

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
PERFORMANCE, COMPENSATION &
TALENT MANAGEMENT COMMITTEE
OPEN SESSION

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

TUESDAY, DECEMBER 19, 2017

2:50 P.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Michael Bilbrey, Chairperson

Mr. Richard Costigan, Vice Chairperson

Mr. John Chiang, represented by Mr. Steve Juarez

Mr. Richard Gillihan, represented by Mr. Ralph Cobb

Ms. Dana Hollinger

Mr. Ron Lind

Ms. Theresa Taylor

BOARD MEMBERS:

Mr. J.J. Jelincic

Ms. Priya Mathur

Mr. Bill Slaton

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Carol Takehara, Committee Secretary

ALSO PRESENT:

Mr. Eric Gonzaga, Grant Thornton, LLP

I N D E X

	PAGE
1. Call to Order and Roll Call	1
2. Executive Report	1
3. Consent Items	3
Action Consent Items:	
a. Approval of the September 19, 2017 Performance, Compensation & Talent Management Committee Meeting Minutes	
4. Consent Items	4
Information Consent Items:	
a. Annual Calendar Review	
b. Draft Agenda for the February 13, 2018 Performance, Compensation & Talent Management Committee Meeting	
Information Agenda Items	
5. Executive Compensation Consultant Review: Incentive Metrics, Discretionary Modifier, and Outstanding Recommendations	4
6. Summary of Committee Direction	43
7. Public Comment	51
Adjournment	51
Reporter's Certificate	52

1 P R O C E E D I N G S

2 CHAIRPERSON BILBREY: I'll call the meeting of
3 the Performance, Compensation and Talent Management
4 Committee to order.

5 First up, call the roll, please.

6 COMMITTEE SECRETARY TAKEHARA: Michael Bilbrey?

7 CHAIRPERSON BILBREY: Here.

8 COMMITTEE SECRETARY TAKEHARA: Richard Costigan?

9 VICE CHAIRPERSON COSTIGAN: Here.

10 COMMITTEE SECRETARY TAKEHARA: Steve Juarez for
11 John Chiang?

12 ACTING COMMITTEE MEMBER JUAREZ: Here.

13 COMMITTEE SECRETARY TAKEHARA: Ralph Cobb for
14 Richard Gillihan?

15 ACTING COMMITTEE MEMBER COBB: Here.

16 COMMITTEE SECRETARY TAKEHARA: Dana Hollinger?

17 COMMITTEE MEMBER HOLLINGER: Here.

18 COMMITTEE SECRETARY TAKEHARA: Ron Lind?

19 COMMITTEE MEMBER LIND: Here.

20 COMMITTEE SECRETARY TAKEHARA: Theresa Taylor?

21 COMMITTEE MEMBER TAYLOR: Here.

22 CHAIRPERSON BILBREY: Thank you.

23 Executive report, Mr. Hoffner.

24 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you, Mr.
25 Chair. I'd first like to start off and just give you my

1 appreciation to your leadership, Mr. Bilbrey for our time
2 together, not only on this Committee, but on the Board.
3 And I know I've been here for just over 5 years. And I
4 just want to say I appreciate all that you've done for
5 this organization for our membership. So I want to wish
6 you good wishes, and good Holidays, and just represent the
7 operations and technology team here today and say thank
8 you for all you've done.

9 CHAIRPERSON BILBREY: Thank you.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: With that,
11 I'll just jump into the items before us today. I want to
12 call out one error that we've made in the consent agenda
13 item for the February Committee meeting. I'll just call
14 out the fact before you vote on that, that we effectively
15 have the vote for the Chair and Vice Chair listed twice. I
16 just want to amend that to remove the second reference to
17 that election. And I think after that, that would be
18 fine.

19 Following that, I just want to identify in our
20 last meeting in September, there was a closed session
21 discussion, the Committee requested additional information
22 brought back to this December meeting to talk about the
23 incentive metrics and the discussions that were had
24 related to our first year using the new incentive
25 performance metrics for the organization. These were

1 approved back in 2016, and were in effect for that -- the
2 next calendar year performance plan.

3 Today, we have the Board's executive consultant
4 here, Eric Gonzaga with Grant Thornton. He'll be walking
5 you through the presentation on Agenda Item 5 later this
6 morning -- or excuse me, later this afternoon, but I'd
7 also like to acknowledge there are representatives from
8 other parts of the organization as there are portions of
9 that presentation that include performance metrics outside
10 of, you know, the Investment Office, the CSS Branch,
11 Public Affairs, et cetera. So there are representatives
12 here from toes branches to answer questions that may come
13 up later in the presentation.

14 So with that, that includes my report, Mr. Chair.
15 Thank you.

16 CHAIRPERSON BILBREY: Thank you.

17 Seeing no questions.

18 Move on to the action consent items. Can I have
19 a motion?

20 COMMITTEE MEMBER TAYLOR: Move approval

21 COMMITTEE MEMBER HOLLINGER: Second.

22 CHAIRPERSON BILBREY: Ms. Taylor move approval
23 and that's with the amendment of the duplication removing
24 one of the Chair/Vice Chair of the amended minutes, and
25 second by Hollinger.

1 All those in favor say aye?

2 (Ayes.)

3 CHAIRPERSON BILBREY: Opposed?

4 Motion carries.

5 Item 4, information consent items. I have no one
6 asking to remove any.

7 We'll move on to Item 5, executive compensation
8 consultant review. Mr. Gonzaga we will open with you.

9 (Thereupon an overhead presentation was
10 presented as follows.)

11 MR. GONZAGA: Thank you, Mr. Bilbrey.

12 So today in the presentation, you know, the
13 agenda as it's outlined is, you know, to simply describe
14 what the metrics were that were selected and the
15 rationale, as well as to discuss the specific definitions
16 that we use for each incentive plan metric, and finally
17 just our general thoughts on, you know, the various
18 metrics in terms of, you know, things to consider.

19 --o0o--

20 MR. GONZAGA: And so, you know, we'll go over,
21 you know, each metric one by one, again discussing
22 intention, metric description, and then as well as, you
23 know, just some additional considerations.

24 In addition, what we also have in the deck is,
25 you know, discussion of the discretion modifier that you

1 all, you know, had some questions about historically, and
2 also just some items going back to 2016, so...

3 Now, with that in mind, the overarching intent of
4 the executive incentive plan was to develop metrics that
5 would represent shared success for the organization
6 itself. And like many organizations, we came up with a
7 balanced score card of incentives.

8 You know, incentivizing based on achievement of
9 specific outcomes with shared goals across the enterprise.

10 The first metric that, you know, we selected is
11 an obvious one, you know, total fund performance. And why
12 did we select that metric?

13 --o0o--

14 MR. GONZAGA: It aligns the executive team with
15 the mission, which is to provide pension benefits. It's
16 measured over a 5-year rolling average to make sure that,
17 you know, it's considered within the context of the
18 appropriate risk lens, and as well as to, you know,
19 balance risk management.

20 This metric itself, you know, it's fairly
21 straightforward, and it's a matter of meeting or beating,
22 you know, certain indices, just spread over 5-year period.

23 Our thought on this metric it's consistent with
24 market practice. Obviously, highly strategic, and, you
25 know, we'd recommend continuing on with that metric.

