MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, AUGUST 16, 2016

10:05 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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APPEARANCES

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, represented by Mr. Ralph Cobb

BOARD MEMBERS:

Mr. Rob Feckner, President

Mr. Henry Jones, Vice President

Ms. Dana Hollinger

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Mr. Doug Hoffner, Interim Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matthew Jacobs, General Counsel

Ms. Tina Campbell, Chief, Human Resources Division

Ms. Carol Takehara, Committee Secretary

A P P E A R A N C E S C O N T I N U E D

ALSO PRESENT:

Mr. Allan Emkin, Pension Consulting Alliance

Mr. Bill Gentry, Grant Thornton, LLP

Mr. Eric Gonzaga, Grant Thornton, LLP

Mr. Andrew Junkin, Wilshire Consulting

I N D E X

P R O C E E D I N G S

CHAIRPERSON BILBREY: Call this meeting of the Performance, Compensation and Talent Management Committee to order. And first up is the roll call, please.

COMMITTEE SECRETARY TAKEHARA: Michael Bilbrey?

CHAIRPERSON BILBREY: Here.

COMMITTEE SECRETARY TAKEHARA: Grant Boyken for John Chiang?

ACTING COMMITTEE MEMBER BOYKEN: Here.

COMMITTEE SECRETARY TAKEHARA: Richard Costigan?

CHAIRPERSON BILBREY: He'll be back.

COMMITTEE SECRETARY TAKEHARA: Ralph Cobb for Richard Gillihan?

ACTING COMMITTEE MEMBER COBB: Here.

COMMITTEE SECRETARY TAKEHARA: Ron Lind?

CHAIRPERSON BILBREY: Excused.

COMMITTEE SECRETARY TAKEHARA: Priya Mathur?

VICE CHAIRPERSON MATHUR: Here.

COMMITTEE SECRETARY TAKEHARA: And Theresa Taylor?

CHAIRPERSON BILBREY: Excused as well.

All right. Next item is consent item. Action on the minutes.

VICE CHAIRPERSON MATHUR: Executive report.

CHAIRPERSON BILBREY: Oh, I'm sorry, Executive

Report. Sorry, Mr. Hoffner. I was just trying to move along.

INTERIM CHIEF EXECUTIVE OFFICER HOFFNER: You know, I tried to do that last month I think, so it's okay.

(Laughter.)

INTERIM CHIEF EXECUTIVE OFFICER HOFFNER: Good morning, members of the Committee and the Chair. Doug Hoffner, CalPERS staff. I just want to cover two quick items before we jump into the two agendas today.

Today, as you know, we'll be hearing from the Board's executive compensation consultants Grant Thornton. The purpose -- the second reading of the performance metrics for implementation in fiscal year 16-17, as well as proposed revisions to the exec comp policy for your review and approval.

The proposed recommendations better align our executive incentive plans, as well as provide common metrics between the executives in the organization, which we necessarily haven't had in the past. Although discussed at an earlier meeting several months ago, I just want to reiterate, there will be no changes proposed today for incentive ranges, or base pay, or compensations from a pure dollar threshold perspective. What we're talking about is the metrics and aligning those metrics across the organization at the senior level.

Following Grant Thornton's presentation, the Committee will hear a second reading of the Chief Investment Officer's 2016-17 plan. Add at the next meeting of the committee in November, staff will present the annual workforce strategic plan, as well as hear our annual committee risk enterprise report.

In addition, we'll be looking at some further refinements to the exec comp policy, but that will be for implementation in the year 2017-18.

Lastly, in November, we'll be having a session in closed session with all of you to go over the incentive comp plan for the previous year as it relates to our former CEO and our current CIO, as well as a summary appraisal document for all the other covered positions that come before you based upon the policy.

With that, Mr. Chair, that concludes my report I'm happy to answer questions.

Thank you.

CHAIRPERSON BILBREY: Thank you. Seeing no questions.

Move on to consent items, approval of the minutes. Do I have a motion?

VICE CHAIRPERSON MATHUR: Move approval.

ACTING COMMITTEE MEMBER COBB: Second.

CHAIRPERSON BILBREY: Moved by Mathur, seconded by Cobb.

Any discussion on the motion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON BILBREY: Opposed?

Motion carries.

Next consent item, information items. Non have been asked to you be removed.

So we will move on to Item 5, Fiscal Year 2016-17 Compensation Review Project Recommendations: Second Reading of the Performance Metrics.

Ms. Campbell.

(Thereupon an overhead presentation was presented as follows.)

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

Agenda Item 5 is before you today for action. As you may recall in June 2016, Grant Thornton presented several performance metric concepts and the performance plan frameworks for the CEO and CIO positions for fiscal year 16-17.

The Committee directed staff to bring back additional information and further detail in August, including proposed policy amendments. I'd like to highlight the recommendations before the Committee today. The five performance metrics up for approval today are stakeholder engagement, customer service, enterprise operational effectiveness, relative total fund performance, and the Investment Office CEM.

In addition to these metrics, Grant Thornton has proposed several policy amendments. These changes include the following key themes: Change the total fund measurement period from three years to five years to better reflect CalPERS long-term focus; normalize the incentive curve for total fund performance to reduce motivation for participants to engage in excessive risk taking; add discretionary performance adjustment flexibility as a management tool to reward exemplary performance, or reduce awards for adverse risk-related behaviors; and four, revise the authority to defer, reduce, or eliminate incentive awards policy trigger from an absolute return on total fund of less than zero percent to less than the benchmark for the performance period and less than zero percent. This will be explained in more detail during Grant Thornton's presentation.

In addition to Grant Thornton's recommendations, staff requested a new policy provision to ensure that Investment Officer III staff who were promoted into the Investment Management series early in the fiscal year will still be eligible to receive a prorated performance award based on the performance plans and annual base salaries for both positions.

Today's presentation will be presented by Bill Gentry and Eric Gonzaga of Grant Thornton LLP. And unless you have questions of me, at this time, I'll turn it over to Grant Thornton for their presentation.

CHAIRPERSON BILBREY: Thank you.

MR. GONZAGA: All right. Well, thank you. Appreciate the opportunity to be back here again. And I think that, you know, a lot of work went into this, you know, with a lot of due diligence around the metrics and what is the appropriate degree of challenge.

