether it's with respect to making sure there's at least some common incentive, Investment Office versus the rest of the organization.

And I do think, although -- you know, you take a look at this report. You can certainly look at this as being, you know, a lot of words, and you know, it may look complicated on its face, but we're confident once -- if you choose to implement, that this will simplify, you know, from a pay administration standpoint, you know, the work associated with it, because we're talking about refinements and making this a little bit more user-friendly, in terms of administration.

You know, threats, of course, are the same ones that we're always thinking about. Anytime, there's changed management, there's flight risks. Do people not like the pay plan? You know, and the optics of the plan, you know, those are always issues. Well, I mean, they're issues with, you know, how you have your pay plan right now. Certainly, no unreasonable pay levels. But the optics always, you know, rear their head.

And, you know, of course, the other challenge that will be is in terms of implementation, right? And, you know, I know that typically you start out down the process, you know, in terms of implementation, thinking through fiscal '17 that would start right around now.

We're talking about some new concepts, new philosophy. And, you know, we may have to, you know, make sure that we have ample time to make sure we're getting the right thing implemented. And that may be a couple year -- I think it was Lind that you spoke the last time we were out here, what's the time frame to implement? I think that we can implement a lot of this effective as July 1st. But, you know, we're not under any impression that all of it will get implemented as of July 1st.

CHAIRPERSON BILBREY: How about we'll do a couple questions, if that's all right for you?

MR. GONZAGA: Please.

CHAIRPERSON BILBREY: Ms. Mathur.

VICE CHAIRPERSON MATHUR: So just in thinking about what you're presenting here today, I think it really resonates with me that this achieves some of the objectives that we have with our compensation program.

One is aligning the interests of the individuals -- or the professionals who work here with the long-term objectives and interests of the organization. And I think that long-term incentive piece really goes a long way to do that. Something we've been struggling with for quite some time.

I -- and so I really -- I heartily endorse that component in particular. And I think it works together as a package. As you say, I don't think there's any perfect solution, but I think that this really does address sort of the balancing act that we're trying to achieve, in terms of rewarding people for good performance, and incent -- whether the incentives really work in terms of getting people to perform better, I don't know. But we certainly do want to make sure that people are getting paid commensurate with its contribution to the organization, in any case. So I think it accomplishes that. I do have a few questions however.

MR. GONZAGA: Please.

VICE CHAIRPERSON MATHUR: So could you just talk a little bit about your views on what unintended consequences could arise from a significant shift from the current mix of base and incentive compensation to the one that you are proposing? And I know you've just listed some of the weaknesses and threats, but -- and what implications do you see for retention and recruitment for the organization?

MR. GONZAGA: Yeah, I think that, you know, the unintended consequences from my perspective is, you know, this is changed management. And with changed management, you know, there can always be some things that go astray with respect to implementation. And one of the things I would say is that when we start talking about moving around increases and putting people appropriately in their place from a salary perspective, you know, we're going to have to make sure that, you know, that that's right, because we want to make sure that it's a situation where the high performers are appropriately positioned. Okay.

And, you know, the second thing is just, you know, anytime we start talking about refining the metrics, we just have to make sure they're the right metrics.

You know, the third thing is there are recruitment/retention considerations that you always have to think about. You know, my thought though is really that, you know, those are a minority of the issues, so long as what we're talking about is any adjustments that are made that are meaningful above and beyond what's expected, we're recognizing and rewarding the key players, which, you know, the Board, the CEO, CIO, and all of the executive leadership team should have, you know, ample, you know, influence on that. And I think they know who their high performers are to accomplish the mission of the organization.

So I think that the primary downside is really that this is change. And we're talking about -- you know, I put your pay program that you have in place as this. It's really just -- you know, salaries are -- you know, relative to what you're trying to accomplish, salaries a solid, right? The annual incentives are -- you know, it's a pretty highly leveraged annual incentive plan, but everything is based on annual performance. I mean, if we're talking about, you know, to the extent the three-year rolling average. And the opportunities aren't as high as they are out in industry.

So in some respects, what we're talking about is just a plan that looks like, in some respects, it's trying to mimic what's going out in the industry, but it's not all the way there.

And, you know, the other thing is just we think about why this organization is run the way it's run. It is for the benefit of the members. This isn't a situation where we're talking about, you know, downside -- you know, folks have their own existing capital, you know, in their accounts.

It's a situation where we need highly talented investment managers and executives on both sides to make sure that we're accomplishing the mission of this organization, which is to make sure there's enough to pay the pension and the health and welfare benefits of the organization.

And so I think that anytime I think about the negatives about what we're proposing, we believe, you know, as your independent advisor, that the strengths outweigh what we're talking about.

VICE CHAIRPERSON MATHUR: Thank you. I have a -- oh, sorry, Anne.

CHIEF EXECUTIVE OFFICER STAUSBOLL: I'm sorry to -- I just think this might be the right time to interject, though I know -- the Chair had asked that the consultant meet with some of the Investment staff. And I wasn't at the meeting, but I know they raised some concerns that I think really relate to what Priya just -- Ms. Mathur just asked about the unintended consequences around the use of the incentive leverage, the impact it might have on recruitment. So I think it would be helpful if you could share the concerns you heard from them and your responses.

