



Compensation Policies and Procedures for Executive and Investment Management Positions

Table of Contents

General Program Overview	3
Purpose	3
Rationale	3
Authority	4
Compensation Administration and Management	4
Covered Positions	4
Program Elements	4
Base Pay Overview	4
Annual Incentive Award Overview	5
Special Pay Overview	5
 Base Pay	 5
Base Pay Ranges	5
Determining Base Pay Ranges	6
Salary Surveys	6
Salary Upon Appointment	6
Base Salary Increase	7
Base Salary Increase Merit Matrix	7
 Annual Incentive Plan	 7
Concept of Pay-for-Performance	7
Elements of an Annual Incentive Plan	8
Annual Incentive Plan Cycle	10
Development of an Annual Incentive Plan	10
Status Reports and Plan Changes	12

Table of Contents - Continued

Annual Incentive Award13

 Annual Incentive Award13

 Annual Incentive Award Ranges13

 Movement between Incentive Award Ranges (Investment Directors and Investment
 Managers Only)13

 Incentive Award Computation13

 Performance Periods14

 Incentive Award Calculation (Quantitative Measures).....15

 Incentive Award Calculation16

 Rating Scale for Qualitative Measures17

 Discretionary Performance Adjustments18

 Pro-Rata Awards19

 Authority to Defer, Reduce or Eliminate Incentive Awards.....20

 Action upon Unsatisfactory Performance22

 Action upon Separation.....22

Special Pay22

 Special within-Range Base Pay Adjustment (Investment Managers)23

 Special within-Range Base Pay Adjustment for Extraordinary Circumstances (Non-
 Investment Executives)23

 Interim Appointment.....23

 Recruitment Differential24

Year-End Performance Appraisal Process (Incentive Award and Base Pay Increase)24

 Performance Appraisal Process Overview.....24

 Incentive Award Determination Process25

 Base Pay Increase26

 Overall Performance Rating Scale.....26

 Performance Appraisal Approval Process27



Compensation Policies and Procedures for Executive and Investment Management Positions

General Program Overview

Purpose

The compensation policies have been developed over years of public review, discussion and debate. They represent the strategic decision that pay must be high enough to encourage individuals to accept and remain in positions, but not so high as to attract candidates solely for the compensation. Moreover, compensation systems must be carefully structured to both recognize labor market forces, and reinforce maximum performance through placing a substantial portion of total annual compensation at risk. This pay-at-risk approach places a premium on achieving objectives that are directly connected to the CalPERS Board's strategic and business plans. As a result, the recruitment and retention of highly skilled executives and investment manager serves as the foundation for the organization's overall success.

Rationale

The rationale for establishing compensation policies and procedures for senior executive and investment management positions covered by this policy is based on consideration of the labor market conditions affecting the recruitment and retention of professionals in the fields of institutional investing, actuarial valuation and pension administration, most who are recruited from the private sector. Especially in the case of senior investment managers, the civil service salary structure differs substantially from that of the for-profit sector, the primary recruitment source. Not only are these positions more highly compensated in the for-profit sector than traditional civil service pay scales can accommodate, but total cash compensation in the for-profit sector is tied to pay-for-performance and incentive bonuses in a manner that makes fixed civil service salary ranges and steps impractical for recruiting and compensating such executives.

Authority

SB 269, enacted in 2003, amended Government Code Section 20098 to provide that the Board of Administration shall fix the compensation of the Chief Executive Officer, Chief Actuary, Chief Investment Officer and other investment officers and portfolio managers whose positions are designated managerial. The Government Code was further amended in 2007, 2011, and 2015 to include the General Counsel, Chief Financial Officer, and Associate Investment Manager respectively.

All covered positions, except the exempt Chief Executive Officer, shall be filled through general civil service appointments and are subject to most of

the civil service provisions of existing law, including the tenure provisions governing managerial employees. The positions are not eligible to receive Merit Salary Adjustments (MSA) as provided in Government Code Section 19832. These policies and procedures describe the program components of base pay, performance (incentive) awards, and other special pay provisions comprising the compensation system for covered positions.

Compensation Administration and Management

The CalPERS Board of Administration reserves the right to rescind or modify these Policies and Procedures and the compensation schedules derived from them at any time.