And, you know, the presentation in front of you will cover -- you know, we'll just go rationale. It's always a good thing to put things in context. Then we dig into, you know, the specific plan outlines, both with respect to metrics and the proposed weighting for both the CEO and the CIO. Subsequent, we'll discuss, you know, the proposed policy amendments consistent with Ms. Campbell's comments. And so let's dig into it.

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MR. GONZAGA: Now, one of the issues -- I mean, just to put it in context, I think it's important to note what we were trying to drive, you know, based on our interviews, our discussions with the group here. And there's really five themes. One, what we wanted to do was simply reduce complexity and increase transparency to make sure that if we're awarding, you know, this organization and it's executive team for performance, you know, it's very clear as to what outcomes we're trying to drive.

Subsequently changing behaviors, you know, really driving home in terms of team oriented incentives group behaviors, while recognizing there still is a place for individual performance.

Driving a consistent set of themes and performance metrics across the team again, as well as making sure that we're comfortable with the risk sensitivity that would result in awards.

And finally, you know, what's up for approval, of course, are the metrics specifically for the CEO and CIO, but it is the foundation for the metrics for -- and structure for other participants in the plan.

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MR. GONZAGA: Now, what we did -- and, of course, what we were balancing when we were going through the metrics is how do we reward for and organization that really has three dynamics, if you look at it simplistically. One, a very mission driven organization. Two, as was discussed in the prior meeting, operational effectiveness, cost matters. And finally, we're an -- this is a service-related organization. How do we make sure that whatever we do from an incentive standpoint continues to drive behaviors to make sure stakeholder engagement and customer service are out outstanding levels.

So that's where we get the various metrics in terms of stakeholder engagement, customer service. We're looking for a balanced portfolio. How does that balance with making sure if we're going to monitor and make sure that we're an efficient organization, or we're an organization that is moving towards an appropriate level of funding relative to the pension?

We need to make sure that any decision is balanced and there is some tension occasionally between metrics such as stakeholder engagement, customer service. And so that is the primarily what we were balancing as we go through this.

You know, the other thing that we will address and discuss is key business objectives, trying to drive enterprise wide behaviors at the same time we recognize there are opportunities for individual key business objectives for individuals that may have more responsibility in one element, one metric more so than another.

And then finally, you know, management discretion, as well as Committee discretion, depending on the position. We felt that was very important, as long as there's a diligent process, just to make sure that that's ultimately the stopgap to make sure that, one, we're rewarding the right people, and two, ultimately that, you know, in terms of risk consideration, we're balancing everything appropriate.

Now, we'll get into the policy amendments and the weights for the CEO and CIO. One thing just to mention, and Mr. Hoffner referenced it earlier, this is a moving target. We put in what we believe is a wonderful structure for your organization that's recommended here. But these are always -- the structure may remain the same, but there's always moving elements to any performance plan that will be needed to address on a year-over-year basis. And as example, health care is a big part of this organization. Think of that for '17.

Customer experience. Mr. Slaton, and I know that Ms. Lum, had talked about that earlier about as opposed to customer satisfaction, can we move to customer experience? And then finally, just thinking through a concept that was discussed with the Committee before reallocation, salary versus annual incentive versus subsequently long-term incentive, which is the final component that we recommend moving on. But again, these are all elements to discuss for 2017.

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MR. GONZAGA: Now, any questions?

Okay. Now stakeholder engagement. What we did is -- you know, the questions remain the same. And, you know, just speaking through the rationale stakeholder engagement why is it important? This is a service organization that represents employers, members, stakeholders. We picked stakeholder engagement, and we picked three specific survey questions that represent an important function in performance function for the management team. And specifically, is CalPERS sensitive to the needs of stakeholders? Does CalPERS do a good job of keeping its stakeholders informed? Two of eight core questions used historically.

And then on a scale of 1 to 10, how would you rate CalPERS being effective in engaging and communicating with stakeholders?

And our proposed metrics, you know, are pretty straightforward. You know, first, at target, our recommendation is you take a look at three-year average performance, exceeding three-year average performance for target level award. For a maximum payout at 1.5 times target for the specific metric, it requires three to four percent improvement over average historical performance over the last three years.

And then the threshold, the entry level at which an award would be paid would be paid specifically for exceeding what the lows have been over the average three years. These are recommendations and they're driven by the fact that this is an organization going through a lot of change. And our belief is that to the extent that you can exceed -- slightly exceed performance over the last three years or over the last year, this organization would be doing some commendable performance, particularly considering, you know, the changes organizationally, returns being at modest levels. And so that's kind of the rationale for the structure specifically with respect to stakeholder engagement.

Any questions on that?

CHAIRPERSON BILBREY: Seeing none.

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MR. GONZAGA: Okay. Now, relative to customer service, and I think it was discussed before in the prior meeting, that customer service levels obviously have historically been at high levels. Our recommendation is to, you know, continue that keying into these two key questions, or survey scores, around customer service. One has a service dimension, the other is a customer satisfaction dimension via survey scores.

Our recommendation specifically again is taking a look at the average scores, again because performance has been at or above -- well above the stated thresholds of the organization. Target level of award would be for meeting performance over the last year relative to these two dimensions.

Maximum payout would be moving towards those outstanding long-term commitments by the organization in terms of where should we be in terms of service levels, and customer satisfaction. And threshold would be well above 0.5 percentage points above what the Committee has stated their committed thresholds are for these two scores specifically

So it's a balanced approach in terms of let's maintain outstanding service levels, like we did last year. Same way, let's make sure that when it comes to the benefits and -- the individuals receiving benefits, that there is a perception that service levels continue to be outstanding.

And that will balance well with the concepts that Bill is going to talk about here in a little bit, in terms of okay cost matters. We want to be an efficient organization. Let's make sure that we never go below something less than outstanding service results.

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MR. GENTRY: Good morning, Mr. Chairman and Committee members.

CHAIRPERSON BILBREY: Turn on your microphone, please.

MR. GENTRY: Good morning, Mr. Chairman and Committee members.

As Eric talked about our incentive -- our proposed incentive framework focuses in three key areas that we think are critical for CalPERS in creating value, however you might want to define that.

The first one is its impact on stakeholders and customer service levels. And Eric has talked about the metrics and the goals that we're proposing for the upcoming -- for this year for the incentive program. The other two categories are operational effectiveness. I think that, you know, the call out on costs that we heard during the previous committee meeting, we're seeing convergence of a number of topics at the different committee levels, as well as our interactions with staff in terms of what the priorities are, comp is in our -- and compensation, in our view, is sort of the final piece to make sure the Committee has the right tools in place to prioritize and focus staff and hold them accountable for the results that you want to see.