MR. GONZAGA: Yeah. And it's, you know, identified right there in terms of, you know, weaknesses and threats. It's that investment professionals specifically are used to a lot of leverage. You know, the perception is that they would much rather, you know, take -- you know, certain individuals would much rather take, you know, a lower salary, and they would appreciate the significant ebbs and flows from -- in an annual performance standpoint, because that's what they -- you know, they're used to.

And there is an element of risk associated with those types of plans. And that's something that they're used to. That's the world they live in, so -- and I think it's a very meaningful and important concept.

VICE CHAIRPERSON MATHUR: Okay. Thank you. I had a couple of other questions. With respect to the discretionary adjustments, what kind of reporting -- if we were to adopt that, what kind of reporting do you think the Board should require, and what kind of sort of distribution would you expect in terms of how many -- how many would get, you know, those kinds of discretionary adjustments on annual basis.

MR. GONZAGA: Yeah, I think that, you know, what I'd say in terms of discretionary adjustments from a salary perspective or discretionary adjustments from an annual bonus perspective or annual incentive perspective, you know, I think it's that rule of kind of -- I don't know if it's 75 -- you know, if it's 25, 25, 50 percent.

I mean, there's -- inevitably most organizations that implement some level of discretion, you know, there's just as many people impacted -- there tend to be as many people impacted positively as there are negatively.

And so, you know, my thought would be, in terms of process, you know, it really comes down that overall global evaluation of performance as part of the overall performance evaluation process. And how does that match up, whether -- around that kind of qualitative perspective in terms of individuals are performing?

You know, the controls I would say is that, you know, certainly, you know, you're going to rely on CEO, the CIO, and, you know, other members of the executive team. To exercise that discretion probably the process would be just like any other, where, you know, there's some relative disclosure at a certain level above and beyond. And you, know there's, opportunity to ask questions.

But I don't think it should be much different than you have now, other than you probably want to limit, you know, the folks that you, as a Committee, are reviewing. It's probably just with respect to the various senior leaders.

VICE CHAIRPERSON MATHUR: Okay.

CHAIRPERSON BILBREY: Before we go too much farther, you did mention about implementation. So I'd like to explore that a minute more.

Given where we are today, what could be achieved by the beginning of the new fiscal year, July 1st? What do you see us -- in terms of having a new policy and approved performance plans? And you mentioned we may not be able to get all those pieces together by July 1st. So what are your recommendations for an interim or transitional measures, as we prepare for it?

MR. GONZAGA: Yeah, a very good question. And, you know, because you know process is going to be very important. And what I would say is that depending on the outcome of this meeting, you know, after this meeting, would I would like to do is, you know, a couple things -- I mean, we're -- we have a potential implementation plan in mind. But what we'd like to do is, I think, really focus in on, you know, it might be that we'd have to take a look at the upper levels of the organization for '17.

You know, the other thing is that, you know, we do think we could implement the long-term incentive plan by July 1st as well, because the way it was designed was intended to be quite, you know, simplistic in nature. Important, but quite simplistic.

So I think it really comes down to the number of individuals that we're talking about. We will have a policy, you know, in place to recommend by, you know, I hope at the next May meeting. But I think that we talk about metrics. Let's just focus in on, you know, probably the upper half of the leadership team, you know, this year and then -- which I think it may be 30, 32 individuals the way I counted it, and then maybe moving on the rest in the subsequent year.

But that being said, depending on the outcomes of this, if you agree with the concepts, what I'd like to do is, you know, have a touch base quick with management, because it would require a lot of work on their end in terms of what a reasonable and feasible goal is, and we have to fit into their process, as well as, you know, having a conversation -- an off-line conversation with you all in terms of, you know, brainstorming about key priorities.

CHAIRPERSON BILBREY: So we have a long list of questions or comments, so I'll start with Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you, Mr. Chair. Thank you for the report. I think there's a lot of very interesting components that you've pulled together and presented to us. And one that I thought was kind of reinforcing where we want to go is this emphasis on the team approach, which leads to increasing the base salary and lowering the bonuses. But then we had the concept of discretionary bonuses for top performers.

So how do you kind of reconcile that tension between being part of the team versus your own performance?

MR. GONZAGA: Yeah. And it's a common issue that the folks have work through. And, you know, the way I would say that is that, you know, exercise of discretion. It cannot be -- first of all, the starting point for exercise to be -- discretion to be exercised starts with that team-oriented incentive. So any discretion is exercised above and beyond, I mean, there would be a cap of 50 percent up or down, based off of that earned incentive, which is primarily team based, and there's some individual components to its.

Now, the issue there is just making sure it's only used on highly a selective manner, in terms of making sure that we truly are recognizing those outstanding performers, and we also are -- if somebody is not living up to the letter of their job description or their fiduciary obligations, how they treat employees, et cetera, there's ample room to provide discretion. But again, it should be used on a minority basis.

ACTING BOARD MEMBER PAQUIN: So under that consideration, would a top performer be eligible for a Discretionary bonus year after year or is there some type of controls in there?