1 --o0o--

2 MR. GONZAGA: The second metric, which is
3 certainly related, is about measurement of efficiency
4 relative to INVO. And the way that's measured is reliance
5 upon a third-party survey, which measures the performance
6 of INVO based on two dimensions. One is, you know, cost
7 in returns balancing each other out, and how do we perform
8 relative to a custom peer group of organizations?

9 And again, it's intended to measure the
10 efficiency of gaining those returns, a very good metric.
11 I know that, you know, we'll talk a little bit about, you
12 know, the operating cost metric for the rest of the
13 agenda -- the rest of the organization. But this is a
14 very neutral, you know, validated description in terms how
15 performance is validated. Again, a good metric, just like
16 it is for total fund performance. Our thought is that
17 great metric continue on.

18 CHAIRPERSON BILBREY: We have a question.

19 Ms. Taylor.

20 COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr.
21 Chair. The last thing on that metric it says
22 underperforms US benchmark or -- on returns and costs.
23 And it's zero. So I'm just -- what is that measuring that
24 is just zero? What are we looking at there?

25 MR. GONZAGA: Oh, no, that's a good point. What

1 it means is that if you underperform the U.S. benchmark on
2 both returns and cost, in other words, returns are
3 lower --

4 COMMITTEE MEMBER TAYLOR: And costs are higher?

5 MR. GONZAGA: Yep. Yep. Zero incentive award
6 for that specific metric.

7 COMMITTEE MEMBER TAYLOR: Zero incentive award.
8 Okay. That's -- I didn't understand what that meant.

9 Thank you.

10 MR. GONZAGA: Now, the next metric -- again, so
11 we have the Investment Office metrics where we're talking
12 about total fund performance and efficiency of the
13 Investment Office.

14 Now, we move on to the qualitative aspects of
15 achievement of mission. And the next two slides are, you
16 know, measurements. Again like a lot of mission-driven
17 organizations, stakeholder engagement and customer
18 service. In this instance, what we did was we selected
19 three key questions and tied incentive relative to the
20 specific survey outcomes for those three questions.

21 Is CalPERS sensitive to the needs of
22 stakeholders?

23 Does CalPERS do a good job of keeping its
24 stakeholders informed?

25 And do you engage and communicate with

1 stakeholders?

2 And the whole perspective of this metric is,
3 okay, we have this great survey platform out there, are we
4 at least -- do we continue to engage with our stakeholders
5 and do they see that value?

6 We provided the measurements. They are based on
7 historical beating or -- meeting or exceeding historical
8 performance in each one of those survey questions. Again,
9 pretty common methodology.

10 You know, the only thing that you always consider
11 about any of these metrics is, you know, is the goal too
12 high, is it too low? And so when we start thinking about
13 surveys statistics, survey scores, I think the questions,
14 as far as, you know, us going from one organization to the
15 next, what are the right stakeholder engagement, you know,
16 questions. These are good questions and the only issue
17 is, you know, are the scores that are incentive worthy
18 appropriate for this organization. Should we push them up
19 a little? Should they go down a little bit.

20 But for the most part I think it's a great
21 metric, you know, and it's measured in an appropriate
22 manner.

23 CHAIRPERSON BILBREY: Mr. Juarez.

24 ACTING COMMITTEE MEMBER JUAREZ: Yeah, I'm
25 curious, how do you get 75 percent? What -- if you're

1 ranking someone along those 3 questions, how does that
2 then translate into 75 percent?

3 MR. GONZAGA: It's -- you know, it's essentially,
4 you know, measuring -- I think it's -- you know, it's
5 anywhere from a 1 to 10 type scale, and what's the average
6 score that folks are rating your organization at in terms
7 of engagement.

8 ACTING COMMITTEE MEMBER JUAREZ: So over those 3
9 questions, if I got 8, 8, and 8, that would be an average
10 of 8, and I would qualify for the highest award?

11 MR. GONZAGA: Right.

12 ACTING COMMITTEE MEMBER JUAREZ: Okay.

13 --o0o--

14 CHAIRPERSON BILBREY: Any others?

15 Mr. Lind.

16 COMMITTEE MEMBER LIND: Yes. To your point about
17 maybe we need to take a look at the different ranking and
18 the numbers and all that, I think maybe we do. I don't
19 know that we need to do it now. But, you know, I'm just
20 looking at the -- so 67 to 69 percent, which would mean --
21 so I guess 67 to 69 percent of those that did the survey
22 said that we're doing a good job on engagement, well,
23 then, you know, in school that's an F, 67 to 69 percent.
24 So I'm not sure.

25 COMMITTEE MEMBER HOLLINGER: It's a D.

1 COMMITTEE MEMBER LIND: Is it a D? Okay. Maybe
2 it's a D. All right. It's been a long time since I've
3 been to school. I'm not sure that that merits and
4 incentive bonus of even 0.5 percent. Just something that
5 we need to think about a little bit. I do think that
6 these standards might be a little bit low.

7 CHAIRPERSON BILBREY: Mr. Slaton.

8 BOARD MEMBER SLATON: Thank you, Mr. Chair. What
9 I'd like to know is how big -- in this particular one, how
10 big is the survey group? You know, if it's 3 people or 8
11 people, you know, you can skew this thing. It can get
12 skewed pretty good by, you know, just one or two
13 responses. So I need to understand -- I think it's
14 important to understand the scale.

15 DEPUTY EXECUTIVE OFFICER PACHECO: Yeah. Brad
16 Pacheco, CalPERS team. So the stakeholder survey you
17 might recall we reported the results last April, and
18 recommended that we do it on an annual basis. So it's
19 being sent out in January, and we'll report back to the
20 Board in the March or April timeframe.

21 So we survey all of our employer partners. We
22 randomly select I think it's somewhere between 75,000 to
23 100,000 sample size of our membership. We also survey our
24 stakeholder partners as part of this.

25 BOARD MEMBER SLATON: So you're saying that the

1 sample group who get the survey is thousands who get it?

2 DEPUTY EXECUTIVE OFFICER PACHECO: Yes. No, it's
3 thousands randomly selected from the membership base. And
4 we also proportion it by active versus retiree, and then
5 State, school, and public agency.

6 BOARD MEMBER SLATON: So -- and what's the volume
7 of actual response to it.

8 DEPUTY EXECUTIVE OFFICER PACHECO: You know, I
9 don't have that in front of me. But our response rate has
10 been relatively high in comparison to past -- or to
11 industry standards.

12 BOARD MEMBER SLATON: You mean like 10 percent.

13 DEPUTY EXECUTIVE OFFICER PACHECO: Yes. I think
14 last year it was somewhere between 12 and 15 percent, but
15 we can get those numbers.

16 BOARD MEMBER SLATON: Okay. Do we have any way
17 to test whether it's -- that the fact that you -- the
18 responses you get are, by their very nature, skewed? In
19 other words, if I'm happy, I'm not sure I'm going to take
20 the time to respond. If I'm not happy, I'm probably going
21 to respond.

22 Do we have any way of telling you if we're
23 getting skewed responses to this?

24 DEPUTY EXECUTIVE OFFICER PACHECO: You know,
25 that's something that we can look at and work with our

1 research program area to do. Obviously, the timing of the
2 survey has a bearing on the results.

3 If you recall last time, the survey was
4 administered right as we were reducing the discount rate.
5 So that certainly had an impact on some of the results
6 that we saw.