Covered Positions

Administrative Executives:

- Chief Executive Officer
- Chief Actuary
- Chief Financial Officer
- General Counsel

Investment Executives and Managers:

- Chief Investment Officer
- Chief Operating Investment Officer
- Managing Investment Director
- Investment Director
- Investment Manager
- Associate Investment Manager

Program Elements

There are three components to the CalPERS Executive Compensation Program:

- Base Pay
- Pay-for-Performance/Incentive Pay
- Special Pay

Base Pay Overview

- Each covered position classification has a discrete salary range
- Salary ranges are based on relevant public and private sector market data gathered every two years or as the Board deems necessary
- Movement within defined salary ranges is driven by the annual employee performance appraisal process or other compelling circumstances such as equity or retention

***Annual
Incentive
Award
Overview***

- An incentive) award is an annual, one-time contingent cash award reflecting an individual’s achievement of measureable performance objectives documented in an annual incentive plan
 - An incentive award is a form of pay-for-performance which is intended to ensure that CalPERS is meeting critical organizational objectives
 - Incentive award potential varies by position
-

***Special Pay
Overview***

Special pay provisions are designed to address specific or extenuating circumstances:

- Special within-range salary movement may be granted to address retention, internal equity or other extraordinary circumstances subject to appropriate approvals
 - Additional compensation may be granted in conjunction with interim assignment of additional responsibilities until a position is filled
 - A recruitment differential, or one-time payment upon appointment to a position, may be provided to eligible appointees based on an individual’s specific circumstances
-

Base Pay

Base Pay Ranges

Base salary ranges, rather than single rates of pay, will be established for positions covered under Government Code Section 20098(a).

Determination of base salary ranges will be based upon one or more of the following:

- Consideration of internal equity factors
 - Relevant marketplace salary survey data gathered every two years
 - A review of relevant data when a position becomes vacant
 - Data gathered when the Performance, Compensation and Talent Management Committee determines a special survey is necessary, or
 - Consideration of industry standards and best practices relative to executive compensation
-

***Determining
Base Pay
Ranges***

At the discretion of the Performance, Compensation and Talent Management Committee, the quartile of the market salary data for the comparator groups below will be determined at the time each salary survey is conducted.

Base salary ranges are established by using a blend of private and public sector data as follows:

Executive Management Positions:

- Leading US public funds, leading Canadian public funds, select California-based agencies (including large local agencies), banks and insurance companies

Investment Management Positions:

- Large and complex institutional investors, including: US public funds, Canadian public funds and US corporate plan sponsors.
- Private sector asset management organizations of comparable size (\$150B to \$350B AUM) that are key competitors for CalPERS staff, including: investment management/advisory firms, insurance companies and banks.

Salary Surveys

To ensure salary ranges are appropriate and relatively competitive with the defined market comparator group, a comprehensive salary survey of all comparable executive positions may be conducted every two years or as the Board deems necessary. Special surveys may also be done to validate the existing range or establish a new recruiting range when a position becomes vacant or a new position is established. In the intervening years, executive base salary ranges may be adjusted by an amount reflective of general annual private sector executive salary movement as reported by a reputable source, such as the American Compensation Association.

***Salary upon
Appointment***

Individual base salary is determined at the time of hire by the hiring supervisor based on factors such as appointee's current compensation, internal equity, value of skills and/or expertise, and other relevant factors. For the Chief Executive Officer and Chief Investment Officer positions base salary is determined by the Board of Administration, based on the recommendation of the Performance, Compensation and Talent Management Committee. The individual salary upon appointment may not exceed the maximum for the established salary range of the position.

Base Salary Increase

Individual base salary increases are considered annually in conjunction with the performance appraisal process. An individual may be granted an increase from 0-10% based on the following factors:

- Current quartile placement in the base salary range
- Overall performance rating on annual performance appraisal as defined in the merit matrix as follows:

Merit Matrix Based on a 4% General Market Increase in Executive Base Pay				
Performance Rating	<i>Position in Range Before Increase</i>			
	First Quartile or Below	Second Quartile	Third Quartile	Fourth Quartile
Outstanding	10%	8%	6%	4%
Consistently Exceeds Standards	8%	6%	4%	2%
Meets Standards	6%	4%	2%	0%
Does Not Fully Meet Standards	2%	0%	0%	0%

Annual salary increases will be based upon the written performance appraisal, unless otherwise recommended by the Performance, Compensation and Talent Management Committee to address existing retention or pay equity considerations.

If the annual increase, as defined by the merit matrix, places the individual base salary above the maximum for the salary range, the individual will be placed at the maximum for the range. Under no circumstance can the base salary exceed the range maximum.

Annual Incentive Plan

Concept of Pay-for-Performance

This Annual Incentive Plan is intended to further the mission of CalPERS by providing “at-risk” pay for a portion of pay consistent with the CalPERS total compensation philosophy. The intent of this “at-risk” program is to promote an integrated focus on achievement or progress towards organization-wide long-term strategies.

***Elements of
Annual
Incentive Plan***

The basis for payment of the performance award is the annual incentive plan, which will tie annual incentive awards to the following distinct segments of the plan:

- Organizational Performance Outcomes
- Individual Key Business Objectives
- Discretionary Modifier

All participants will have Organizational Performance Outcomes as part of their Annual Incentive Plan, and will be subject to the Discretionary Modifier discussed later. However, the specific Organizational performance Outcomes may vary from participant to participant. Participants may or may not have Individual Key Business Objectives.