And finally, on mission, the two areas I'll be talking about over the next couple of minutes are operational effectiveness as well as mission. Now, CalPERS is at different stages of development in terms of embracing the CEM methodology, both at the enterprise-wide level, as well as what's happening in the Investment Office. As we thought about a metric that makes sense and provides line of sight to staff between impact and what the reward opportunities look like, we considered a number of different metrics. The one we're proposing and which the Committee approved in June was overhead operating costs as a percentage of total cost. And that's what's reflected on the slide in front of you.

Now, in terms of the cost profile of the organizations, there's three categories. The first category, which is -- and all of these costs are identified on the right side of the page in the table. The first costs are the overhead operating costs, which are all those costs that do not directly map to product and service delivery. It includes things like the benefit programs, policy, and planning, Executive office, Finance General Counsel, Office of External Affairs, Operations and Technology.

The second category of costs are those costs that do map directly to product and service delivery costs:

Actuarial Office, Customer Services and Support, Office of Audit Services, third-party administrator fees.

The third category is -- includes primarily costs related to the Investment Office. These are a separate carve out. The metric that we are recommending is intended to focus staff on the efficiency of the organization in terms of how it's being managed. And how we define that is by acronym OOCP, overhead operating costs as a percentage of total operating costs.

In the numerator, it's the first category of costs divided by the sum of those direct and indirect costs that we map to product and service delivery. And we like this as a metric for incentive purpose, because it focuses staff on efficiency. It helps you isolate in terms of where you're seeing cost increases. At the same time, it helps the Committee evaluate the effectiveness of prior investments that are intended to drive efficiency.

So for financial metric, we think it works on a number of levels. And thanks to Cheryl Eason and her finance team, it's just become part of the vernacular in terms of how they view the operations of the business. So that's the metric we're proposing.

You always have to have goals. And on the left side of the table -- left side of the slide, you'll see a table that identifies the performance range overwhich incentives can be earned. And I'll call your attention to middle row that's shaded in orange. The goal or the expectation for performance for 16-17 reflects CalPERS three-year average, which is the 34.9 percent.

If staff delivers this result, the payout ratio would be 1.0, the weighted opportunity. And the weighted opportunity is going to range from anywhere from 10 to 30 percent of an individual's total incentive opportunity. So it's of a size to get their attention, but at the same time we're not causing them to lose site of other important things in the business.

Then based on sort of the expectation, we then created high and low levels of performance, based on what the five-year trend has been. And at the maximum, they -- staff would need to deliver 33.8 percent overhead operating costs as a percent of total operating costs, which would generate a payout ratio of 1.5. And the 33.8 percent hasn't been attained in the last five years. So it really would be stretch performance. All other things being equal, that would result in a cost savings of roughly $30 million.

At the other end, the entry point or threshold is 36.4 percent. That's actually a 50 basis point improvement over budget. If it's attained. It would result in a $5 million cost savings for the organization, again all other things being held constant.

And then we've got a break-out, our one up and one down nomenclature, just to show at different levels of performance what the payout ratios would look like.

Are there any questions on this metric?

CHAIRPERSON BILBREY: None at this time.

MR. GENTRY: I'll move on.

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MR. GENTRY: In terms of mission. One of the things we're -- the metric we're focused on for 16-17 involves relative total fund performance, as Eric talked about. We think there's a very strong business case for including a metric that ties into health care. Organizationally, I don't think we're to that point yet, so it's something we'll definitely set aside for consideration for next year.

So I'm going to focus on relative total fund performance. On page seven, there's sort of three types of changes we're recommending to the program. The first one is to change the measurement period from three years to five years. There's a number of reasons why we think the change makes sense. The first one is it's a better reflection of the investment cycle. From a risk perspective, the longer the measurement period, the more time we're allowing for at risk -- adverse risk outcomes to become known before payments were made. And while it's not the 100 years, which is CalPERS mission, we do think that's an improvement in terms of how we align with what we're trying to drive organizationally.

The second change is expanding the performance zone. This is an area we think that will make a significant improvement in terms of how risk and reward or the sensitivities between risk or reward are balanced. And the last piece, as Eric talked about, was a policy change to add some clarity around when the Committee should exercise discretion to right size rewards in the event that both absolute and relative returns are negative.

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MR. GENTRY: Page eight is an illustration of incentive curves. Now, this is a graphical representation of the relationship between performance and pay. On the horizontal axis, that shows variance from the benchmark, both negative as well as positive. On the vertical axis, it defines what the payout opportunity looks like based on pay.

The solid line in the middle of the page identifies CalPERS current incentive curve line, the entry point is plus 1 variance from the benchmark, and it maxes out at plus 30 variance from the benchmark. The slope of the curve, and this is what's important is five percent. So for every one basis point improvement in performance, the incentive opportunity goes up by five percent. Our concern is, is that any point on this incentive curve, we're potentially motivating people to take risks they ordinarily wouldn't take, either to earn a bonus if they're at the low end of the range, or to maximize the bonus, again because it's a very steep slope.

So one of the emerging best practices that came out of the financial crisis, and has been espoused by the board of governors of the Federal Reserve, as well as a number of other agencies, is to expand the zone overwhich incentives can be earned. So we don't want to motivate people to take excessive risks.

And our proposal is totally consistent, not only with that guidance, but also in terms of a survey that we've completed - of 20 organizations, we received 15 responses - how does it fit within the industry? And we can tell you it's within the range of industry practices. So what we're talking about doing is reducing the entry point, or threshold, in terms of when incentives can be earned, but at the same times raising -- slightly raising the maximum, which, in effect, expands the range overwhich incentives can be earned.

The entry point as proposed would be at minus 15 basis points. The incentive curve maxes out at 35 basis points. And there's five reasons why we're making this suggestion. One is, again, we've talked about sort of risk considerations. That's probably one of the primary reasons why we think it should be considered. It does align with best practices in terms of risk management, not necessarily defined by the public pension managers, which to be honest are lagging other sectors of the financial industry, but in terms of what's happening and to account for more outcomes than the current program exists.

There's other things we talk about in terms of what the benefits are. And Eric has mentioned, you know, the desire to reduce complexity and enhance transparency. And by going with this new incentive zone, it's going to eliminate the need for two dimensions of performance. Something that you have currently, there's the performance that you disclose, and then there's the performance for which incentives are earned.