7 And I should point out to Mr. Lind's question
8 regarding the scale, it might be important to look at the
9 scale, because while 69 to 71 percent may be considered a
10 D in school, if you look at the scaling, I think, how it's
11 scaled from 1 to 10 is completely agree, somewhat agree.
12 So I think that's still in the agree category, and that's
13 why you're seeing a score of 0.75 percent on the incentive
14 scale. So it might be important, if you look at those, to
15 look at how the answers are determined.

16 BOARD MEMBER SLATON: Okay. Well, I'd just
17 encourage the Committee to explore it a little bit,
18 whether, in fact, you're really getting an accurate
19 reflection by doing this via survey, because that's -- you
20 know, this is a pretty big measurement, and, you know,
21 it's important because we're trying to direct toward a
22 certain objective. So that's my only concern, is it
23 really reflecting what people are thinking?

24 DEPUTY EXECUTIVE OFFICER PACHECO: Yeah. And we
25 can certainly look at that.

1 CHAIRPERSON BILBREY: Ms. Taylor.

2 COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr.
3 Chair.

4 Brad, I just wanted to -- you were go -- starting
5 to go into it about how the scoring ends up at 75 percent
6 as a high.

7 DEPUTY EXECUTIVE OFFICER PACHECO: Yeah.

8 COMMITTEE MEMBER TAYLOR: So that's where I --
9 could you explain that just a little bit better.

10 DEPUTY EXECUTIVE OFFICER PACHECO: So I think
11 what I was trying to articulate is if you look at the
12 scale, and I'm sorry I don't have it in front have me, but
13 it's --

14 COMMITTEE MEMBER TAYLOR: 75, 73 to 75, 71 to 73
15 69 to 71, 67 to 69 and lower than 67. So you have quite a
16 range, but I don't know -- I don't know what it means.
17 Does it mean it's an answer to these three questions at
18 75 -- you know, and how many people answered at 75
19 percent?

20 DEPUTY EXECUTIVE OFFICER PACHECO: No, it's
21 similar to what Mr. Juarez was articulating earlier. So
22 the scale is 1 to 10. So 10 might be completely agree
23 with a question. That would be the answer from the survey
24 respondent. So if the respondents answered an 8 on all
25 three questions, as Mr. Juarez was indicating, then the

1 average for that score would be an 8. And that would
2 probably be something of agree or somewhat agree.

3 COMMITTEE MEMBER TAYLOR: So that's where the
4 percentage comes from, like the 8 is like 80 percent?

5 DEPUTY EXECUTIVE OFFICER PACHECO: Correct.

6 COMMITTEE MEMBER TAYLOR: Okay. So this is
7 probably not the best way to exhibit this. I'm thinking
8 you -- next time just give us the score -- the actual how
9 many answered to what -- you know -- 8, 9, or 10, strongly
10 agree, strongly disagree. You know, break it out like you
11 see on the Marist polls or the -- because that makes no
12 sense to me.

13 (Laughter.)

14 MR. GONZAGA: Understood.

15 COMMITTEE MEMBER TAYLOR: Huh?

16 COMMITTEE MEMBER HOLLINGER: Understood.

17 MR. GONZAGA: Oh, understood.

18 COMMITTEE MEMBER TAYLOR: Oh, understood. Okay.
19 Thank you.

20 CHAIRPERSON BILBREY: Ms. Hollinger.

21 COMMITTEE MEMBER HOLLINGER: Yeah. Thank you.
22 Appreciate it.

23 One of the things I'm struggling with, when we
24 look at the incentive of INVO, and the Canadian model does
25 this. They tie it into the unfunded liability. So I

1 think, for example, if our funded status during an
2 investment year went down significantly, the fact that we
3 may be giving big bonuses would -- I don't think the
4 optics would look good.

5 And also, I think it's important for -- just as
6 an organization, for us to be focused there. And so I
7 think you -- I think the -- if the unfunded status went
8 progressively down to -- it just seems counterintuitive to
9 me, and how not to include that, and make light of it in
10 terms of the compensation and giving bonuses. I just see
11 how they have to be connected.

12 CHAIRPERSON BILBREY: Okay. So I think I hear
13 some on the Committee's part, you'd like to have maybe
14 some exploring of the metric scoring ranges, and they
15 could bring that back in February so that staff can put
16 some things together.

17 No, no. Go ahead.

18 COMMITTEE MEMBER TAYLOR: I'm just not having a
19 really easy time making these connections where we're
20 actually scored at in these specific questions, which
21 question was answered how. Because I think you could even
22 break these questions out, I think, and actually give a,
23 you know, strongly agree, strongly disagree, because
24 there's -- on this particular one, there's 3 separate
25 questions.

1 So I think to get a better idea, and I think what
2 Dana was saying too is also we just -- there seems to be
3 kind of a disconnect so that we can't really get a good
4 measure.

5 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. Doug
6 Hoffner, CalPERS team member. So I think -- I think we
7 can -- we can translate this back to you using a different
8 scale that ramps up to the percentages we're talking
9 about. But I think we hear you loud and clear on that. I
10 think there's a few items.

11 Maybe we could walk through the rest of the
12 metrics --

13 COMMITTEE MEMBER TAYLOR: Sure.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: -- and then we
15 can do a cumulative discussion about other feedback that
16 we've received, given these were the plans that are
17 currently in place today for the effected individuals.
18 And then if there's modifications to those that you'd want
19 to see, either, you know, in play or prospectively, let's
20 have that discussion, so we know what to work with our
21 consultant on -- or the Board's consultant on a going
22 forward basis.

23 CHAIRPERSON BILBREY: Okay.

24 COMMITTEE MEMBER TAYLOR: Okay.

25 CHAIRPERSON BILBREY: So move on, Mr. Gonzaga.

1 --o0o--

2 MR. GONZAGA: Great. So the next metric, the
3 second to last metric that we were -- that is in the
4 incentive plan is customer service. And I know that was
5 something that was discussed earlier today.

6 But very similar methodology, you know, in terms
7 of relying upon two issues. One is service standards
8 within certain time periods, and the second is, you know,
9 satisfaction with customer service based on various
10 surveys.

11 So again, you know, another metric that is
12 utilizing various survey, sources, and statistics that you
13 all keep, you know, from a customer service standpoint.
14 And, you know, the metrics, you know, as they were
15 defined, they -- we defined them at a time at which, you
16 know, you were performing at a historically high level.

17 And, you know, the metrics were based on meeting
18 or exceeding those historically high levels. And our only
19 recommendation again there, I guess it's no different than
20 what we were talking about with stakeholder engagement,
21 which is specifically to say, you know, we always --
22 incentive goals should always be realistic, despite the
23 fact that you're trying to stretch folks.

24 The issue comes down to, you know, are these the
25 right scores? Are they too high? Are they too low? And

1 so our only recommendation here is to think through, you
2 know, are the metrics, as currently defined, at an
3 appropriate performance standard to reward for, you know,
4 meritorious performance.

5 CHAIRPERSON BILBREY: Mr. Slaton.

6 BOARD MEMBER SLATON: Thank you, Mr. Chair. You
7 just -- you made one comment that I personally would
8 disagree with, that the metrics have to -- you're trying
9 to get people to stretch. And I know that in the public
10 sector it's a little more challenging to have measurement
11 metrics sometimes than it is in the private sector.

12 If you're going to get a 1.5, and you're going to
13 exceed 95, that's exceptional. It doesn't necessarily
14 mean that you should reach it all the time. So if you set
15 the top standard to be one that is quote, reasonably to
16 obtain, then by definition you're not asking anybody to be
17 exceptional.