Organizational Performance Outcomes will be quantifiable metrics that reward for Performance, Compensation and Talent Management Committee pre-approved performance criteria in the following performance categories:

- Operational Effectiveness: Measures organizational efficiency.
- Stakeholder Engagement: Measures member and/or employer perceptions.
- Customer Satisfaction: Measures member and/or employer and/or employee perspectives on service received.
- Investment Returns: Measures total fund and/or asset class and/or portfolio returns.

Note that the Chief Operating Investment Officer and other positions that have primary responsibility for risk management will not have Investment Returns as an Organizational Performance Outcome.

Individual Key Business Objectives can be either quantitative or qualitative performance measurements. If selected for a participant, the plan will be limited to 1 to 3 Key Business Objectives that represent specific focal points for the participant relative to the four Organizational Performance Outcome categories discussed above.

Organizational Performance Outcomes and Individual Key Business Objectives will each be assigned a weight, with total weighting per individual not to exceed 100% for all measures. Weights, like the applicability of each metric, may vary from participant to participant. Performance will be rated as follows:

Organizational Performance Outcomes	<ul style="list-style-type: none"> • Below Threshold (no award) • Threshold (Minimum incentive level) • Between Threshold and Target • Target (Stretch High Expectations) • Between Target and Maximum • Maximum (Far Exceeds High Expectations)
Individual Key Business Objectives	<ul style="list-style-type: none"> • Below Threshold (no award) • Threshold (Minimum incentive level) • Target (Stretch High Expectations) • Maximum (Far Exceeds High Expectations)

The Discretionary Modifier can be applied to all participants on an individual basis, by either the Performance, Compensation and Talent Management Committee, the CEO, and/or the CIO with approval by the CEO, (depending on participant), and can be applied as follows:

- Negative adjustment or elimination of award altogether for non-adherence to risk management protocols. Positive or negative adjustment for qualitative individual performance criteria based on the annual performance appraisal process.

Annual Incentive Plan Cycle

The Annual Incentive Plan cycle consists of the following activities:

- Annual Incentive Plan Development
 - Semiannual Performance Monitoring
 - Quarterly Approval of Annual Incentive Plan Changes
 - Performance Evaluation based upon achievement of performance plan measures
-

Development of Annual Incentive Plan Prior to the beginning of the fiscal year (or as soon as practical for new hires), each covered executive develops an Annual Incentive Plan comprised of quantitative and/or qualitative incentive plan measures for approval as follows:

Position	Approver(s)	Timeframe
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)	May/June (or as soon as practical after new appointment)
Chief Actuary Chief Financial Officer General Counsel	Chief Executive Officer	May/June (or as soon as practical after new appointment)
Chief Operating Investment Officer Managing Investment Director Investment Director Investment Manager Associate Investment Manager	Chief Executive Officer Chief Investment Officer (by delegation from CEO)	May/June (or as soon as practical after new appointment)

Organizational Performance Outcomes and Key Business Objectives will be measured and, as such, involve the detailed construction of benchmarks and accompanying schedules by which performance is measured. To ensure consistency with CalPERS long-term strategies, Investment Return or otherwise, and other relevant factors, prior to submitting performance plans for final approval, all measures require the review of appropriate supervisors and the Board’s investment consultant as follows:

Position	Approvals					
	Supervisor	COIO	CIO	Investment Consultant	CEO	Board
Chief Executive Officer				✓ ¹		✓
Chief Investment Officer				✓	✓	✓
Chief Actuary				✓ ¹	✓	
Chief Financial Officer				✓ ¹	✓	
General Counsel				✓ ¹	✓	
Chief Operating Investment Officer			✓	✓	✓	
Managing Investment Director		✓	✓	✓	✓	
Investment Director Investment Manager Associate Investment Manager	✓	✓	✓	✓	✓	

¹ Investment Consultant review is required for all Investment Return performance outcomes.

**Status Reports
and Plan
Changes**

Each covered position must prepare a short status report on both quantitative and qualitative performance measures on a semiannual basis in the course of the fiscal year.

Semiannual status reports require the following approvals:

Position	Approver(s)	Timeframe
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)	February (1st) September (year-end)
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer	February (1st) September (year-end)
Chief Operating Investment Officer Managing Investment Director Investment Director Investment Manager Associate Investment Manager	Chief Executive Officer Chief Investment Officer (by delegation from CEO)	February (1st) September (year-end)

Changes to the incentive plan measures will be accepted on a quarterly basis and require the following approvals:

Position	Approver(s)
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer
Chief Operating Investment Officer Managing Investment Director Investment Director Investment Manager Associate Investment Manager	Chief Executive Officer Chief Investment Officer (by delegation from CEO)

Investment Return performance measure changes also require review by the Board’s investment consultant prior to approval and integration into the plan. The Chief Operating Investment Officer serves as the coordinator for and the independent check in this process by overseeing the review of performance measures for consistency with established performance objectives, investment policies and compliance procedures.