And by going with the incentive curve that we're recommending, we'll have a single definition of performance, which will be the same for both applications I just mentioned, but at the same time, it's going to eliminate the works that associated with developing this second view of performance for incentive purposes. So we're trying again to generate collateral benefits in terms of the work.

As it maps to the payout percentages, that's what's in the tables on the lower right side of the page, you can see what the comparison is in terms of the payouts at different performance levels, both in terms of the existing payout ratio, as well as the proposed payout ratio. And I do want to say the negative entry point for the incentive curve reflects cost structures, under the current methodology CalPERS uses. So again, this gets back to there's two dimensions of performance. By incorporating the cost adjustment to the incentive curve, we're going to eliminate the need to make adjustments, which you typically wouldn't make.

So any questions on the incentive curve?

CHAIRPERSON BILBREY: None at this time.

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MR. GENTRY: On page nine is Investment Office CEM. And it's additional perspective on performance. I think it's easy enough to focus in on what sort of return did we generate at any point in time. But as we heard during the Finance Committee meeting today, we really need to look at what was the performance in relation to cost. An investment CEM, which is identified on the left side of the page, this is by the firm that provides the analysis for CalPERS. It plots CalPERS against both its U.S. and global peers on the dimensions of five-year performance, as well as cost. And then you can identify how you do.

There's a one-year lag to the methodology, just to the data, given the methodology that the consulting firm uses. But it -- what we like about it, it provides an additional perspective on performance. And we think the focus on costs should be pervasive, not only with staff, but also in the Investment Office as well.

So this is an opportunity really to have strong alignment in terms of the cost focus that we think is going to be increasingly important, in terms of how the Committee views performance.

So what we're asking for is introduction or inclusion of the Investment Office CEM methodology as a performance standard, and then how that determines the portion of the incentive that will be earned for its out -- performance outcomes is on the right-hand side, which is a grid. And it's four quadrants. The lower right quadrant is if CalPERS underperforms the U.S. benchmark on returns and costs, there's zero payout. If we move to the left, if CalPERS outperforms the U.S. benchmark on cost, the payout ratio is 0.5. If you move on the right upper quadrant, if CalPERS outperforms on returns, the payout ration is 0.5.

And you're only going to see opportunity for upside once CalPERS moves into the upper left quadrant. So at the entry point, it's 1.0 payout ratio to as -- to as much as a 1.5 ratio that can be earned, if CalPERS exceeds by certain levels, both in terms of cost as well as performance.

And in that upper quadrant, if performance is in that area, the results will be generated through interpolation. So how did we do on those two metrics? And this is Investment Office CEM.

Are there any questions?

CHAIRPERSON BILBREY: Mr. Slaton.

BOARD MEMBER SLATON: Thank you, Mr. Chair.

So help me understand the difference between, say, what is proposed here on the right-hand side, and particularly focused on the 50 percent marks. So why would we not have those be zero with a larger percentage in the upper left quadrant

MR. GENTRY: Well, I think it's about balance. And we've got return on one hand and cost on the other. And keep in mind, this metric, Investment Office CEM, is going to be the companion to total fund return, which is based on the current trailing five year how did we do, there's, a pay out.

Now, we think there's value in having a meaningful weight or a balance of metrics separated, one on cost and one on return, just to make sure those aren't lost in the equation. It's an opportunity, we think, again to balance incentive outcomes. Not only are they different metrics in terms of the timing of when total fund performance is measured, but we also don't want to lose site of the importance of cost.

So I think we could certainly move the percentages around, but we always wants to try to plan for every contingency. You know, no incentive program is perfect. But from a structural perspective, the 0.5, 0.5, and then the -- in the upper left quadrant, we think that that's an appropriate view, in terms of the messages it's sending to the Investment Office.

BOARD MEMBER SLATON: So what would be -- how would the message be distorted if you just had a higher incentive in the upper left quadrant and not in the other two -- and a zero in the other two?

MR. GENTRY: Yeah, I understand. Again, we want balanced outcomes and higher incentive. We really don't want to go above the 1.5 ratio, which is the current maximum amount. So in lines with we're just refining the structure as opposed to expanding the opportunity, that's one point. But again, I think to define successes, we have to beat on both cost, as well as return, potentially puts you in a position to get behaviors that are shortsighted rather than long term, and just counterproductive to what you're trying to accomplish as an organization, because there's some years you might have significant opportunities to take costs down, but the returns aren't there.

Well, we want to provide that incentive. On the other hand, you know, again, it's just balance. We're trying to do what we can to balance the outcomes and the motivations.

BOARD MEMBER SLATON: Okay. Thank you.

MR. GENTRY: Yes, sir. The last slide I'll cover is key business objectives.

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MR. GENTRY: I'm sorry. I'll actually do two more. Key business objectives. We recognize that a lot of the work is focused on changing behaviors. And changing behaviors involves getting the leadership of the organization to take an enterprise-wide focus. And that shows up in both the use of mission-based goals, operational effectiveness, and stakeholders and customers. We do believe there's a need to have goals that relate to individual outcomes that the Committee will use to direct behaviors that either are within the functional area or in -- directly within the individual's control that they can be assigned to to execute on, again to determine whether or not they've been successful during the year.

So there's two sets of goals. There's enterprise-wide goals, as well as individual goals. And that's what the key business objectives are intended to do. It's a distinct call-out for what the individual goals are. For most people, it will be the smallest portion of their incentive opportunity probably anywhere from 10 to 20 percent. As you push deeper into the organization, the portion that's an individual goal could go as much as to 50, 60 percent. It just depends on the individual.

But again, we're trying to have a blend of metrics that are focused on results that make an impact to the organization. And the way to get there is this combination of the enterprise goal -- enterprise-wide goals we talked about, as well as the individual goals.

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MR. GENTRY: And the last topic I'll talk about is the use of -- I think expanded and greater use of discretion. Any time you have a formulaic plan, you can have nonsensical outcomes. And we view discretion as the appropriate tool to make sure risk -- or to make sure performance and pay are appropriately aligned. So we'll run the formulas on this -- the formula type plans. And based on what the outcomes are, the CEO will then be in a position to make positive adjustments for extraordinary performance, or negative adjustments for adverse risk related outcomes or behaviors that are counter to what CalPERS is trying to accomplish from a performance or cultural perspective.