MR. GONZAGA: Well, you know, having seen this at a number of organizations, on occasion there are top performers who are eligible for that discretion to be exercised every year. But, you know, it's a very, very small number who are always those top performers. I mean, it's certainly something to look at, you know, as you go through the process.

The control is really such that you, as a Board, you're taking a look at your high performers. You, as an executive, you're taking a look at your performers. You know, maybe that rule of 80/20, you know, in terms of who are those high performers it probably does tend to be somewhere around 20, 25 percent of the employees. It doesn't have to be consistent year over year though.

ACTING BOARD MEMBER PAQUIN: Thank you.

CHAIRPERSON BILBREY: Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

So I guess one of the notions I struggle with is when I look at State workforce, of which these employees are apart of that, we're already talking about the very highest compensated State employees in the State of California. And then I hear the discussion that the current model is based around what investment professionals -- it's kind of modeled after the private sector or other competitor groups where there's a significant, you know, performance bonus on the line.

So I don't know what we're gaining by moving performance bonus into base salary, and further exacerbating this pay discrepancy from these folks to the rest of the world, probably in a way that far outpaces general salary increases other people might be getting. And so I don't know if that's as much a question or a statement.

But the question I have is, is on the longer term retention plan, the -- I forget what it's called. The second aspect of the performance where to encourage longevity from these folks, and low turnover. If that's a strategy, why don't we just move more of the annual bonus into a longer-term approach. But I don't know how you ever get from where we are today to do that. I'd assume you'd have to figure out a weigh to grandfather it in, because it seems a bit unfair to change the rules on the people that are here today, and take that annual piece -- more of it and move it to a long-term strategy. I just don't know how we implement something like that.

MR. GONZAGA: Yeah. And, you know -- and I appreciate the comments before in terms of, you know, the preference being, hey, high salary, long-term incentive, and no bonus. I disagree with that from the standpoint that, you know, there's all sorts of academic studies around, and they -- you can fight both ways. Do incentives work, do they not work?

Well, the one thing I do know they don't do is make poor performers high performers. But the value of a compensation plan from a strategic standpoint is really just communicating to your employees what you want them to accomplish for the year.

Now, all of that being said, and I know there are a few layers there, but if you were to talk about -- what I would say is that I do think that we just prefer balance, you know, in terms of always making sure that there's an eye in terms of annual performance versus long-term performance to find a balance in terms of performance incentives. And, you know, the other thing that I would worry about moving to too quickly, you may get there down the road in terms of moving over to long-term incentives only.

I wouldn't do it right away, because then you just think about kind of the pragmatics around changed management. That may be too drastic of a change. And so, you know -- and that's kind of where we come down on that. I think that if you ever were to get -- move to that process, if you were to implement a long-term incentive plan, I didn't think about coming in here, that if you ever did choose to go down that route, maybe it's five years down the road, as soon as the long-term incentive plan starts paying out.

COMMITTEE MEMBER GILLIHAN: And on this notion of high performers versus not high performers, I guess I would suggest that there shouldn't be anybody in any of these positions we're talking about that aren't high performers. And if there are, that's a management problem that needs to be dealt with, because these -- I mean, it's crazy to think that people in these salary ranges would be anything less than high perform -- they should have been high performers in the first places to get in these positions, and they're -- they should be maintaining that level of performance or we should be doing something about that from a management perspective.

So I don't see the high performers -- not high performance as a real issue, certainly not at the upper echelon of the positions that we're talking about here.

CHAIRPERSON BILBREY: Thank you.

Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Mr. Chair. I want to come back to a question that Ms. Mathur raised, and then I think Richard built on it as well. I like the idea of the more discretion in here by management to be able to reward performance. But you said that you -- when you talked to management about this, there was some interest in a larger variable as a tradeoff to smaller base.

And I'd like you to explore that with us a little bit further, because how would we -- if that made sense, how would we do that? How would we arrive at that kind of conclusion? And I'm not saying dollar for dollar. So I'm saying someone who has a lower -- takes a lower base, has a larger upside, which adds a complexity of trying to manage to it, because now you've created more incentive, and therefore you want the behavior to be correct.

But how -- is that possible? What was your reaction, because you didn't -- you heard that but you didn't put that in your solution.

MR. GONZAGA: Yeah. And our recommendation is really driven by the fact that although it's understandable in terms of, you know, the way, you know, things work out in industry. You certainly get comparable talent in comparable employees. But, you know, from my perspective, it's a different organization, of course, than an industry-based organization. And when you think about, you know, the evolution of industry and comparing and contrasting, you know, what CalPERS mission is versus a pure financial services firm, it's to, you know, certainly maximize profits. You know, and oftentimes, there is a significant emphasis on annual, you know, profits, specifically such that, you know, this situation when, you know, the fund's manager -- in many respects are managed as fiduciaries of the State. You know, we just wouldn't want you to either be perceived as having the potential for short-term risk, in addition to, you know, just coming up with something that, you know, may, you know, match with the mission of the organization a bit better. So that's how we ended up there.

BOARD MEMBER SLATON: So -- but yet you have some interest by those who are doing the job to explore that tradeoff. So, I mean, I think they recognize what their duties are as well. So is it not feasible to have that as an alternative that some could choose that and some could not, or does that just add too much complexity?