Annual Incentive Award

Incentive Award An incentive award is part of an individual’s total compensation, a one-time payment based on achieving specific organizational objectives as defined in an annual incentive plan.

Incentive Award Ranges The Board, upon recommendation of the Performance, Compensation and Talent Management Committee, sets the incentive award ranges for all covered positions. The incentive award range represents the percentage of base pay available to be earned based on the level of achievement (threshold, target, or maximum) on the annual incentive plan objectives.

Incentive award ranges will be periodically reviewed by Performance, Compensation and Talent Management Committee and may vary by position. Any change to an established incentive award range must be approved by the Board of Administration.

Incentive Award Ranges to be added here.

Movement Between Incentive Award Ranges (Investment Directors and Investment Managers Only) For Investment Directors and Investment Managers, any movement from one established incentive award range to another, must be fully documented in a request from the appropriate Managing Investment Director to the Chief Operating Investment Officer and Chief Investment Officer, which identifies the specific criteria and justification for change. The Chief Investment Officer will carefully review and assess the criteria and determine if a schedule change is warranted. Once approved, the change request is forwarded to the Chief Executive Officer. Final approval of all schedule changes resides with the CEO.

Criteria considered in support of a change to an individual’s Incentive Award Range include the following:

- Achieving the maximum performance rating on all quantitative performance measures for two successive years
 - Having 20% or more of assets within an asset class under direct control or management
 - The specialized nature of the position or the unique talent level of the individual
 - Retention or attraction factors for key personnel
-

***Incentive
Award
Computation***

Incentive awards are computed using the following formula:

Performance Measure Weight	X	Level of Achievement (Multiplier)	X	Target Award	=	Incentive Award
-----------------------------------	----------	--	----------	---------------------	----------	------------------------

***Performance
Periods***

Quantitative performance measures tied to Investment Return will generally be based on five year multi-year performance against relevant benchmarks, utilizing an award schedule approved by the Board of Administration. The purpose of the schedule is to align the investment award schedules for individuals with the long-term investment objectives of the organization.

Quantitative performance measures other than total fund or specified asset class performance will generally be based on an annual performance, whether based on internal performance improvement objectives, or against relevant benchmarks.

Qualitative performance measure measures will generally be based on annual performance as well.

The performance measure periods and the provisions of the instructions for calculation are effective July 1, 2016 and will remain in effect until the issuance of a replacement schedule by the Board of Administration.

Incentive Award Calculation (Investment Returns & Metrics)

The incentive award for any Investment Return Metric will be based on five-year performance metrics, relative to benchmark, regardless as to when an individual began employment at CalPERS. All other metrics will be established based on annual performance. Below we have provided sample award calculations for sample Organizational Performance Outcomes, and provides an overall sample award determination matrix.

**Sample 5-Year Investment Return Incentive Award Calculation
BPS Performance Relative to Benchmark**

Variance (bps) from Benchmark	Existing Payout Ratio	Proposed Payout Ratio
+35	1.50 (150%)	1.50 (150%)
+30	1.50 (150%)	1.41 (141.7%)
+20	1.00 (100%)	1.25 (125%)
+5	.25 (25%)	1.00 (100%)
0	0 (0%)	.76 (76.3%)
-15	0 (0%)	.05 (5.0%)

**Sample Operational Effectiveness Metric
Overhead Operating Costs as a % of Overall Operating Costs**

OOCF Results	Performance Level	Incentive Payout Ratio
33.8%	Maximum	1.5 (150%)
34.3%	One-up from Goal	1.25 (125%)
34.9%	Goal = 3-yr AVG	1.0 (100%)
35.9%	One-down from Goal	.75 (75%)
36.4%	Threshold	.50 (50%)
>36.4%	Below Threshold	0 (0%)

**Sample Customer Service Metric
Key Criteria Service Level Achievement as %age**

Combined Result (AVG)	Performance Level	Incentive Payout Ratio
= >95%	Maximum	1.50 (150%)
94% to <95%	One-up from Goal	1.25 (125%)
92% to <94%	Goal = Prior Year Results	1.0 (100%)
90% to <92%	One-down from Goal	.75 (75%)
88% to <90%	Threshold*	.50 (0%)

Sample Award Determination Matrix

Base Salary	\$503,500	
Target Bonus % of Base Salary	50%	(Maximum is 75%, or 150% of Target Bonus)
Target Bonus \$ Value	\$251,750	(= Base Salary x Target Bonus % of Base Salary)