And again, it's an opportunity to rationalize pay regardless of what the formulas say. And we believe that discretion is the right place to land as the last line of defense in terms of protecting the integrity of the incentive program.

CHAIRPERSON BILBREY: Mr. Slaton.

BOARD MEMBER SLATON: So I want to talk for a moment about this particular aspect of the plan. Having spent 30 years on commission with sales plans, one of the things you always wanted to do was have a definitive plan where you had expectation. If you met those expectations, you got paid.

And so how do we -- how do we protect the integrity of the relationship with the person who's subject to this plan, and at the same time have this escape valve or the ability to say, well, I know the plan says X, but because of Y and Z, I'm going to unilaterally adjust the number?

MR. GENTRY: Right.

BOARD MEMBER SLATON: And, you know, how do you -- how do you have the level of trust and assurance by the people who are subject to this plan when you have this overarching ability to just unilaterally adjust?

MR. GENTRY: Right. Well, any time there's a change, it's going to -- I think that's where you're going to start to build trust. And you're right, any time we change the comp plan, naturally there's going to be skepticism by those who are going to be affected by it.

And I think it's going to be judicious use of judicious. We don't think it should be applied to everybody, either positively or negatively, but you're going to be -- have people on the fringes that it will come in to use in terms of again making sure pay and performance are appropriately applied.

Now, one of the things we will suggest to management is in terms of if there's, you know, call-outs, either on the upside or the downside, it's up to the CEO to make those adjustments, but to share with this -- to share with the Committee what the business case for what making those adjustments are.

So I don't have a great answer for you, but again, I think everybody should be aware that regardless of what the formula says, if you're not acting in ways that benefit the CalPERS mission, operational effectiveness, stakeholders, our values, it's not going to be an automatic.

BOARD MEMBER SLATON: So would that be a -- that discussion or report to this Committee, would that be a closed session discussion, because it would involve an individual adjustment?

CHAIRPERSON BILBREY: Yes. I believe.

BOARD MEMBER SLATON: The Chair says yes, so I guess that's the --

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.

BOARD MEMBER SLATON: Okay. So -- but it is after the fact?

MR. GENTRY: To the extent that the year is closed, we know what the formulaic outcomes say, but prior to the actual payments. Again, there's going to be times when -- Eric and I have both seen this throughout our careers as compensation consultants. Oftentimes, the best performance is in periods when things are just not going well. And the formula plans might not give you an opportunity to reward that sort of performance. Discretionary opens the door.

At the same time, if you have somebody who's performed extraordinarily well, and we think they should be rewarded. Our view is pay for performance and pay differentiation are tools that are going to help solidify the employment relationship. It might not work for everybody, in terms of trust. They might be skeptical. They might be cynical. But if you've got great people, and you need to take care of them, we think it's worth the investment.

BOARD MEMBER SLATON: So you're trying to take the -- have the flexibility, at the same time take out arbitrariness from it, so it's not arbitrary, but it's discretionary.

MR. GONZAGA: It is.

BOARD MEMBER SLATON: And that's a fine line between those.

MR. GONZAGA: It is a very fine line. And I think it comes down to, you know, a couple things. One is leadership, and the ability for the organization to develop that trust between the supervisor and employee, but the second thing is also that any time discretion will be exercised.

I mean, there's going to have to be, you know, pretty thorough review, you know, as part of the performance appraisal process, because what are the things we're trying to categorize?

Well, there's always things that come up in the middle of the year. There are special instances where there's extra work that needs to be done. And there's always -- and I think we all know this, there are also folks, you know, sometimes who will piggyback on the performance of others.

And it's those issues that we're trying to address. It just needs to be exercised judiciously. This isn't a situation where I would expect you know discretion to be exercised with 75 percent of the employees, by any means.

BOARD MEMBER SLATON: Okay. Thank you.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: And if I can just add, Mr. Slaton. I think what you're really getting to is the checks and balance of it. And from an HR perspective, that would be something we build in the tool. If you're going to give or take away, the reasoning behind it. And that would be presented also to the Committee.

I don't know if that helps.

BOARD MEMBER SLATON: Okay. Thank you.

CHAIRPERSON BILBREY: Mr. Cobb.

ACTING COMMITTEE MEMBER COBB: I just want to kind of go back to the operating costs measure. And I just want to understand why would we be removing Investment Office operating costs from the measure, especially if it were to apply to the CIO or the COIO downstream?

MR. GENTRY: There's two measures of operational effectiveness. There's the OOCP, and that's a rough acronym. I apologize. And then there's the Investment Office CEM. The Investment Office --

ACTING COMMITTEE MEMBER COBB: No, I'm talking about the OOCP specifically.

MR. GENTRY: Right, right. And I think there's a number of changes that are happening within the Investment Office in terms of bringing more services in-house. We could see a fairly dramatic change in cost structure, or what their cost structure is. So from an incentive purpose, you know, any sort of uncertainty, or if there's a big unknown, that's something we would prefer not to include, because there's going to be -- a number of initiatives -- and Ted is here today. He can speak more to it -- in terms of the direction of the business. That's one piece of it.

And the other piece is the fact that we've got the Investment Office CEM as a metric, we think we're covering the base without diluting the impact on the -- you know, the very important direct and indirect costs that support product and service delivery.

ACTING COMMITTEE MEMBER COBB: Okay. Well, when -- then, you know, kind of thinking downstream, when other areas of the organization are impacted by major projects or changes in structure, would we then be sweeping their costs out of the measure?

MR. GENTRY: Well, we've covered most of them. If we go back to the --

ACTING COMMITTEE MEMBER COBB: You covered most of them now --

MR. GENTRY: Yes, sir.

ACTING COMMITTEE MEMBER COBB: -- but I'm just saying down the road, the same kind of uncertainty could arise in another area of the business, other than investments, and would we be making changes to the structure on the fly, so to speak.

MR. GENTRY: Right. Well, what we'll recommend is we can't plan for every contingency, but every year when we have this conversation, we'll revisit the metrics, what the goals are. So that would be the opportunity. If there's any known initiatives, that could adversely impact financial performance or the costs, that's something that would definitely be discussed. And at the back end of the process, when we're talking about how the organization performed over the course of the year on cost structures, our expectation is it's not only here's thea percentage, here's what pay is, but it's more of a walk-over in terms of here's the percentage, here's how it was achieved. And we would suggest that the Committee keep an open mind in terms of potential cost adjustments for things that come up during the year that could be extraordinary of a one-time nature nonrecurring.