MR. GONZAGA: Well, you know, the issue with that is just that there would be -- it would add -- it certainly would add a bit more complexity having, you know, multiple incentive plans in -- running around in the organization. And my thought would be if you are going to come up with high, high leverage, you know, consistent with industry, a lot of that is going to be based off of simply individual performance.

And, you know, so my reaction to that I is that I think that as an organization, this isn't one that's driven by individual performance. And, you know, even talking to the Investment staff, there's a lot of shared ideas, and there's a lot of want for, you know, team work, you know, oriented in terms of asset allocation, in terms of rigor, you know, making sure that strategic decisions are made in consensus.

So, you know, that's really what's driving our thought. And I recognize that we are talking about something that is unique to industry, you know, in terms of lower leverage. But what it isn't unique to is certainly there's other pension funds that have less leverage in their pay plans, and you also think about their corollary in terms of larger tax-exempt foundations, where much of their incentive is significantly less leverage.

I mean, there are exceptions, just as there is in the pension world. But it really is this whole issue around risk management and sustained long-term performance.

BOARD MEMBER SLATON: So what I hear you saying is it's not as compatible -- that type of leverage is not as compatible with a team approach that we do here.

MR. GONZAGA: Right.

BOARD MEMBER SLATON: All right. Thank you.

CHAIRPERSON BILBREY: So I think it's important at this juncture, I'm going to ask Mr. Eliopoulos to come forward, since you did gain -- garner input from various staff as well as the Board and others. And I think it would be good for him to weigh in a little bit right now, if he'd like to also, and give him some perspective, based upon some of the questions we're getting.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Mr. Chair, thank you very much. Members of the Committee, Ted Eliopoulos, Chief Investment Officer.

I think three points. I've had time to listen to the discussion very much. Appreciate the opportunity to share. I think overall what Grant Thornton has proposed makes sense and is reasonable, and has some significant improvements, particularly the long-term incentive component, which I think is almost uniformly welcomed. That's point number one.

Number two, we are comfortable overall in the Investment Office with this notion of splitting the base and the bonus for the majority of our office, in other words, moving more base to the majority of the office. The point I wanted to underscore and one of the -- you know, the key differentiators over the last 30 years of the evolution of the Investment Office is how much of the assets are now managed internally within the Investment Office?

You know, it's gone from, you know, nearly zero to almost 70 percent. And that -- that fact that we have 70 percent of the assets now managed internally distinguishes us from many of our U.S. peers, and certainly is one of -- one of the most important things in thinking about a compensation program or scheme and how we weigh the salary and incentives for that staff, both in terms of what the culture of the investment management organizations that they've come from, but also in orienting the incentive for the investment professionals that are making the key decisions about how the performance of the total fund is achieved year by year, and most importantly over the long term.

And while there are some certainly valid issues with respect to discerning luck versus skill and performances attribution, I do think for us, as an organization, how the total fund performs is important -- an important objective for this organization. And we need to be very mindful at making sure that the professionals that we hire to perform that job are focused and compensated appropriately for performing those duties.

So in that regard, I do think having levels of discretion in order to -- for the CEO and the CIO to target specific investment professionals, particularly in our public asset classes is a key component to preserve to make sure to keep their attention and focus on meeting those performance targets.

The last point that I'll make, I do think there is some concern particularly within investment professionals within our public market areas that if we just rotely applied the shift from incentive comp to base comp as presented in these materials would effectively act as a pay cut to many of the professionals in those markets, particularly the strong performers who are meeting incentive targets greater than the norm or the average components. So that's the built-in flexibility to place individuals into a new base target is crucial.

I think the last point I'd make with respect to that, and the overall approach, is something that hasn't been discussed today. And I'm very mindful of Mr. Gillihan's comments about, you know, the State workers, State agencies. My dad was a 30-year junior high school public teacher, and my mom was an office technician in a junior high school. So I am extremely mindful of the disparity of compensation between the State workforce and the investment professionals at CalPERS.

And I'm also mindful of the fact that of the incredible work ethic and amount of work that our State workers do at their agencies and in their jobs. There's no distinguishment -- or distinction in my mind either in the level of work and the value for society that is performed.

We are though, in the Investment Office, a bit of a square peg in this round hole of setting compensation structure for this particular level of service. And the investment management industry is a competitive marketplace, and it isn't -- talent is marketplace as well, and we need to think about that. So I do believe there is a key issue with respect to -- and this is the topic that I don't think has been discussed much today, is given the peer set that this Committee will adopt or has adopted, the goal of targeting an overall compensation set for the investment professionals at the bottom quartile of our peer set is a concern, both from a reality and a perception issue, and is one that, you know, should probably be evaluated by the Committee.

CHAIRPERSON BILBREY: Thank you.

Ms. Mathur.

VICE CHAIRPERSON MATHUR: Thank you. Just with respect to your comments, Mr. Eliopoulos. I wasn't quite clear from what you said whether you thought the proposal for this -- to authorize the CIO to make discretionary bonus adjustments addressed your concern about sort of the short-term effects of this plan -- financial impacts.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think having the discretion, it really will depend on the implementation of that discretion. So I think part of it will be to see how -- what the implementation schedule is, what authority there is to place all of the staff in different spots in terms of base to incentivize some others.