18 So to me, it makes sense to have measurements
19 that sometimes you reach, and sometimes you don't reach.
20 And we have a matrix here that allows for increasing
21 competi -- compensation, as you get to a higher level, so
22 why would we decrease it?

23 MR. GONZAGA: No. And, Mr. Slaton, I'll disagree
24 that we disagree. You know, my perspective is that
25 certainly from a maximum standpoint if you get 1.5 X times

1 award, you know, you should be able to achieve that maybe
2 one time out of 10 years.

3 BOARD MEMBER SLATON: Okay. All right.

4 MR. GONZAGA: You know, the perspective was more
5 that, you know, from a target perspective, are these
6 reasonably achievable for the year. There are thresholds
7 where you get that 0.5 times award. Those are typically
8 provided for good performance. So it goes from good,
9 great, to outstanding performance. But I completely agree
10 with you.

11 BOARD MEMBER SLATON: Okay.

12 MR. GONZAGA: If we're going to have a maximum
13 award, it must be very difficult to achieve.

14 BOARD MEMBER SLATON: So if we -- if we're saying
15 that reaching 88 on this gets you an award, then that's
16 kind of, in the old IBM parlance, meets minimum
17 requirements. You know, you've gotten maybe zero is meets
18 minimum, but you may not, in the private sector, keep your
19 job if all you do is meet minimum requirements time after
20 time, so --

21 MR. GONZAGA: You know --

22 BOARD MEMBER SLATON: -- help me understand where
23 the bottom threshold is.

24 MR. GONZAGA: Yeah. So in industry -- and we
25 work with a number of for-profit organizations, that are

1 much like -- that the for-profit versions in terms of
2 being asset managers.

3 You know, what you find when you're setting goals
4 is that, you know, the theory behind having an array of
5 performance goals, so you have a target, you have a
6 budget, that's typically what drives target incentive
7 award.

8 Now, the threshold is set typically anywhere
9 from -- I don't know, anywhere from 10 to 30 percent below
10 the target is typically what you find from a threshold
11 standpoint. Maximum performance maybe at 20 to 30 percent
12 of target.

13 The whole purpose for doing that again is
14 recognizing that the whole goal setting can be an art.
15 And what we always want is to certainly provide a
16 reasonable incentive for every individual participant in
17 the plan. And things happen throughout the year, and we
18 know there can be some imprecision in goal setting.

19 The other thing it does, in terms of having
20 multiple layers of performance goals set, is specifically
21 because it forces the organization and increases the
22 likelihood that the management team is going to work to,
23 you know, establish, you know, very strategic-worthy
24 goals, because there's multiple rays of performance,
25 there's multiple levels of award, as opposed to, hey, if

1 it's just this one level, you would worry a little bit
2 about sandbagging, if there's just that one defined
3 performance level.

4 BOARD MEMBER SLATON: Right. Okay. I think
5 we're on the same page.

6 MR. GONZAGA: We absolutely are.

7 BOARD MEMBER SLATON: All right

8 CHAIRPERSON BILBREY: Ms. Taylor.

9 COMMITTEE MEMBER TAYLOR: Yes. Thank you, Mr.
10 Chair. My question -- so this is where we were talking
11 about in Pension and Health Benefits earlier today, where
12 we were lowering the goals for -- so now, is this -- let
13 me ask you a question then. If that's the case, is this
14 from the old goals or is this the new goals? Are we
15 measuring this on the new goals?

16 MR. GONZAGA: Ms. Taylor, that's a great
17 question. And just to be clear, you know, the whole
18 purpose of discussing these metrics is just to kind of
19 revisit, you know, what the metrics historically are and
20 what the rationale was. This is what the existing goals
21 are --

22 COMMITTEE MEMBER TAYLOR: Okay.

23 MR. GONZAGA: -- as of -- you know, as defined at
24 the beginning of this year.

25 COMMITTEE MEMBER TAYLOR: So then they're -- they

1 aren't the changed ones that they talked about earlier.

2 MR. GONZAGA: Right.

3 COMMITTEE MEMBER TAYLOR: Okay. So then these
4 goals are based on the survey again. And it bottoms out
5 at less than 88 percent.

6 Okay. And I just -- I may agree that we should
7 always be striving, but I also agree that goals have to be
8 realistic, so that we're not like writing somebody off
9 because they didn't make their goals, if these goals are
10 truly not realistic.

11 So I don't know if I'm agreeing or disagreeing
12 with the two of you there.

13 (Laughter.)

14 COMMITTEE MEMBER TAYLOR: But thank you.

15 MR. GONZAGA: Sure.

16 CHAIRPERSON BILBREY: All right.

17 MR. GONZAGA: All right. So now to discuss the
18 enterprise operational effectiveness metric. And, you
19 know, recognizing that, you know, there was no award
20 earned under this metric last year, and certainly
21 challenged this year from, you know, a performance
22 standpoint where you're at to date.

23 Now, the only intent, and there is a back -- and
24 just to bring you back to 2016, and obviously when you
25 talk about INVO CEM, there's a way to measure efficiency

1 that was well established, and -- in the Investment
2 Office.

3 This metric specifically was a result of some
4 brainstorming with management, specifically your Finance
5 Department. And the whole intent was to say that you know
6 what, you know, for non-INVO how can we measure how
7 efficient the organization is running.

8 And essentially what we did was we established a
9 relationship that says, you know what, overhead operating
10 costs as a percentage of overall operating cost, what is
11 that relationship?

12 And we measured it over initially a 3-year
13 period, then a 2-year period, could we beat or exceed that
14 ratio to make us more efficient relative to those overhead
15 operating costs. And if we can beat where we were over
16 the last 2, 3 years, we get an incentive. You know, if
17 not, we don't get an incentive.

18 Now, the one thing I will say is that, so I --
19 and I know that there are some complexities to the
20 specific metric.

21 I'll also say that I think it's a very good
22 metric, but no metric is perfect from the standpoint of
23 measuring efficiency. And so how we defined is total
24 overhead operating costs, which is, you know, any
25 administrative cost not mapped out to produce and service

1 executive costs -- executive office. It includes the
2 Board costs. It includes third-party administrator costs
3 on the denominator side when you take a look at product
4 and service delivery.

5 So it's a very broad metric just to simply say,
6 okay, for non-INVO, what's the relationship between
7 overhead operating costs, and the operating costs in the
8 aggregate. Just another way to measure efficiency.

9 You know, and the important thing to note is that
10 the assumption is that we always want to make sure
11 overhead, you know, the relationship relative to what's
12 truly being delivered from a service standpoint, we want
13 to make sure that it's an appropriate relationship and
14 overhead isn't growing, while at the same time it's
15 exceeding the growth of delivery and service delivery
16 costs.

17 So that's the metric in general. And there's
18 some complexity to it. But it was intended to be a very
19 broad metric. We started with this metric specifically
20 because, you know, we needed to come up with a way to
21 measure efficiency result of a brainstorming discussion,
22 but certainly not a perfect metric.

23 --o0o--

24 MR. GONZAGA: And our thought on this is, you
25 know, should we, you know -- take your time -- take the

1 time to study the metric in a little bit more detail,
2 because maybe there's more strategic items. If we want to
3 be efficient, could we come up with a little bit less
4 broad metric, could we focus on certain efficiencies? Are
5 there things that should be included or excluded,
6 recognizing that there's been some frustration around this
7 metric specifically.