So again, it's sort of rationalizing the number. I can't give you a definitive answer, but I -- what I will say is each year when we talk about the metrics, and the methodology, and the goals that would be part of the discussion.

ACTING COMMITTEE MEMBER COBB: Okay. Thank you.

MR. GONZAGA: Mr. Cobb, I'd just also add that again because we have the investment CEM, which is intended to measure operating costs balanced, I mean, that's kind of how we end up where we're at. We have two different metrics of cost effectiveness.

ACTING COMMITTEE MEMBER COBB: Right.

CHAIRPERSON BILBREY: All right. Ms. Hollinger.

BOARD MEMBER HOLLINGER: Thank you. I appreciate the work. I do have a concern. You know, there's always a difference between theory and practice. And in the private sector, when I've seen very large organizations, whereas Mr. Slaton said people are counting on their commissions because it was -- they met the performance requirements, currently we don't have a retention problem. But when I saw that they weren't given it, they had retention problems. People left.

And there may, at that time, have been valid internal reasons. It could be budgeting. In our case, it could be optics. We don't have good investment returns. So my concern is we may be creating a problem when they're currently is not a problem.

MR. GONZAGA: And I think that's a very good point. And I think that there's two sides to that, right? You know, if we're communicating, and discretion is exercised to reduce awards down, you know, the point is that something -- as part of the performance and individual review process, there was something, you know, in terms of abilities and contributions throughout the year that that individual lagged. And so sending that negative message, again, if it's used judiciously, is a good thing. But ultimately, it really does come down to, you know, the appropriate exercise of that discretion. That's why you need the checks and controls.

BOARD MEMBER HOLLINGER: Right. I think it's getting -- I don't know. I'd want Ted to speak to that, if he thought it was going to put him in an uncomfortable situation or not with staff.

CHAIRPERSON BILBREY: Turn on your mic. Yeah, there we go.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. Ted Eliopoulos, Chief Investment Officer.

Very well grounded anxiety intentioned for sure when you have the exercise of discretion how it might impact the plan, and the motivations and behavior, as well as the morale of the team. I think in this case, where we're focused an incentive plan on the management of the Investment Office. These are all highly compensated senior members of the organization. It's a bit of a contrast to the sales commission side of it. And in addition, there's specific -- there's a large amount of discretion that is part of the job of this management class to exercise. And the quantitative measures don't get at precisely the judgment that's being exercised, and the behaviors that are going into these numbers.

So on balance, the answer is I do think it's an improvement to have some discretion that's allowed. If it is exercised both in too much quantity and poorly, it will negatively impact, you know, the office. If it's exercised judiciously and it's seen as fair as rewarding people in extraordinary circumstances, as well as punishing those in cases that it's well deserved, it will be well received.

So I think you've nailed the tension on the head of it. I think on balance, it's a positive development and will be well received, but with the same anxiety. I can feel it in myself when I see --

(Laughter.)

CHIEF INVESTMENT OFFICER ELIOPOULOS: You know, for myself looking up to the Board and to the CEO, I have that anxiety. Boy, will I be -- you know, will the discretion be exercised in a way that I don't like one day? And I'm sure there's still that -- some of that tension for those that are reporting up to Wylie and me. But, on balance, I think it's worth the anxiety level to get at some of the judgment and behavior.

BOARD MEMBER HOLLINGER: Thank you.

CHAIRPERSON BILBREY: Before we go to the next speaker, I just want to comment too that we do also -- I mean, I think everybody has some anxiety with this. There's no -- there's no doubt that we have some concern, but we also have to have confidence in our CEO and CIO and the work that they're doing and look overseeing the staff and the discretion. And I think they will not use this in such a way that it would be detrimental to the organization. And if we see that there is a problem, then we have remedies to do of that as well, if it's using -- being used in a way that's not appropriate.

Ms. Mathur.

VICE CHAIRPERSON MATHUR: Thank you. And just as a follow on to the Chair's comments on this. It's not one individual making a decision and it being implemented, it's -- there's a review. The CIO does it, you know, with the approval and review of the CEO, et cetera, so it -- I think there are appropriate checks and balances in place to ensure that it is used thoughtfully and constructively for the organization. So that's all I wanted to add.

Thanks.

CHAIRPERSON BILBREY: Mr. Slaton.

BOARD MEMBER SLATON: So two quick points. And I appreciate the level of confidence that we have in the current staff. But my belief is you design a plan to work irrespective of who the individuals happen to be in the particular positions. So I trust the ability for discretion to be done wisely by our current staff, but you try to design a plan to work in -- you know, regardless of who's there.

I'd like to ask just if Mr. Emkin can make a brief comment about this, particularly as it relates to this discretion and how it might relate to recruitment for people who are not in the system today, but who look and see what we're doing.

CHAIRPERSON BILBREY: I actually will invite Wilshire up as well --

BOARD MEMBER SLATON: Okay.

CHAIRPERSON BILBREY: -- because they both have issued opinion letters and let them comment at this time.

BOARD MEMBER SLATON: Okay.

MR. EMKIN: Allan Emkin, PCA.

One of the biggest challenge in any organization, but in the world I live in the, the investment organization, is culture. And the only way to measure that is with discretion. There's not a simple numerical way to measure culture. And if you want to motivate people to work together to get rid of traditional silos and act as a team, and that is your -- this Committee's direction to your senior management, then it's their responsibility to implement that organizational wide.

I don't know of any other tool other than some discretionary component of a bonus to accomplish that objective. And I would draw a big distinction between a commission, which I think you can do purely numerically, which doesn't have anything to do with culture.

Many sales people work totally in a silo off by themselves, and they have a book of business. And it's easy to equate one to the other. But changing culture, which I believe is the biggest challenge that the new CEO and the CIO will have, so that people do work together as a team, the only tool is discretion in terms of compensation.

MR. JUNKIN: Andrew Junkin with Wilshire. I would agree. I'd actually just argue the other side for a minute, which is if there is no discretion applied, and everyone is exactly the same regardless of how hard they work, I think you risk disenfranchising people that are really committed and really bringing it every day. Those are the people you cannot, absolutely cannot, lose.

The people that you knockdown a little bit, I mean, you're knocking them down probably because of poor performance. And if you lose a poor performer, the organization goes on and maybe thrives as a result. Losing your top performers is deadly.