But the more flexibility we could have, particularly to provide incentive compensation for our public asset classes, I think would be a really healthy thing to have.

VICE CHAIRPERSON MATHUR: I mean, one of the things --

CHIEF INVESTMENT OFFICER ELIOPOULOS: Tool to have.

VICE CHAIRPERSON MATHUR: Sorry. One of the things that we -- that I struggle with is that, you know, we have a very long-term horizon. And clearly, if we could construct something from scratch today, there probably would not be much of an annual bonus component. It would be all long-term incentives, plus base.

And really, it's something that we want from the public companies that we invest is for them to have more of a long-term focus. But nor -- but to accomplish that would probably have quite a significant immediate hair cut with long-term potential, which is I think what we're trying to avoid by having sort of the base salary go up a bit, and the long-term -- you know, so it's a bit of a shell game or mix and match game.

So do you think that, as proposed, this recommendation achieves sort of the right balance, and maybe that's too much, but given your concerns that you've listed today?

CHIEF INVESTMENT OFFICER ELIOPOULOS: I think it has the right balance and the right construct, and I'll put assuming, or with the proviso, that this amount of leeway or discretion to design the placement and the overall compensation for particularly in our public asset classes is an important tool to have, because we might have different weights for private asset classes and, for instance, for parts of the operation that Wylie oversees -- Mr. Tollette oversees.

We might have a different structure for those parts of the Investment Office versus the public asset classes. And that's -- it's a design question at that point. But as I said at the beginning, I do think the overall construct can work, and it needs to be really carefully implemented.

VICE CHAIRPERSON MATHUR: Okay. Thank you. So then just moving to Mr. Gonzaga, did you consider that -- having differentiation between the private and the public asset classes, and I guess the back office team as well?

MR. GONZAGA: Yeah. You know, the one thing I will say that is absolutely critical, as part of this process, is that, you know, CEO/CIO, Investment staff, I mean, there need -- there does need to be, you know, ample leeway to recognize and reward the high performers. We don't -- when we -- when we run these numbers -- I mean, when we talk about running these numbers, costing, et cetera, it's just taking an average person.

Now, the trick is really going to be let's take a look at all of these individuals, and we'll just use the Investment Office for now, what has their three-year average bonus history been? And, you know, Ted and his group need to go down line item by line item in terms of who are the high performers? Should they -- are they positioned appropriately relative to what they've averaged over the last three years in terms of bonus, plus existing salary? That's the total cash. And, you know, is this a high performer that we want to move a little bit up?

Likewise, maybe there's some individuals that, you know, are positioned or historically been paid a little much, based on historical performance. So, you know, the flexibility in the discretion, you know, it certainly isn't ours. It really is -- and that's why we recommended it, it's because, you know, management does need that ability to say, yea or nay, in terms of high performers and make a very pure differentiation between who's a high performer and who's a good performer, and who's a low performer.

VICE CHAIRPERSON MATHUR: But the question about the private asset classes versus the public asset classes, where the private asset classes really are -- the fruits of their labor really are borne out over the very long term. Whereas, for the public asset classes it might be a little shorter term. Did you consider that differentiator?

MR. GONZAGA: We considered it from the standpoint, that there certainly does need to be ample flexibility to consider recruitment and retention considerations.

VICE CHAIRPERSON MATHUR: Okay. So now turning to process, because I think, you know, in order to implement the full body of this work, there are a number of things that need to be accomplished. We need to adopt a policy, which you said that assuming the Board endorses this approach -- or the Committee and the Board endorses this approach, you would be prepared to bring back a policy in May. Typically, we have sort of two readings of a policy, so that would be May and June. We'd also need to adopt pay ranges and metrics, and really sort of -- so that's seem like quite a lot to accomplish between now and June 30th, even for a smaller segment of the -- you know, some subset of the individual's we're talking about.

And I -- and so I guess my question is getting back to sort of what -- maybe we need to like think about mapping out what needs to happen, and whether it can really be accomplished by June 30th, which I think we would all love to have it implemented for the next fiscal year, but I guess -- I'm wondering how realistic it really is.

And then secondarily, in order to give you enough direction to move forward with a policy, what is it that the Board should endorse? Is it what is on page -- and I'm happy to make a motion around it. On page eight of your presentation, sort of the suggested transformation roadmap, is that --

MR. GONZAGA: Actually, it would be page 24, I think, you know, in terms of -- let me get there.

VICE CHAIRPERSON MATHUR: Page 24 of your presentation.

MR. GONZAGA: Yes.

VICE CHAIRPERSON MATHUR: Which is page 37 of the iPad, I think. Okay.

MR. GONZAGA: Right. If we get perspective on all of these 12 items, you know, we'll have what we need to assist with the policy development. And I think that, you know, certainly, you know, come June we'll also -- I mean, that was the intent is to come back actually in May with the recommended pay ranges before the --

VICE CHAIRPERSON MATHUR: Okay. With pay ranges in May. Okay.