8 CHAIRPERSON BILBREY: Ms. Taylor.

9 COMMITTEE MEMBER TAYLOR: So I appreciate this.
10 This is a really complex one. And I just -- nobody got
11 this one, right? Nobody got a benefit because of this?

12 MR. GONZAGA: No award.

13 COMMITTEE MEMBER TAYLOR: Okay. I -- it makes me
14 wonder, is this too complex, and that's why that happened?
15 But secondarily, it also makes me wonder are we looking at
16 apples and oranges when we look at this. I know we're
17 looking for efficiencies, but -- and then you have your
18 brainstorm and came up with this weighted -- come up with
19 efficiencies, but we are a State agency. We are a complex
20 pension and health care fund.

21 So I think our costs would go along with our
22 complexity. So there, I'm a little -- I'm not saying we
23 change it now. I'm just saying that would be something
24 we'd take into consideration, but if you want to address
25 that.

1 MR. GONZAGA: Oh, I think that -- I mean this was
2 intended a general metric to start with. I mean, like all
3 these metrics, you can always -- the categories are great.
4 You're going to week metric as we go on. And I think the
5 issue here to consider is there is -- there are some
6 complexities. The only way a metric is ever going to be
7 effective is to the extent that people understand what the
8 metric means. They can communicate, you know, what the
9 metric means.

10 And, you know, again going back to realistic
11 goals, do we have the right realistic goals associated
12 with it? Which, you know -- and so I do think there needs
13 to be some investigation into this metric specifically.
14 And I think maybe the bigger thing is just is there more
15 strategic? Can we get more refined of what improvements
16 we're looking at from an efficiency standpoint.

17 COMMITTEE MEMBER TAYLOR: Based on our
18 organization too.

19 MR. GONZAGA: Absolutely.

20 COMMITTEE MEMBER TAYLOR: All right. Thank you.

21 CHAIRPERSON BILBREY: Ms. Mathur.

22 VICE CHAIRPERSON MATHUR: Thank you.

23 As I recall from when we were developing these
24 metrics, this was certainly the one that had sort of
25 the -- it was the hardest to come to. And even when we

1 did decide on -- settle on a metric, we didn't -- we
2 weren't 100 percent confident in it, even at that time.
3 And we thought we would try it, pilot it for a couple of
4 years, and then review it.

5 And I think that is exactly what you're
6 recommending that we do. And I would suggest to the
7 Committee that it is appropriate to do that.

8 I might suggest -- and I think this is sort of
9 following on on what you were just saying, Mr. Gonzaga,
10 that we might -- this might be one where we do want to
11 say, okay, our goal for this coming year is this
12 particular efficiency achievement, and this is how we're
13 going to measure it.

14 And maybe -- and maybe this one that we don't
15 have some broad general metric that works from year -- you
16 know, every year and across the years, but that we just
17 have specific targets that we want our executives to hit.

18 And so -- but I do think it warrants much more
19 robust discussion and review, and as you say
20 investigation.

21 Thanks.

22 CHAIRPERSON BILBREY: Mr. Lind.

23 COMMITTEE MEMBER LIND: I think it's much too
24 complex. I think I said that when it first came around to
25 us, but I was thinking the same thing that Priya just

1 said. I noticed in the fine print here there's a
2 recommendation about directing staff to conduct further
3 analysis and work with you for more options and more
4 effective methods, so I move that recommendation.

5 CHAIRPERSON BILBREY: That is the direction that
6 will be given by the Chair.

7 COMMITTEE MEMBER LIND: Okay. Good.

8 CHAIRPERSON BILBREY: I don't think we have to
9 have a formal motion. We can just do the direction.

10 COMMITTEE MEMBER LIND: Thank you.

11 CHAIRPERSON BILBREY: Which is where I was headed
12 to listening to the conversation.

13 All right.

14 MR. GONZAGA: Okay. And just a couple more, you
15 know, slides of discussion.

16 --o0o--

17 MR. GONZAGA: So the other two -- the other
18 element that I know you all were curious about is the
19 discretionary modifier. Now, we think it's fantastic that
20 the incentive plan move to one that is driven by outcomes.
21 It's driven by achievements. Now, we added a
22 discretionary modifier at the same time to recognize that
23 if we're coming up with this organizational incentive, we
24 want to make sure that everybody is contributing and
25 everybody is recognized appropriately.

1 And so we came up with these standards to say
2 that, you know -- and we came up with very finite
3 standards -- or percentages with which you could either
4 get rid of the award or you could decrease it by 50
5 percent, or it could be 25, 50, or 100 percent increase to
6 the award, based on the discretion of the Board, the CEO,
7 and the CIO. Okay?

8 Now, the whole reason that we picked those
9 specific lines in the sand was just to say that, you know
10 what, if we have five lines in the sand, it's going to
11 encourage us to have more deliberation between what's the
12 difference between 25 or 50, or 50 or 100. It kind of
13 forces the conversation around this is why, you know, the
14 individual received, you know, that discretionary
15 modification up or down. And it could be for consistency
16 with risk protocols. It could be outstanding leadership.
17 It could be taking on additional projects. It could be a
18 bunch of different things.

19 Now, you know what I will say is that if you are
20 comfortable exercising discretion, there's no magic
21 between it being 25, 50, or 100 percent. And you could
22 even come up with some sort of linear scale that said,
23 okay, this is the degree of flexibility that we should be,
24 you know, exercising that discretion based on maybe it's
25 linked to the performance review or other outcomes.

1 And so, you know, with that in mind, you know, I
2 just wanted to bring that forward to say, you know, I know
3 that there was some interest in a little bit more
4 flexibility around discretion. And, you know, we could
5 certainly, you know, work with management to come back
6 with an additional recommendation on that.

7 CHAIRPERSON BILBREY: Mr. Lind.

8 COMMITTEE MEMBER LIND: Thank you. So I'm very
9 supportive of the discretionary modifier, and, yeah, maybe
10 it needs some more work. I think I -- because things
11 happen. There are extenuating circumstances. I think
12 earlier this year, as I recall, Ted made some pretty good
13 arguments around this discretionary modifier for a few of
14 the people on the INVO staff, and it made total sense. So
15 I think we need to keep this as part of our project here
16 and, you know, just work on it as you suggest.

17 CHAIRPERSON BILBREY: Anyone else?

18 Seeing none.

19 --o0o--

20 MR. GONZAGA: All right. Great. And one last
21 item is just, you know, because the organization has made
22 a lot of progress in terms of, you know, adopting a
23 contemporary incentive plan, but we just wanted to bring
24 back the conversation to a couple things that, you know,
25 we talked about a couple years ago, and there was a, you

1 know, a gradual phase in.

2 But there are two items that, you know, we talked
3 about before, and we just throw them out for discussion in
4 terms of should this be considered again. And the first
5 is the long-term incentive plan. And, you know, what that
6 means, of course, is measuring performance tied over a
7 longer period of time.

8 You know, a perfect example, you know, Mr.
9 Slaton, you were talking this morning about customer
10 experience. That's a long-term relationship. Could we
11 blend that with some sort of overall fund performance to
12 kind of measure long-term performance. And that's
13 certainly something that, you know, whether it's tax
14 exempts or, you know, other mission-related organizations,
15 they will tie, you know, something important like customer
16 experience measured and measure it over a three-year
17 period.