BOARD MEMBER SLATON: And so for recruitment too, you would agree that still it is an advantage from a recruitment standpoint.

MR. JUNKIN: Absolutely. I think it sets the tone from the beginning.

BOARD MEMBER SLATON: Thank you.

MR. EMKIN: You can be a great investment person and even have good performance, but if you are not additive to the team, in fact, you'll be destructive. And the key is to get an organization to work together as a unit and not as a bunch of individuals. And that's why it's so important that you set that as the key objective. As you look at your CIO and your CEO, are you building a team or are you hiring a bunch of stars. If you're hiring a bunch of stars, you get a very different result.

BOARD MEMBER SLATON: Thank you, both.

CHAIRPERSON BILBREY: Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: Thank you. Just to echo Mr. Bilbrey and Ms. Mathur, I, too, have a, I think, a little more comfort with the idea of discretion. Just two examples, I think currently the CIO has, in terms of base salary, has some discretion in case of inequities or unusual circumstances to make adjustments. And through the course of an Interim CIO, and now two sitting CIOs, I've seen that used a handful of times very judicious, and it comes to the Board.

And then post-crash, I believe we implemented a policy where the Board has discretion, in cases where absolute returns are negative, to reduce, eliminate, defer awards. We've never used that. You know, so I just have some confidence.

I guess the one question that I do have is I understand your rationale when you're -- in terms of the incentive payout range. I was hoping in your talking points that we would get some -- you know, that it would be a little more useful in terms of how do we message to the public that when we have performance that's below the benchmark, we're still giving out a piece of the award?

MR. GENTRY: Well, I think it's going to come down to, you know, pay is always about optics. And it's impossible to have a -- you know, it's too easy to take things at face value. And I think as you think about when to apply actions to account for negative outcomes, you know, absolute returns are negative, relative returns are negative, it has to be within the context of what's happening within the broader market.

And I think as we think about, again, messaging -- and one of the things we talked about early on, we've made the suggestion to staff, I think in some of the conversations we've had with some of the Committee members, it's once you move beyond -- move beyond design, what's the message we want to convey to the market? So it's directly on your point.

And I think it's the justification for making incentive payments when outcomes at face value are negative. But remember that the distribution of potential outcomes is just not all positive. It's also negative, and there's value to CalPERS to protecting itself from significant drawdowns in capital.

And I think in the situation I think you're talking about, that's one of the messages that I would want to be sure to make. We want the team continuing to work to cover the risk spectrum as opposed to just those instances when we're equaling or exceeding the benchmark.

MR. GONZAGA: And, Mr. Boyken, that would be my response. I mean, there is the competitive market.

That's always one element of communication that we work with our clients on. But in this instance, it's playing good defense can be we rewarded, and preserving capital for the organization should be reward, so...

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

CHAIRPERSON BILBREY: Mr. Emkin.

MR. EMKIN: Typical Emkin, different spin.

(Laughter.)

MR. EMKIN: Two things. First and foremost, you have an investment belief that talks about the importance of staff and having motivated staff. So responding to the public on the issue of bonus during a poorly performing period, I think you, first and foremost, can go to your investment beliefs.

The second thing is transparency. And the more transparent, the more the numbers are out there in advance, it won't look like you, after the fact, made a decision, well, we're going to treat these people in a certain way, even though we had a bad year. It's part of their investment package and it's consistent with your investment believes. And as long as that's communicated ahead of time, will some people be upset? The answer is unequivocally yes. There's no wake to everybody happy all the time. But as an organization, I think that's a better statement and it's consistent with your existing policy.

ACTING COMMITTEE MEMBER BOYKEN: Thank you.

And, Mr. Chair, did you want to take more comments or would a motion be appropriate?

CHAIRPERSON BILBREY: Let me have Mr. Cobb and then you can do a motion.

ACTING COMMITTEE MEMBER COBB: How many scenarios did you run on the proposed policy, and how it would outcome versus the current policy to try to identify the kinds of situations where it might produce an aberrant result that would, you know, require this discretion to correct?

MR. GENTRY: Well, we did back-test the program, but we can only back test to the extent that we have a quantifiable outcome. So we checked what the outcomes were under the expanded incentive curve over pre-condition -- I'm sorry, pre-financial crisis, straddle the financial crisis, then subsequent to the financial crisis. And the outcomes were actually the same, in terms of what the payout opportunities looked like. In terms of back-testing discretion, that's not something we can test aside from sort of scenario testing.

ACTING COMMITTEE MEMBER COBB: Yeah, that's what I'm talking about. Not back-testing the discretion, but back-testing the rest of it to see how often it appears that discretion will be required and under what circumstances discretion tends to come into play.

MR. GENTRY: Right.

ACTING COMMITTEE MEMBER COBB: So you can put parameters around the discretion to better -- and make tweaks to the model itself, so that discretion isn't needed as often.

MR. GENTRY: I think it's really on a case by case basis. So to answer your question, no, we didn't test to that extent. But as we sought the Investment Office feedback, there were instances that Ted and Wylie were able to provide in terms of when positive could have been applied or when negative should have been applied.

Again, it's not -- it's not a peanut butter reward strategy, meaning we're going to treat everybody the same, and we're going to -- we're going to up or down, you know, across the board, but it's just there's certain instances where people have made a positive or a negative impact to the function or their teams when that would then be, well, this is an opportunity we need to think about, is pay and performance appropriately aligned.

ACTING COMMITTEE MEMBER COBB: Okay. Well, I just -- CalHR remains very concerned about the extent to which this discretion is, you know, just almost, you know, totally without parameters.

CHAIRPERSON BILBREY: Thank you, Mr. Cobb.

Mr. Costigan.

COMMITTEE MEMBER COSTIGAN: Thank you, Mr. Bilbrey.

I really do appreciate all the work that the Committee has done and the work that Grant Thornton has done. I have raised concerns over the last few months while this project has been going, and I had intended not to support the motion when the motion is made for a couple reasons. But I am going to support it, because I'd like to see the process move along.

I am concerned that -- and I understand that we, at some point, will be looking at other portions of the organization. The base-pay range, for example, I am -- you know, the recommendation is that the pay range now for an Investment Manager would go to 140,000 -- well, 140,000 to 220 with a Q1 quartile range of 161,025, which I believe is actually higher than the executive staff in some of our other units.

And I have some concerns of the approach that we're -- unless, Mr. Hoffner wants to comment on it?