MR. GONZAGA: Yes. Because, you know, although, you know, we'll have a relative feel for where you want to go here, and we'll at least let -- need to let you know the numbers and the parameters per position, as well as the philosophy. And then, you know, the assumption is that, you know, again, as I indicated before, if you'd allow us the opportunity to speak with, you know, management about metrics, metric selection and the process to get that done, because, you know, management will be carrying, you know, the bulk of that load. And, you know, we'll be there to assist them, but it has to be reasonable with their schedule, so --

VICE CHAIRPERSON MATHUR: Okay. All right. Thank you. That's very helpful. Whenever you think is appropriate, Mr. Chair, I'd be happy to make that motion.

CHAIRPERSON BILBREY: Yeah, I'd like to get to the others before we make a motion.

VICE CHAIRPERSON MATHUR: Sure.

CHAIRPERSON BILBREY: And there's several.

Mr. Boyken

ACTING COMMITTEE MEMBER BOYKEN: Thanks. I'll try and be quick. Thanks for your comments and observations, Ted. I appreciate those. And I do want to get back to Mr. Gonzaga on a question you raised about the peers, but I'd be remiss if I didn't say that I share -- as a member of the State workforce and working for a State elected official, I share the concerns Mr. Gillihan raised about a class of employees whose work I appreciate very much, and who I think are extremely talented, but who, you know, in some cases make multiples of the typical State worker, and whose increases have historically outpaced their peers.

You know, increasing the base gives me concerns. I don't know what to do about it, but I just had to get that on the record as a concern. But the question that I had is on the slide, and I don't know which page it is now, but where you had the existing versus the potential, in terms of the comparison to peers and the comparator group that we've chosen on base pay and total compensation, what would moving from the existing to potential do just on the page that you have in the deck?

MR. GONZAGA: Yeah. And, you know, really what it comes down to is I think that it would move pay, you know, for the 20098s and the CEO. I mean, it would tend to range, you know, between that 25th to 50th percentile. You know, that would be the intent. And it probably falls on the average. You take, you know, the top seven or eight folks, it's probably right in the middle between the 25th and the 50th percentile.

And then for the other folks from a total cash perspective, the intent would be -- you know, it still lags, the 50th percentile, by a little bit, but, you know, it's moving towards there, so...

ACTING COMMITTEE MEMBER BOYKEN: Okay. And so when this comes back, could we -- because I think other times you've presented what the comparator group is. That would be great.

MR. GONZAGA: Yes, yes. It's pretty consistent with the philosophy that we discussed last time, and I should have been clear about that.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

CHAIRPERSON BILBREY: Mr. Lind.

COMMITTEE MEMBER LIND: Thanks. So from the time that I first landed on this Committee a couple years ago, I was the one that was strongly advocating, you know, that let's pay people what they're worth as a base salary and diminish this whole incentive piece. I still believe strongly in that for the CEO and the, what are they, 20098s for sure. Except the long-term incentive thing I think we all agree is an important piece of it.

My thinking has evolved over time on the others, particularly -- you know, the people in the Investment Office, because I've been convinced that both just given the nature of what they do, the issues that Mr. Gillihan has raised, that's a much more complex piece of it that we could just go to, you know, a base salary.

But I think this plan sort of sets the framework for the right balance to do that. It's going to need some work and some tweaking and all that. As far as the sort of incremental implementation, I think earlier you mentioned like maybe for the next fiscal year I think you said 35 individuals. And I'm not sure who fits within that group. I don't think we have that many 20098s. I mean, I don't understand the system well enough to know that.

But maybe the initial implementation could be that those people and, you know, the CEO, that the executives, while we continue to work through the -- kind of the ideas for the, you know, the bigger group.

MR. GONZAGA: Right. Right.

CHAIRPERSON BILBREY: Ms. Stausboll.

CHIEF EXECUTIVE OFFICER STAUSBOLL: Just to clarify, we have approximately 80 2009 -- so-called 20098 employees. Everyone in the Investment Office who's in a management position is a 20098 employee. So as we move forward, we should be careful how we're categorizing.

COMMITTEE MEMBER LIND: Okay. So with that clarification, the people I'm driving at are the -- kind of the ones listed here somewhere. I lost the page. Senior executives, I guess, would that be, the CEO, the Chief Actuary, the General Counsel, that level of folks are the ones that I'm sort of talking about.

CHIEF EXECUTIVE OFFICER STAUSBOLL: So in the Investment Office, Chief Investment Officer only or would you go --

COMMITTEE MEMBER LIND: That would be may take on it at this moment, I guess. Just a suggestion.

CHAIRPERSON BILBREY: Okay. Mr. Jones.

VICE PRESIDENT JONES: Yes, at the last meeting, I'd ask the question about empirical data in terms of organizations that have implemented a similar system, and whether or not the data shows that that was an improvement in performance, and you said that you would get some data on that. And so what's the results of that?

MR. GONZAGA: You know, I'm sorry that I actually missed that item. And, you know, in terms of, you know, pulling that data in terms of an empirical analysis.

You know what I'll tell you is -- and, you know, that's a good point to bring back. But, you know, the one thing, and I feel very confident on this, is that they're not going to -- I doubt there will be any, you know, scientific conclusions just being a compensation professional, and having read these significantly in terms of, you know, proving that one specific pay system is empirically better, you know, than the other in terms of higher leverage as it relates to organizational performance.