18 So, you know, that's one thing to consider, in
19 addition to obviously the performance of the fund itself.
20 Now, the second thing I'd say is that, you know, we did
21 have a recommendation before about mixing the
22 allocation -- remixing the allocation of fixed versus
23 variable. And, of course, what that would mean is
24 increasing salaries and lowering incentives. And the
25 whole point there being, you know, a little bit

1 leverage -- less leverage, de-risking kind of the
2 incentive behavioral -- you know, the risk taking, you
3 know, profile for, you know, certain -- for the executives
4 itself, and also having that feature, you know, component
5 that says, you know what, if you come here, we're going to
6 give you a highly competitive salary, recognizing that
7 you'll never be fully competitive with the for-profits in
8 terms of annual and long-term incentives.

9 So two things that we just wanted to bring back
10 up just to say these are a couple things to consider,
11 so --

12 CHAIRPERSON BILBREY: So before I go back to
13 the -- on to the committee, I want to see if Ms. Frost or
14 Mr. Eliopoulos anyone wanted to chime in at all on any of
15 the slides we've been discussing in think way. It's up to
16 you. It's not required, just...

17 CHAIRPERSON BILBREY: Oh, I'm sorry, and the CFO
18 if he'd like to also.

19 CHIEF EXECUTIVE OFFICER FROST: Thank you, Mr.
20 Chair. I would not feel comfortable speaking in too much
21 detail, considering I'm impacted by the plan. And I would
22 certainly encourage you all to work together to figure out
23 the expectations that you have of the team, keeping our
24 involvement at a smaller degree, if at all possible.

25 CHAIRPERSON BILBREY: Mr. Costigan.

1 VICE CHAIRPERSON COSTIGAN: So I understand that
2 you all are potentially impacted by the this, but just the
3 difficulty I'm having is from a matrix -- or metrics
4 standpoint. Is there anything we're -- so these -- and
5 Charles, I would like to hear also from the CFO, is there
6 anything that's -- from your experience in Washington
7 State, your experience in other entities, is there
8 anything we're missing, or is there anything that exceeds,
9 because we're relying Grant Thornton to tell us, in their
10 expert opinion, what they believe the market is. And I
11 just want to ensure that either we're with industry
12 standards or we're not.

13 And I know this is difficult, so I'm asking is
14 there anything unique in here that Washington State didn't
15 have?

16 CHIEF EXECUTIVE OFFICER FROST: So in Washington
17 we didn't have incentives. We didn't have an incentive
18 plan. We did not do bonuses. However, I think one of the
19 areas that I would encourage you to look at is on the
20 operational efficiencies, look at the items that your team
21 actually has control over, not environmental issues of
22 which we have no input or no control over --

23 VICE CHAIRPERSON COSTIGAN: Well, that's actually
24 one of the questions --

25 CHIEF EXECUTIVE OFFICER FROST: -- and make sure

1 that that's factored into the plan or the formula itself.

2 VICE CHAIRPERSON COSTIGAN: -- that I had wanted
3 to raise, because on some of these metrics the Board can
4 make a decision that impacts of which you have no control.
5 We decide that we want a new building, and suddenly
6 building costs go up, and that impacts it.

7 And so that's what I'm just trying to get at, are
8 there factors in here, IT costs, where we may want to
9 control the cost, but it's the vendor that drives up the
10 cost, and the Board made the decision to implement a new
11 system, and the staff really has no control over that.

12 CHIEF EXECUTIVE OFFICER FROST: Right.

13 VICE CHAIRPERSON COSTIGAN: How do we account for
14 that?

15 CHAIRPERSON BILBREY: And I --

16 CHIEF EXECUTIVE OFFICER FROST: Well, I think the
17 discretionary factor that have in there is one way that
18 you can handle that. And I would encourage you to keep
19 that as a tool to be able to use that. But I think it's
20 the discretionary area where you can look at extenuating
21 circumstances that took us off a performance or off of
22 goal, and to what effect was that the control of the
23 staff, or control of the Board itself, or control over,
24 you know, an outside entity.

25 VICE CHAIRPERSON COSTIGAN: And I'll just make

1 just one more observation and then maybe hear from the
2 CFO. I have still just believe that we should just be
3 raising salaries in general, not necessarily having
4 discretionary bonuses. I don't necessarily like, as a
5 State agency, for us to play this little bit about hit a
6 mathematical formula and get a pay increase.

7 I think you pay people what they're worth, year
8 in and year out. And I also think - and this is just from
9 the other board that sit on - because you have it in your
10 notes about using this as -- for substantially negative or
11 positive behavior contribution. Currently, there is a way
12 to deal with negative behavior in the State of California.

13 And so when we actually saying that we're using
14 economic incentives to drive behavior, either from a
15 negative or a positive approach, or discontinuing another
16 system to deal with negative consequences. And so I have
17 these concerns about I'd rather pay people what they're,
18 in fact, worth than come coming - with all due respect,
19 Mr. Slaton, you're absolutely right, 1.5. You're either
20 exceptional or you meet the minimum qualifications of the
21 job and the job class that you're in and we're going to
22 pay you for that.

23 We've dealt with Mr. Jacob's office - not you,
24 Mr. Jacobs, but we addressed this Staff Counsel V's. We
25 recognized that we had a problem in State service with not

1 being able to compensate lawyers for enough, so we created
2 another classification with higher salaries.

3 I just fundamentally have an issue with the way
4 that we do this. So thank you. But I'd like to hear if
5 the CFO had any concerns.

6 CHAIRPERSON BILBREY: All right.

7 CHIEF FINANCIAL OFFICER ASUBONTEN: Good
8 afternoon, Mr. Chairman. Perhaps maybe because I haven't
9 been here that long I can speak a little bit freely on
10 this matter.

11 I also have a lot of experience in this area
12 having done lots of forecasting and budgets and the like
13 in -- for several different industries. The word that
14 comes to mind, I think, Ms. Taylor said that this morning,
15 this plan was a little bit de-coupled from the operations.

16 I think if you look at what Marcie is trying to
17 do as a CEO, there's an overall -- arching goal of
18 bringing the organization together. And I think once you
19 do that and define your strategy, then you look at metrics
20 that you can look at to compensate people.

21 And I will be brief in giving examples. For the
22 operating cost as an example, if you look at it, my first
23 reaction was there was no way nobody was going to be able
24 to achieve it. When you set metrics, you do them based on
25 your budgets for the year. So budgets that we come here

1 and get approved would be the budgets going into the
2 metrics. So as we go along in the year, you'll be
3 measuring our performance based on what we were doing.

4 And when I took a look at it, and as probably
5 you've heard already, there was no connection whatsoever.
6 So I've coined the term, there was no fighting chance that
7 anybody was going to be able to meet that budget or meet
8 that goal, as an example.

9 If you look at -- if you think of it as one
10 organization, the -- some of the costs for the folks who
11 are included in the operating cost, many of them, myself,
12 March, and so on and so forth, we do investment-related
13 work too. None of that was accounted for in those sense.

14 So I think I would say probably all of that is
15 water under the bridge. I think, as you've given the
16 direction for us to go and take a look at it, there are
17 many ways we can look at it to improve it, that what you
18 intend is consistent with what is happening in the
19 operations.