Incentive Metrics	FY15-16 Existing Program		FY16-17 Proposed Program	
	Assigned Weights	Target Bonus Value	Proposed Weights	Target Bonus Value
Total Fund Performance*	50%	\$125,875	40%	\$100,700
Enterprise Business Plan*	40%	\$100,700	0%	\$0
Leadership* / Key Business Objectives	10%	\$25,175	10%	\$25,175
Enterprise Operational Effectiveness	0%	\$0	10%	\$25,175
Investment Office CEM	0%	\$0	20%	\$50,350
Stakeholder Engagement	0%	\$0	20%	\$50,350
Total	100%	\$251,750	100%	\$251,750

**Rating Scale
for Qualitative
Measures**

The following scale describes an individual’s level of achievement on qualitative performance measures and the corresponding multiplier used when computing the incentive award:

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

Definitions for the Performance Ratings above are as follows:

Performance Rating Definitions
<p>Far Exceeds High Expectations Continuously delivered results that significantly exceeded expectations. Successfully met challenges which were at times beyond the employee’s control and required sustained extraordinary effort. The quality of program management, work products, and leadership is superior.</p>
<p>Meets High Expectations The quality of employee performance is consistent with expectations. The quality and timeliness of work products achieved desired results. Responsiveness to priorities and overall leadership has been completely demonstrated and work produced is satisfactory.</p>
<p>Does Not Meet High Expectations Results were not achieved or were achieved at significantly lower than expected levels. Responsiveness to changes in priorities has been slow, work products are incomplete, and/or the quality of leadership is below expectations.</p>

***Discretionary
Performance
Adjustments***

Discretionary Modifier adjustments will be administered as follows:

- The PCTMC will have the ability to exercise discretion in modifying any earned awards for the performance criteria based on the above for the CEO.
- The PCTMC will have the ability to exercise discretion in modifying any earned award for the CIO, based upon the recommendation of the CEO.
- The CEO will have discretion to modify any incentive award for direct reports and participants reporting up to the direct reports (other than the CIO).
- The CIO will have the discretion to modify any incentive award for direct reports and participants reporting up through the direct reports.
- Any discretion exercised by the CEO and CIO will ultimately need to be disclosed to the PCTMC as part of the annual incentive award determination process.

Discretion can be exercised in the following situations:

- An award can be adjusted downward by either 50% or eliminated entirely, based on non-adherence to CalPERS's risk management principles, policies, process, or procedures. Whether it is 50% or entire award elimination is based on the severity of non-adherence relative to CalPERS's documented principles, policies, process, or procedures.
- An award can be adjusted upward by 25%, 50%, or 100% (not to exceed 150% of target incentive opportunity) based on qualitative individual contributions. An award can be adjusted downward by 25%, 50%, or eliminated altogether for individual performance. These adjustments will be made based on the overall performance evaluation process, and will take into account qualitative factors such as performance relative to CalPERS's culture and values; leadership; extraordinary contributions, efforts, or results; development and successful implementation of business or stakeholder imperatives; or strategic workforce activities involving succession planning, retention and flight risk, or talent supply or development.

***Pro-Rata
Awards***

Incentive awards may be prorated based on months of service for executives who are appointed during the fiscal year. The recommendation for a pro-rata incentive award will be based on the nature of the performance measures, the level of progress in their achievement, as well as overall performance.

An executive appointed during the second half of a fiscal year will normally not receive an incentive award until after completion of the following full fiscal year, at which time the award will be pro-rated to reflect the entire period of performance in the covered position.

At the discretion of, and upon the recommendation of the CEO and the Committee, the Board may grant a partial year pro-rata award to an individual who has served fewer than six months in a covered position, if the award is based entirely on performance measures designed to cover the period of time between the appointment and the end of the fiscal year. An executive who vacates a covered position within six months of appointment shall not receive an award.

An individual who is promoted from the Investment Officer III, CalPERS (IO III) classification to a covered position during the fiscal year would be eligible to receive an incentive award based on the incentive plans and annual base salaries of both positions (as pro-rated to reflect the mid-year appointment), subject to the applicable policy provisions and calculation processes outlined in the respective IO III and Executive and Investment Management Positions policies. A partial year award shall not be granted to an individual who has served fewer than a combined six months in both positions during the fiscal year.

***Authority to
Defer, Reduce
or Eliminate
Incentive
Awards¹***

Payment of incentive awards shall be subject to and conditioned upon all of the following:

In the event that Total Fund for a performance period is negative, and such negative return exceeds the benchmark for the period, than the Board will have the discretion to reduce, defer or eliminate all or a portion of an employee's incentive award. In the event that the Board elects to defer payment of an award to a subsequent fiscal year, payment of the award may be deferred up to 115 days beyond the end of the first subsequent fiscal year in which the one-year absolute return on the Total Fund exceeds zero percent (0%), or, as to an individual who has been involuntarily terminated without cause by the State of California (as determined by the Board in its sole discretion) ("Terminated Without Cause"), died, becomes "disabled," or "retires," up to 115 days after the end of the fiscal year in which the individual was Terminated Without Cause, died, became "disabled" or "retired." To the extent payment is deferred for more than 120 days after the end of the fiscal year for which the incentive award is payable, the incentive award shall be credited with earnings that approximate the absolute return of the Total Fund for the deferral period as determined by the Board, but not in excess of 15% annually. The Board shall not be obligated to treat all employees eligible to a incentive award alike in determining whether to defer, reduce or eliminate a incentive award, how large a portion to defer or reduce, and when to pay the deferred or reduced incentive award.