VICE PRESIDENT JONES: Well, in terms of most changes are being driven by something, in terms of improved performance, improved outcome, or improved customer satisfaction, employee satisfaction. So if none of those exist, then why are we recommending changing?

MR. GONZAGA: There's plenty of empirical evidence that measuring outcomes, and using it to focus folks on accomplishment of results works. Now -- and I'm sorry. I was responding to -- I thought the question related to higher leverage versus lower leverage in terms of, you know, more conservative incentives versus higher leverage, whether or not you could prove one has a better impact, in terms of organizational performance.

But certainly, without question, there's evidence to say that the power of incentives is because you're measuring something and holding folks accountable to it, and -- in terms of focusing folks performance on what you want to achieve for the year. And, you know, we could certainly provide plenty of evidence for that.

VICE PRESIDENT JONES: And last question. Similar plans that have been implemented, what are some of the implementation challenges that have occurred moving forward on something like this?

MR. GONZAGA: Well, I think we're hitting on all of them. You know, the one is -- whenever you start talking about reallocation, you know, to more fixed pay, it's just making sure that it's being utilized in an appropriate manner, and making sure that, you know, the folks that should be positioned at a higher salary are there for a specific reason.

You know, the second issue is, as we move to more outcome oriented incentive plan, what are the right measurements that we believe in? As we go through the process, what's the right CEM metric, what's the right stakeholder satisfaction metric?

You know, there's challenge in terms of once you haven't put pay relative to that specific metric, the challenge is really, okay, how much do we believe in this metric and how can tie pay to it? So it's a matter of, you know, making sure the metric selection is appropriate.

VICE PRESIDENT JONES: Thank you.

CHAIRPERSON BILBREY: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Oh, I forgot.

I did want to thank you very much for the presentation. Given where we were last year, this is where we wanted to go, and I really appreciate that. I did want to add my voice to CalHR and Treasurer's Office in that as representative of State employees, we all feel like we do a great job and a difficult job. So it's hard to watch State -- other State employees be treated in such a differential manner. And it would be -- it will be harder for me to answer to my members who elect me -- not that I don't agree with this. I do agree with this.

But I had one question for Ted, and it was because I was unclear on what you said earlier. You had -- I got a little confused, you spoke about overall -- the overall Investment staff. And I was confused as to whether or not -- and the incentive program, and whether or not you were talking about all the way down the line to -- I don't know. Am I getting confused there? Because it sounded like you were talking about even the IIIs, IIs and Is.

CHIEF INVESTMENT OFFICER ELIOPOULOS: I wasn't addressing that topic. I was making the distinction between our public markets asset classes versus the private and the operations side of it.

The discussion around incentive compensation for all of the people that work in the Investment Office, not just the management. That's a separate discussion, and I done think is up for discussion today.

COMMITTEE MEMBER TAYLOR: Okay. I was -- I got a little confused there. I was like woops. Thank you.

CHAIRPERSON BILBREY: Okay. Ms. Mathur.

VICE CHAIRPERSON MATHUR: Thank you. First, I just want to say I absolutely hear the concerns that have been raised by CalHR and the Treasurer's office and Ms. Taylor as well. But I think the practical issue in front of us is that we recruit and retain the talents such that we can continue to deliver returns and to continue to deliver the pension benefits at a -- in a cost effective manner, and, you know, the less we are willing to pay -- it's not -- maybe it's not perfectly correlated, but I think if we -- if really underpay relative to the industry, then we're not going to be able to attract the best talent and we're going to end up outsourcing again a lot of these important functions in the Investment Office, and important jobs in the Investment Office. And we're going to end up actually costing the system a lot more money for little return.

So it's a very -- you know, it's a very challenging thing to talk about, but I think from a practical standpoint, we're absolutely saving all State workers and our -- all of our members money by insourcing and paying competitive, maybe not top -- not top, but competitive salaries. So I just want to make that statement.

In terms of -- I would like to now make a motion, just so we can give really clear direction to our consultant about how to proceed. And as he indicated, page 37 lists 12 --

CHAIRPERSON BILBREY: Thirty-seven on the iPad.

VICE CHAIRPERSON MATHUR: Thirty-seven on the iPad, which is page 24 in the presentation. He lists 12 items -- changes. And I would move that we endorse all 12 changes and recommend that for -- to the Board that the Board endorse those 12 changes.

CHAIRPERSON BILBREY: It's a motion.

VICE CHAIRPERSON MATHUR: And that the consultant bring back a policy and a set of pay ranges in May that reflect that.

CHAIRPERSON BILBREY: Is there a second?

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON BILBREY: Ms. Taylor seconds.

I want to clarify in this that IO refers to Investment Office, correct?

VICE CHAIRPERSON MATHUR: Yes. Thank you. That is important.

CHAIRPERSON BILBREY: That is mentioned within the document, Investment Office. I know that can also be construed as an Investment Officer. I want to make sure that it's Investment Office that we're talking about.

MR. GONZAGA: That's right.

CHAIRPERSON BILBREY: So it has been moved and seconded to adopt the 12-point checklist here on page 37 of the iPad. Any discussion on the motion?