20 Thank you.

21 CHAIRPERSON BILBREY: Thank you.

22 Mr. Lind.

23 COMMITTEE MEMBER LIND: Thanks. On the last two
24 bullet items, I think we had a -- on the long-term
25 incentive plan, we had the last time a petty long

1 discussion -- I know the R word is bad news here, so I'll
2 say it was a bodacious discussion about --

3 (Laughter.)

4 CHAIRPERSON BILBREY: It was robust, you, can say
5 it.

6 (Laughter.)

7 COMMITTEE MEMBER LIND: Robust, yeah. Robust is
8 a bad work here -- about why it made sense. And I think
9 there was agreement among Board members, Committee
10 members, and staff, and others for a whole lot of reasons
11 including incentivizing good people to stay with us
12 longer, so I'd like to see some follow-up on developing
13 that.

14 And on the second point about fixed compensation,
15 you know, some will remember when I came to this Committee
16 5 years ago from the private sector, and I looked at how
17 State service compensates people, I kind of said what the
18 hell is this?

19 I didn't understand it, and I still don't totally
20 understand it. I know there's all sorts of restrictions,
21 and all of that, but I definitely support, at least
22 outside of the Investment Office, focusing on fixed
23 compensation as much as possible. I want to pay people as
24 much as we can for doing the job we want them to do. And
25 if they do a little bit better, and they can get a bonus

1 on top of it, that's fine. But I -- I strongly support
2 changing the ratio for the non-Investment Office people
3 more towards fixed than towards bonus.

4 CHAIRPERSON BILBREY: And my recollection is as
5 yours that I believe there was definitely an appetite for
6 the Committee to explore this further, and to move in that
7 direction. I think at the time the conversation took
8 place, we didn't -- we were doing a lot of different
9 pieces, moving pieces at the same time, and we wanted to
10 put this off to get the metrics done, and policy down.
11 And now we're -- now we're sort of at the point where I
12 think this can be brought back and further explored.

13 All right. Anything else?

14 Oh, Mr. Cobb.

15 ACTING COMMITTEE MEMBER COBB: Thank you, Mr.
16 Chair. One thought I had on the operational
17 effectiveness, you know, when you're developing a
18 multi-faceted measure, you know, there are relationships
19 sometimes between those factors, is rather than trying to
20 get from zero to the right measure in one shot, maybe
21 identify what those key areas are and you -- you set a
22 target in one area and you meet it, then in year 2, or
23 phase 2, you maintain those gains, and then focus on the
24 next target. And that way, you're building your way to a
25 measure and making sure that you're not from year to year

1 trading off one target against another.

2 MR. GONZAGA: Mr. Cobb, I couldn't agree more. I
3 mean that's good insight. I mean, I think at the end of
4 the day, the specific metric we probably made a little bit
5 too complicated, and tried to come up with something that,
6 you know, philosophically and theoretically was this great
7 idea. But I agree with you, I mean, it's a matter of
8 touching on strategic priorities, and that's how we get
9 more efficient, so...

10 CHAIRPERSON BILBREY: And I agree, going back to
11 Ms. Mathur's comments, is that we put these in place with
12 the idea that we needed somewhere to start. We started,
13 and now we're starting to use it and see where things need
14 to be altered or tweaked and -- as we go through the
15 process.

16 Mr. Costigan.

17 VICE CHAIRPERSON COSTIGAN: Again, I just want to
18 remind the Board that we do have authority under the
19 Government Code to set the compensation for the Executive
20 Officer, the General Counsel, the Chief Actuary, Chief
21 Investment Officer, Chief Financial Officer and other
22 Investment Officers and Portfolio Managers whose positions
23 are designated within Government Code 18801.1. And it's
24 something I think we should have further discussions on,
25 because again, while some of this is on enterprise,

1 operation, and customer service, we have got to start
2 making some decisions, back to what Mr. Lind said, of
3 compensating people fairly, and we have the authority to
4 do it.

5 I don't think we should be concerned, at some
6 point, about the optics. Pay people for what they want.
7 Again, I have more concerns about coming up with metrics
8 that either folks hit or not hit, and then it's back to
9 the compensation issues. So thank you, Mr. Bilbrey.

10 CHAIRPERSON BILBREY: Thank you.

11 Mr. Gonzaga anything else you'd like to add?

12 MR. GONZAGA: No. I mean, the one thing I will
13 say is that, you know, I know that there's always
14 complexity when you have the -- when we have these
15 conversations. But what I will say is it doesn't matter
16 if it's a for-profit or not, the bottom line is that these
17 metrics are constantly changing. The value isn't just in
18 the compensation piece, it's about having the conversation
19 in agreement with your management team to say this is what
20 we're going to accomplish based on direction.

21 And so, you know, I think that where we're at
22 right now, it's just a natural course of events for moving
23 down this path. And, you know, and a lot of progress
24 made, and I think that address a couple other pieces and,
25 you know, you'll have a good comp program.

1 CHAIRPERSON BILBREY: Well, thank you very much.
2 So we're very clear, right Mr. Hoffner, on exactly where
3 we're moving to?

4 (Laughter.)

5 DEPUTY EXECUTIVE OFFICER HOFFNER: Well, I was
6 going to read a few things off and then seek additional
7 feedback if I get them wrong. So I'm going to go, if you
8 don't mind, sort of by slides --

9 CHAIRPERSON BILBREY: Right.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: -- and then
11 tell me if I'm missing the mark.

12 So I think it really starts on slide 5 that
13 metrics overview and stakeholder engagement. Ms. Taylor
14 had indicated and wanted to see some additional
15 information on the percentages, how we break them out by
16 the actual definition. So we'll provide that information
17 how it aligns to the scoring versus the percentages. I
18 think that was kind of the feedback I heard.

19 Jumping to slide -- we didn't change anything on
20 customer service. That's the higher threshold that we
21 talked about. So nothing there.

22 Slide 7, this one operational enterprise
23 effectiveness. I think Mr. -- the Chair had indicated a
24 direction for us to work with the consultant to work on
25 this, based upon the feedback we've also heard from others

1 today at the dais. So happy to do that, coming back in
2 February for that discussion.

3 I think we then jump to slide 11, which
4 effectively talked about the discretionary -- more of the
5 linear scale of the discretionary modifier giving you more
6 flexibility as a Board to make those decisions up or down.
7 We can work on that as well in terms of what that looks
8 like.

9 CHAIRPERSON BILBREY: And I think we need to ask
10 the Committee. So any changes you may make possibly in
11 February, would that be applied to this year, correct?

12 DEPUTY EXECUTIVE OFFICER HOFFNER: That's a
13 question for the Committee.

14 CHAIRPERSON BILBREY: Yeah.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: If there are
16 any modifications for the current year or not, because
17 we're halfway through.

18 CHAIRPERSON BILBREY: Is there any disagreement
19 that it would be used for this year?

20 Okay. So that would be -- oh, Mr. Slaton, sorry.
21 I forget there's a right side too.

22 BOARD MEMBER SLATON: So did I just hear we're
23 talking about -- talking about changes in February that
24 are retroactive to July 1 of 2017?

25 CHAIRPERSON BILBREY: If it was for this year.

1 DEPUTY EXECUTIVE OFFICER HOFFNER: It's -- the
2 conversation is related to the discretionary modifier, if
3 you want to have more flexibility when you do the annual
4 review would be retroactive. It's really about the
5 flexibility. Otherwise, you're living with --

6 BOARD MEMBER SLATON: Okay.

7 DEPUTY EXECUTIVE OFFICER HOFFNER: -- what's on
8 this page in terms of up or down --

9 BOARD MEMBER SLATON: Okay.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: -- if there's
11 some discretionary issues.