- a) An employee will be entitled to an incentive award for any period only if the employee has complied with the CalPERS Investment Policy and CalPERS ethics-related policies, such as, but not limited to, CalPERS Fraud, Criminal Acts, and Internal Investigations Policy, CalPERS Statement of Incompatible Activities, CalPERS Conflict of Interest Code, and regulatory requirements (collectively, Incentive Award Policies) throughout the period, as determined by the Board in good faith. An Incentive Award Policies violation in a prior period shall be treated as a continuing violation in each subsequent period through the date as of which the Board determines that the violation was adequately remedied. All references to the Board in this subsection and the following subsections also refer to the Board's delegate or CalPERS staffing on behalf of the Board, and all references to "employees" in these subsections refer both to current employees and former employees.

¹ The terms "disabled," "disability," "retired," "retires" and "retirement" throughout the policy are used as defined in California Public Employees' Retirement Law sections 20026, 20027 and 20060.

- b) If the Board believes an employee is not entitled to an incentive award due to a Incentive Award Policies violation, it will notify the employee in writing by certified mail or personal service on the employee. If the employee disputes that finding, the employee must so notify the Board in writing within 15 days of receiving the Board's notice. If the employee does not timely notify the Board, the employee will be deemed to have admitted the violation. If the employee admits or is deemed to have admitted the violation, the employee will not receive the incentive award in question. If the employee timely denies the violation, the Board will conduct such further investigations as it deems appropriate ("Investigation"). The Investigation must be completed within 90 days of the date the incentive award would have been paid but for the violation. Within 60 days after the Investigation has been completed, the Board shall determine whether the violation occurred. Its good faith determination shall be final and binding. The Board shall delay payment of the incentive award pending that determination. If the Board determines that there was no violation, the employee will receive the incentive award plus interest at the annual rate of 6% interest for the period of late payment in excess of 60 days. This payment will be made by the earlier of (1) 30 days after the Board's determination following the Investigation, or (2) December 31 following the Board's determination.'
- c) If an incentive award is paid to an employee but, within three years after the payment, the Board determines that the employee was not entitled to the payment because of an Incentive Award Policies violation, it will notify the employee in writing by certified mail or personal service on the employee. If the employee disputes that finding, the employee must so notify the Board in writing within 15 days of receiving the Board's notice. If the employee does not timely notify the Board, the employee will be deemed to have admitted the violation. If the employee timely denies the violation, the Board will conduct an Investigation. When the Investigation has been completed, the Board shall determine whether the violation occurred. Its good faith determination shall be final and binding. If the Board determines that there was a violation, or if the employee admits the violation or is deemed to have admitted it, the employee must repay the incentive award, plus interest at the annual rate of 6% interest for the period from payment to repayment, within 365 days after the Board's determination following the Investigation.
- d) If at any time the Board determines the criteria used to determine an employee's incentive award were, with hindsight, improperly designed or otherwise mistaken, the Board may correct those criteria in any way, even if correction reduces or eliminates the incentive award the employee would otherwise receive.

- e) Notwithstanding anything else, an employee shall not be entitled to an incentive award to the extent the Board determines that payment of the incentive award would violate applicable law.

Action Upon Unsatisfactory Performance

Individuals who receive an individual performance rating of ‘Does Not Fully Meet Standards’ in their annual performance appraisal will be ineligible to receive any portion of the incentive compensation award at any time for the year in which the unacceptable rating was received.

Action Upon Separation

Employee must be employed by CalPERS on the payment date to receive an award, except in the case of death, “disability,” or “retirement” or “Termination Without Cause.”

Special Pay

Special Within-Range Base Pay Adjustment (Investment Managers)

The Chief Investment Officer may, at any time during the year, recommend granting a special within-range base salary adjustment of up to 15% of annual base salary to an investment management staff member covered by these policies, to address retention or internal equity issues. In extenuating circumstances, the within-range adjustment may exceed 15% of annual base salary. All adjustments (up to and exceeding 15%) must be approved by the Chief Executive Officer by delegation from the Board, and will be reported to the Performance, Compensation and Talent Management Committee.