Mr. Slaton, did you --

BOARD MEMBER SLATON: Thank you, Mr. Chair. Just one point that Ms. Mathur raised, and Ms. Taylor and others. You know, it's important to keep this in perspective. We sit here looking at CalPERS, but if you go to publicpay.ca.gov, which is Controller Yee's site at the State, and if you look at the top 50 compensations, CalPERS represents 13 of the top 50, and that's just looking at the State.

So if you went and included local government and special districts in their, it would be even a much smaller percentage. There's a lot of occupations in here that get very high compensation who work for the State, including a lot of people in the medical field. And it's because it's a competitive field. You couldn't get those skill sets to go to work, unless you're willing to pay that compensation. So I think we need to keep it in perspective as we go. And I think the motion is a good one.

CHAIRPERSON BILBREY: Mr. Lind.

COMMITTEE MEMBER LIND: Yeah. I just want to clarify here. I guess, what we're really voting to endorse are concepts with which to move forward on definitive plan, correct?

VICE CHAIRPERSON MATHUR: Yes, from which to craft a policy and a set of pay ranges that we would then move forward.

COMMITTEE MEMBER LIND: Thank you.

CHAIRPERSON BILBREY: Okay. Seeing no other discussion. All those in favor say aye?

(Ayes.)

CHAIRPERSON BILBREY: Opposed?

(Noes.)

CHAIRPERSON BILBREY: Let's try the voting machine, please.

(Thereupon an electronic vote was taken.)

CHAIRPERSON BILBREY: Item passes.

Okay. Thank you.

So I think Mr. Gonzaga, we have given -- Ms. Stausboll?

CHIEF EXECUTIVE OFFICER STAUSBOLL: Sorry. Go ahead, Eric.

MR. GONZAGA: Oh, no. I just wanted to say thank you and we'll be ready.

CHIEF EXECUTIVE OFFICER STAUSBOLL: Thank you for your patience. I think it would be helpful to talk about exactly, to the extent possible, what's coming back next month.

So I think in order to -- I think it would be good to talk about what's coming back next month, because -- just for context, normally at this time of year, we already have draft plans in place and are bringing them forward to you all in May and June. So next month -- this is what my goal would be for you, the draft policy that embodies all these concepts, which is a big product, proposed pay ranges -- pay ranges and incentive ranges, I guess, to be voted on, and proposed metrics.

If we don't get some really clear guidance on those next month, there -- we won't be able to put it in place for July 1. And it's important to our employees to know what they're being compensated on.

CHAIRPERSON BILBREY: And I heard Mr. Gonzaga say he would like to talk to you and talk to staff about those metrics.

CHIEF EXECUTIVE OFFICER STAUSBOLL: Right. But do you think it's doable to bring all those pieces back?

MR. GONZAGA: Absolutely on the policy. Absolutely on the proposed pay ranges and incentive ranges. And then, you know, the metrics certainly, you know, the categories with, you know, how they would be defined. That is doable. It would just require some interaction with obviously your team, which we're more than willing to do, so...

CHIEF EXECUTIVE OFFICER STAUSBOLL: Okay. Great.

CHAIRPERSON BILBREY: Ms. Hollinger.

BOARD MEMBER HOLLINGER: Not necessarily for you, but maybe this is for one of the Richards. Coming from the private sector, one of the things that I'm just really confused about is whether or not we're wasting our time because of the constraints of the civil service system, and the salaries, like -- because I hear Mr. Gillihan's comments, and do we have the ability to raise base pay?

CHAIRPERSON BILBREY: Yes, for this category.

BOARD MEMBER HOLLINGER: Oh, for this category, we do. Okay.

CHAIRPERSON BILBREY: Okay. All right. And I also want to note that Mr -- some information Mr. Jones had requested, you said you would bring some of that back or you can send it to us in the meantime. We could also send it out to the Committee and the Board.

MR. GONZAGA: I will, Mr. Jones. There's -- we have plenty of that. And I apologize for the oversight.

CHAIRPERSON BILBREY: Very good. Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: I was just going to take a moment of personal privilege, Chair. And say, Laurie, your new job down the street is going to be so much more boring. Are you going to miss all this?

(Laughter.)

ACTING COMMITTEE MEMBER BOYKEN: But on a serious note, we're losing incredible institutional knowledge, particularly on this subject. So thank you.

CHAIRPERSON BILBREY: So before I end this meeting, I want to take a moment to thank all the Committee members, the Board members who have been engaging in this process as we're moving forward. I want to thank the staff who has also been engaging. And Mr. Gonzaga, we thank you. And tell Mr. Gentry we missed him. We look forward to seeing him next month.

But all the work that's been going into this -- and I want to also say that all the employees of CalPERS, we value the work that you do each and every day. And while we were talking about a subgroup and all, we want to make it clear that the Board recognizes all the work that's done in every part of this organization, and value everyone who is here as a whole. So I thank everyone for that.

Is there anything else, Mr. Hoffner, summary of direction? I think we've got it.

All right. With that, this meeting is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 12:31 p.m.)

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

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

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

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

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

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of April, 2016.

James F. Peters

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063