12 BOARD MEMBER SLATON: Okay. So we're only
13 talking about the discretionary part, not the first item.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: I believe
15 that's -- that's what I heard.

16 CHAIRPERSON BILBREY: Correct. Correct.

17 DEPUTY EXECUTIVE OFFICER HOFFNER: Yes, just the
18 one item.

19 BOARD MEMBER SLATON: You don't want to go
20 backwards on ones that are fixed.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: I didn't hear
22 that.

23 CHAIRPERSON BILBREY: I'm sorry if I confused. I
24 meant just under the discretionary modifier.

25 BOARD MEMBER SLATON: Okay. Thank you.

1 DEPUTY EXECUTIVE OFFICER HOFFNER: Just for the
2 discretionary modifier.

3 CHAIRPERSON BILBREY: Yes.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: And then slide
5 12, I know Mr. Lind indicated basically enthusiasm for
6 additional work on both the long-term incentive, as well
7 as sort of -- both the two bullets. I think the one
8 question I'd look for clarity on, we talked about fixed
9 compensation and mentioned the Investment Office
10 non-Investment Office, it goes to what the Vice Chair
11 indicated, there's some authority that this Board has --
12 or this Committee has and the Board has in setting
13 compensation and thresholds.

14 That doesn't apply to all of the plans the
15 individuals that are in those performance plans in the
16 organization. So we must delineate that at some point,
17 because there really is no set authority outside of what
18 you have for the individuals listed. The rest of us fall
19 into a level of a performance plan that there is not much
20 flexibility. So I just want to make sure we're clear
21 about that.

22 To the areas we have flexibility that you
23 control, we can bring that forward working with the
24 consultant. The others we'll just, I think, inform you
25 about what that looks like, because you don't have direct

1 control over those.

2 CHAIRPERSON BILBREY: And I would assume these
3 two items would be discussed over the next two meetings or
4 whatever next year --

5 DEPUTY EXECUTIVE OFFICER HOFFNER: Sure.

6 CHAIRPERSON BILBREY: -- to be looking at
7 possibly for the following year after that. It obviously
8 is --

9 DEPUTY EXECUTIVE OFFICER HOFFNER: I just want to
10 be clear to the folks listening, I guess, that that
11 authority doesn't apply to all of the performance plan
12 individuals in the organization so we're clear about that.

13 CHAIRPERSON BILBREY: So noted.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: Okay.

15 CHAIRPERSON BILBREY: Yes, Mr. Slaton.

16 BOARD MEMBER SLATON: I just want to come back on
17 one thing with the consultant on the discretionary
18 modifier. You know, in the world that I grew up in, which
19 is very much commission based, rather than base salary,
20 you didn't want to create a situation where there was fear
21 of commission-dectomy, where after the fact a body just
22 makes a change. And so you're working toward a goal, and
23 then suddenly the rug gets shifted.

24 So I wanted your thought on what are the
25 downsides of discretionary modifiers, or at least we

1 should consider that.

2 MR. GONZAGA: Yeah. I mean, the downside is
3 really it gets overly used, and -- because then that can
4 minimize the resulting impact of the overall
5 organizational goals.

6 Now, I think that to the extent that it's used --
7 I mean, I think there is a contemporary issue going on
8 here right now, where executive incentive plans, although
9 they do tend to be outcome oriented, discretion has made
10 its way back simply because of the mitigating
11 circumstances.

12 Now, so long as you're using it with a minority
13 of the time, and there's good justification, and there's
14 good deliberation around it, it can be a very positive
15 thing. The primary issue is are we changing the deal
16 along the way. Well, I think the way discretion would be,
17 you know, exercised around here, because we do have
18 primarily organizational goals here.

19 The good thing about having discretion in this
20 instance is it links back to the overall performance
21 review. And it also provides -- you know, there will be
22 some value in terms of, okay, well below here we're going
23 to take a little bit of award away or great performance.
24 So long as it's used in a minority of situations, and
25 there's good documentation for it, it can be a great

1 positive, but you do need that diligence.

2 BOARD MEMBER SLATON: So it requires
3 self-regulation.

4 MR. GONZAGA: That's right.

5 BOARD MEMBER SLATON: Thank you.

6 CHAIRPERSON BILBREY: Very good.

7 I think we have it, correct?

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you.

9 CHAIRPERSON BILBREY: Very good.

10 DEPUTY EXECUTIVE OFFICER HOFFNER: That's all I
11 had recorded.

12 CHAIRPERSON BILBREY: Very good. So before we
13 end this meeting, I just want to take a moment to thank
14 you all as well. It's been quite a ride over the last 6
15 years. When I first got on this Committee, I remember my
16 very first meeting -- I come from an area where people
17 have a much more lower wage than what we see here at this
18 Committee. And so the first time I had to vote on an
19 incentive, I was like are you kidding me? I don't know
20 about this.

21 But I've learned a lot over those 6 years. And I
22 also think we've moved quite a bit on the Committee, from
23 when I got here 6 years ago, where we would have -- face
24 some of these questions and challenges, and then -- that
25 was the first year I was here. Then we get to the next

1 year and the same questions and challenges came up and no
2 movement had ever been made.

3 So slowly, we're starting to get, I think to a
4 place where we're making some headway and some progress.
5 And it's very complicated. It will continue to be
6 complicated, but I think we're getting to a place that's
7 much -- much more manageable. And I thank you and I thank
8 all the staff for the help over my time, and I thank you.

9 Mr. Costigan.

10 VICE CHAIRPERSON COSTIGAN: Mr. Bilbrey, I'm not
11 very good at goodbyes, so I'm going to just be very quick
12 on this one. It's been an honor to serve as your Vice
13 Chair. I have found you to be one of the kindest, most
14 compassionate, caring folks I have actually served with in
15 State government, and State civil service. You're a
16 thoughtful, dedicated, and strong advocate, and I'm going
17 to miss you.

18 I think the work that you have done here has been
19 Incredible. Many people don't really see what goes on on
20 this side of the dais, and the amount of time and effort
21 that you've put it. And I know the struggles and
22 difficulties that you have been through, both in folks you
23 used to represent, and the folks you've represented the
24 last 6 years.

25 So I just wanted to say, it has truly been an

1 honor to work with you these last few years.

2 CHAIRPERSON BILBREY: Ms. Taylor.

3 COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chair.

4 I also wanted to recognize and thank you very much. You
5 were the person that right off the bat when I first got on
6 3 years ago was like just take your time, take it easy.
7 It's like a big fire hose. You'll get it. Don't worry.
8 And your my officemate, so -- but I also know you to be
9 very kind, you're really, really smart. You've done a
10 great job on your committees. People don't see the work
11 that you do, the work that you put in, the things that get
12 done behind the scenes that people just don't see and
13 understand. And I really want to let you know how much I
14 appreciate, as a new Board member, your mentorship. So
15 I'm going to miss you.

16 CHAIRPERSON BILBREY: Thank you.

17 With that, this meeting is adjourned.

18 (Thereupon the California Public Employees'
19 Retirement System, Board of Administration,
20 Performance, Compensation, & Talent Management
21 Committee open session meeting adjourned
22 at 3:49 p.m.)
23
24
25

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 21st day of December, 2017.

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