Criteria considered in support of a Special Within-Range Base Pay Adjustment include the following:

- **Performance:** Consecutive years of investment performance that significantly exceeds the benchmark
- **Equity:** Demonstrated value of incumbent and / or inequity with newer hire
- **Retention:** To retain competent investment staff at risk of leaving to accept offers from other money managers / employers

Special Within-Range Base Pay Adjustment for Extraordinary Circumstances – Non-Investment Executives

There may be extraordinary circumstances that warrant a covered executive’s base salary rate be increased, in conjunction with or outside of the annual performance appraisal process, to address unique retention or pay equity considerations. The following approval process applies:

Position	Approver(s)	Timeframe
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)	When deemed necessary by recommendation of PCTMC
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer (by delegation from the Board)	When deemed necessary by recommendation of Chief Executive Officer

Interim Appointment

Interim appointments to covered positions may be made in instances where it is necessary to temporarily assign a staff member the full range of responsibilities in a position until a new permanent appointment is completed. Such assignments shall typically be at least 60 days in duration and at a compensation level determined by the appointee’s current pay rate in relation to the base salary range of the vacated position. Performing additional higher level duties for a period of less than 60 days is typically considered an Acting Assignment and may not include additional compensation.

Interim appointments and temporary additional compensation require the following approvals:

Position	Approver(s)
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of (PCTMC)
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer (by delegation from the Board)
Chief Operating Investment Officer Managing Investment Director Investment Director Investment Manager Associate Investment Manager	Chief Executive Officer (upon recommendation of Chief Investment Officer)

The Chief Executive Officer will report interim appointments and additional temporary compensation to the Performance, Compensation and Talent Management Committee and the Board.

***Recruitment
Differential***

In order to attract and retain highly skilled executives, a recruitment differential may be provided when hiring executives from outside State service. It is a one-time front-end payment upon appointment and is designated as an incentive to accept a position. The amount of the differential is specific to each eligible executive’s personal circumstances. In no case shall a recruitment differential exceed 60% of a new hire’s annual base salary. The following approval and payback provisions apply:

Position	Approver	Amount	Repayment Provision
Chief Executive Officer Chief Investment Officer	Board of Administration (upon recommendation of PCTMC)	Not to exceed 60% of first year’s base salary	0 - 12 months / 100% 12 - 24 months / 50%
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer	Not to exceed 60% of first year’s base salary	0 - 12 months / 100% 12 - 24 months / 50%
Chief Operating Investment Officer Managing Investment Director Investment Director Investment Manager Associate Investment Manager	Chief Executive Officer (upon recommendation of the Chief Investment Officer)	Not to exceed 60% of first year’s base salary	0 - 12 months / 100% 12 - 24 months / 50%

Any exception to the repayment schedule requires approval of the Chief Executive Officer and/or other approving authority as listed above.

Year-End Performance Appraisal Process (Incentive Award and Base Pay Increase)

***Performance
Appraisal
Process
Overview***

The year-end performance appraisal process is the basis of the payment of the annual incentive award and the individual base pay increase. The performance appraisal document is completed at the end of the plan/fiscal year and covers both individual achievement on the annual performance objectives and general managerial performance as described below.

The Chief Executive Officer, with partial re-delegation to the Chief Investment Officer for the investment management positions, will complete performance appraisals and recommend base salary increases within the established ranges for covered executives. The Performance, Compensation and Talent Management Committee completes the performance appraisal for the Chief Executive Officer and Chief Investment Officer.

***Annual
Incentive
Award
Determination
Process***

The 2nd semiannual status report is the basis for the annual incentive award. As part of the performance appraisal process, at the end of the plan/fiscal year (June 30), each covered executive submits a year-end (2nd semiannual) status report to his/her immediate supervisor reflecting the final status of all performance objectives.

For purposes of determining the award amount, the following occurs:

- The primary evaluator assigns performance ratings (for qualitative measures) and comments, soliciting additional input if appropriate.
- Performance ratings on quantitative measures are determined by calculations performed by the Board's Investment Consultant, based upon investment performance data provided by State Street and other sources.
- Using calculations received from the Board's Investment Consultant, Human Resources staff aggregates the quantitative factor multipliers (ratings), adds in the impact of qualitative factors ratings, and calculates the dollar value of the incentive award.
- CalPERS's external auditor or other select independent advisor for the Board or appropriate Board Committee will review and assess the accuracy of all Organizational Performance Outcome performance achievement prior to any award being paid.

Final approval of incentive awards is defined as shown in the *Performance Appraisal Approval Process* section of the policy.

Base Pay Increase

The general assessment of managerial performance and the overall performance rating is the basis of an individual base pay increase. Base Pay Increases are administered separately and apart from the Annual Incentive Plan. At the end of the plan/fiscal year (June 30), all covered executives prepare a year-end summary highlighting their most noteworthy achievements not covered in the performance plan. The primary evaluator completes the assessment of the individual’s general managerial performance and assigns an overall performance rating.