INTERIM CHIEF EXECUTIVE OFFICER HOFFNER: I was just going to say, Mr. Costigan, we're not actually changing proposed salary bands in this case. This policy outlines what's currently in existence.

COMMITTEE MEMBER COSTIGAN: No, I understand.

I'm just -- I'm sorry, I may have not phrased it right.

INTERIM CHIEF EXECUTIVE OFFICER HOFFNER: No, I just wanted to make sure.

COMMITTEE MEMBER COSTIGAN: It's the fact that the Investment Office minimum range is already higher than what some of the executive staff makes. And I've got some concerns that what we're doing is treating one unit differently without recognizing the contributions the other units make. As we saw in both the CEM report earlier this morning, and the other committees the work that they do.

So it's my understanding that we're going to look across the organization, not necessarily the fact that we may have a statutory barrier. But I just wanted to -- I was really struggling with this. And I think on Friday, in other conversations I had, look at just not supporting it for the broader concept. But, Mr. Bilbrey, I understand that at some point we'll get to the other organizations, and this is just that step forward. So when the motion is made, I will be supporting it.

CHAIRPERSON BILBREY: Okay. Go ahead. Mr. Boyken.

ACTING COMMITTEE MEMBER BOYKEN: So let me just be clear. So I'm approving the revised comp -- yeah, the revise --

CHAIRPERSON BILBREY: Second and final reading of the proposed metrics and policy amendments.

ACTING COMMITTEE MEMBER BOYKEN: Okay. So that's the motion I'm making --

(Laughter.)

ACTING COMMITTEE MEMBER BOYKEN: -- to revise the second reading of the proposed compensation policies and procedures, to approve, yes.

CHAIRPERSON BILBREY: Okay. Is there a second?

VICE CHAIRPERSON MATHUR: Second.

CHAIRPERSON BILBREY: Second.

It's been moved and seconded, moved by Boyken, seconded by Mathur. We're approving the second and final reading of the proposed performance metrics and policy amendments.

Any discussion on the motion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON BILBREY: Opposed?

(No.)

CHAIRPERSON BILBREY: Note CalHR's no.

Motion passes.

Thank you. Good work, everyone. We are on our way.

That will move us to the next item, Agenda Item 6, second reading of the 2016-17 performance plan of the Chief Investment Officer.

Ms. Campbell.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Tina Campbell, CalPERS staff. Agenda Item 6 is also an action item. This item presents for approval the 2016-17 incentive plan for the Chief Investment Officer. As part of ongoing work that is underway with the Board's primary executive compensation consultant, Grant Thornton, to review and refine the existing compensation policy and program components, the Chief Investment Officer's performance plan reflects the consultant's recommendations for revisions to the performance plan contents. So basically what we already talked about today will be reflected in the 2016-17 plan as we had no changes.

As required by policy, the Board's primary investment consultant has reviewed and[sic] proposed performance plan and provide an opinion on the total fund quantitative measure, which is included in Agenda Item 5, Attachment 3.

This concludes my report on this item, and I'm happy to answer any questions you may have.

CHAIRPERSON BILBREY: Ms. Mathur.

VICE CHAIRPERSON MATHUR: Thank you.

I just have one question, and actually I think it's for the CIO. So with respect to the key business objectives, it outlines a number of things, including sort of the implementation of the deliverables and targets, and objectives target associated with the ESG strategic plan that we just adopted yesterday. And my question for you is how is this going to cascade down into the Managing Investment Director's plans and perhaps some of the -- some Investment Directors as well.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. Terrific question. It will cascade. That's the first part. Make sure. And what I and Wylie will do is look through the strategic plan. And for those individuals that have the responsibility to accomplish that part of the plan, we'll assign this weighting to that part of the plan.

So for both the Managing Investment Directors, and Investment Directors, and I would imagine some Investment Managers as well, they'll have key parts of the plan, because as this does, the buck stops with me for the total plan. I'm going to want to make sure that each component part of that plan the people responsible for delivering that have their component as well.

VICE CHAIRPERSON MATHUR: Now, clearly there are some tasks activities, et cetera that are outlined in the plan. And those will have specific responsibility with -- housed with certain individuals or groups of individuals. But in terms of sort of the overall integration into the entire Investment Office and sort of the movement, the strategy -- ongoing strategy around -- that's the responsibility of sort of all of the top leaders.

CHIEF INVESTMENT OFFICER ELIOPOULOS: Yeah. So for the MIDs, I would expect a component for the integration of these activities into the asset classes to be part of their plans as well.

VICE CHAIRPERSON MATHUR: Okay. Great. Thank you. That's very helpful.

With that, I'm happy to move the plan.

ACTING COMMITTEE MEMBER BOYKEN: Second.

CHAIRPERSON BILBREY: It's moved by Mathur, seconded by Boyken to approve the 2016-17 performance plan for the Chief Investment Officer.

Any discussion on the motion?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON BILBREY: Opposed?

Motion carries.

Thank you.

Summary of Committee direction?

Mr. Hoffner, do we have some?

INTERIM CHIEF EXECUTIVE OFFICER HOFFNER: I didn't have anything other than what Mr. Costigan raised in terms of when we might agendize or think about other discussions about other incentive plans within the organization. Happy to work with you, Mr. Chair, in terms of identifying when that might occur.

CHAIRPERSON BILBREY: Yeah, probably the 2017-18 plans.

INTERIM CHIEF EXECUTIVE OFFICER HOFFNER: Other than that, I just want to say thank you to everybody involved for all the hard work, not only for this period of time, since we brought Grant Thornton on basically in January of this last year at the off-site, but the work that went -- preceded this for about a year and a half before.

So I just want to really thank all of you at the Committee level, at the Board, as well as all of the staff that have worked extremely hard to get us to the point we're at today. So thank you.

CHAIRPERSON BILBREY: I'd like to echo those comments as well. We're very appreciative of Grant Thornton for all the work that's been going on these past several months. It's been a tremendous amount of work and lift, but we and the staff working in conjunction with you have done a fantastic job. And I thank the Committee for being very thoughtful, as well as the other Board members.

By the way, I forgot to welcome to the Committee, and I thank them for attending today, Board Members Jones, Feckner, Hollinger, Slaton, and Ms. Paquin for Controller Yee. So I thank everyone for all their hard work, and with that this meeting is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 11:14 a.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 August, 2016.

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