The overall rating, as indicated below, is the basis for recommending a base pay increase as defined in the merit matrix. *Merit Matrix to be added here.*

Overall Performance Rating Scale
<p>Outstanding: Continuously delivered results that significantly exceeded expectations. Successfully met challenges which were at times beyond the executive’s control and required sustained extraordinary effort. The quality of program management, work products, and leadership is superior.</p>
<p>Consistently Exceeds Standards: Overall performance exceeded expectations and was characterized by applying a high degree of initiative and resourcefulness in addressing several key issues during the year. The quality of work products and responsiveness to priorities is exceptional.</p>
<p>Meets Standards: The quality of executive performance is consistent with expectations. The quality and timeliness of work products meets expectations. Responsiveness to priorities and overall leadership has been completely demonstrated and work produced is satisfactory.</p>
<p>Does Not Fully Meet Standards: There is a pattern of less than anticipated quality in program performance. Responsiveness to changes in priorities has been slow, work products are incomplete, and/or the quality of leadership is below expectations.</p>

***Performance
Appraisal
Approval
Process***

The following depicts the primary evaluator and final approver for all performance appraisals:

Position	Primary Evaluator	Provides Input	Approver(s)
Chief Executive Officer	Performance, Compensation and Talent Management Committee	Board members not on Committee	Board of Administration
Chief Investment Officer	Performance, Compensation and Talent Management Committee	CEO, Board members not on Committee	Board of Administration
General Counsel Chief Actuary Chief Financial Officer	Chief Executive Officer	Committee and other Board members (optional)	Chief Executive Officer (Board retains veto authority)
Chief Operating Investment Officer Managing Investment Director	Chief Investment Officer	Chief Executive Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of CIO)
Investment Director	Managing Investment Director	Chief Investment Officer Chief Operating Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of CIO)
Investment Manager	Investment Director	Managing Investment Director Chief Operating Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of CIO)
Associate Investment Manager	Investment Manager	Managing Investment Director Chief Operating Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of CIO)

BASE PAY RANGES

Position	Pay Range	Maximum of Quartile Range			
		Q1	Q2	Q3	Q4
Chief Executive Officer	\$224,000 - 352,800	\$256,200	\$288,400	\$320,600	\$352,800
Chief Actuary	\$206,000 - 310,000	\$232,000	\$258,000	\$284,000	\$310,000
General Counsel	\$214,000 - 338,100	\$245,025	\$276,050	\$307,075	\$338,100
Chief Financial Officer	\$210,000 - 310,000	\$210,000	\$242,000	\$285,000	\$310,000
Chief Investment Officer	\$408,000 - 612,000	\$408,000	\$510,000	\$561,000	\$612,000
Chief Operating Investment Officer	\$274,500 - 378,000	\$274,500	\$309,000	\$343,500	\$378,000
Managing Investment Director	\$262,000 - 411,400	\$299,400	\$336,800	\$374,200	\$411,600
Investment Director	\$188,000 - 296,100	\$215,025	\$242,050	\$269,075	\$296,100
Investment Manager	\$140,000 - 220,500	\$160,125	\$180,250	\$200,375	\$220,500
Associate Investment Manager	\$108,000 - 162,000	\$121,500	\$135,000	\$148,500	\$162,000

INSERT FOR PAGE 7 – Base Salary Increase section

INCENTIVE AWARD RANGES

Classification	Award Schedule	Target Award	Approval Criteria for Award Range Changes
Chief Executive Officer	0 - 40%	27%	Board approval
Chief Actuary	0 - 40%	27%	Board approval
Chief Financial Officer	0 - 40%	27%	Board approval
General Counsel	0 - 40%	27%	Board approval
Chief Investment Officer	0 - 75%	50 %	Board approval
Chief Operating Investment Officer	0 - 60%	40%	Board approval
Managing Investment Director	0 - 75%	50 %	Board approval
Investment Director	0 - 60%	40%	Investment Directors and those not meeting the criteria for higher award schedule.
	0 - 75% ¹		Newly appointed Investment Directors are required to complete one annual performance review cycle before being considered for this award schedule. See footnote for additional criteria.
Investment Manager	0 - 45%	30%	Newly appointed Investment Managers and those not meeting the criteria for higher award schedules.
	or		
	0 - 60%	40%	
	0 - 75% ¹	50%	Newly appointed Investment Managers are required to complete one annual performance review cycle before being considered for this award schedule. See footnote for additional criteria.
Associate Investment Manager	0 - 40%	27%	Board approval

INSERT FOR PAGE 12 – Incentive Award Ranges section

¹ The CIO, upon final approval of the CEO, will have discretion to increase the award schedule up to 0 – 75% based on consideration of:

- a) Achievement of the maximum incentive award on all quantitative performance measures for two successive years;
- b) Having 20% or more of assets within an asset class under direct control or management;
- c) The specialized nature of the position or the unique talent level of the individual; and
- d) Retention or attraction factors for key personnel.