

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, FEBRUARY 13, 2018

4:21 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. Bill Slaton, Chairperson  
Mr. Richard Costigan, Vice Chairperson  
Mr. Richard Gillihan  
Ms. Dana Hollinger  
Mr. Henry Jones  
Ms. Priya Mathur  
Mr. Ramon Rubalcava

BOARD MEMBERS:

Ms. Margaret Brown  
Mr. John Chiang, represented by Mr. Matthew Saha  
Mr. David Miller  
Ms. Theresa Taylor  
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. Tina Campbell, Chief, Human Resources Division  
Ms. Carol Takehara, Committee Secretary

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

1  
2 VICE CHAIRPERSON COSTIGAN: We're going to call  
3 to order the February meeting of Performance, Compensation  
4 and Talent Management. I appreciate the short turnaround.  
5 We have on of our members that's going to have to leave a  
6 little early. He has to go to a SMUD board meeting. We  
7 want to make sure the lights stay on, so...

8 So with that, we're going to call to order the  
9 February meeting.

10 Please call the roll

11 COMMITTEE SECRETARY TAKEHARA: Richard Costigan?

12 VICE CHAIRPERSON COSTIGAN: Here.

13 COMMITTEE SECRETARY TAKEHARA: Richard Gillihan?

14 COMMITTEE MEMBER GILLIHAN: Here.

15 COMMITTEE SECRETARY TAKEHARA: Dana Hollinger?

16 COMMITTEE MEMBER HOLLINGER: Here.

17 COMMITTEE SECRETARY TAKEHARA: Henry Jones.

18 COMMITTEE MEMBER JONES: Here.

19 COMMITTEE SECRETARY TAKEHARA: Priya Mathur?

20 VICE CHAIRPERSON COSTIGAN: She's here. She's in  
21 the back. She's coming.

22 COMMITTEE SECRETARY TAKEHARA: Ramon --

23 COMMITTEE MEMBER RUBALCAVA: Rubalcava.

24 COMMITTEE SECRETARY TAKEHARA: Okay. Thank you.

25 Bill Slaton?

1 COMMITTEE MEMBER SLATON: Here.

2 VICE CHAIRPERSON COSTIGAN: So before I get  
3 started for the first item, Mr. Rubalcava -- would you --

4 COMMITTEE MEMBER RUBALCAVA: Rubalcava.

5 VICE CHAIRPERSON COSTIGAN: -- push your  
6 microphone for a second.

7 All right. So you can help all of us, could you  
8 just pronounce your last name so we could all understand  
9 it.

10 COMMITTEE MEMBER RUBALCAVA: Sure. Rubalcava.

11 VICE CHAIRPERSON COSTIGAN: All right. We will  
12 try our best to today, sir so --

13 COMMITTEE MEMBER RUBALCAVA: That's all I ask.  
14 Thank you.

15 VICE CHAIRPERSON COSTIGAN: I just want to say  
16 welcome. Welcome.

17 COMMITTEE MEMBER RUBALCAVA: Thank you.

18 VICE CHAIRPERSON COSTIGAN: All right. So our  
19 first item of business is we're going to elect a Chair and  
20 Vice Chair. Since I am the Vice Chair of the Committee,  
21 and I do want to thank Mr. Bilbrey for all of his service  
22 and he is sorely missed. So I don't have -- believe I  
23 have to turn the gavel over to anybody, because I'm  
24 currently the Vice Chair. I'm the Vice Chair, so I'm  
25 going to take --

1 COMMITTEE MEMBER MATHUR: Do you want me to me --

2 VICE CHAIRPERSON COSTIGAN: Well, I was going to  
3 call for elections of the Chair.

4 COMMITTEE MEMBER MATHUR: Oh, yeah. You can --  
5 yes, you can.

6 VICE CHAIRPERSON COSTIGAN: Either one, is that  
7 right, because I'm the Vice Chair.

8 COMMITTEE MEMBER MATHUR: Yes.

9 VICE CHAIRPERSON COSTIGAN: I'm looking at our  
10 President and making sure.

11 All right. So I'm going to open for elections.  
12 I would like to call on Mr. Jones.

13 COMMITTEE MEMBER JONES: Thank you, Mr. Chair. I  
14 would like to nominate Mr. Bill Slaton for Chair of the  
15 Performance, Comp and Talent Management Committee.

16 VICE CHAIRPERSON COSTIGAN: All right. Mr.  
17 Slaton's name has been placed in nomination as Chair of  
18 the Performance, Compensation and Talent Management.

19 Are there any other nominations?

20 Going once.

21 Any other nominations?

22 Going twice.

23 Any other nominations?

24 Hearing no further nominations, can I get a  
25 motion to elect Mr. Slaton as Chair?

1           COMMITTEE MEMBER MATHUR:   So moved by  
2 acclamation.

3           VICE CHAIRPERSON COSTIGAN:   By acclamation Chair  
4 Mathur.

5           COMMITTEE MEMBER GILLIHAN:   Second.

6           VICE CHAIRPERSON COSTIGAN:   Seconded by Mr.  
7 Gillihan.

8           All those in favor?

9           (Ayes.)

10          VICE CHAIRPERSON COSTIGAN:   Opposed?  
11 Motion carries.

12          Congratulations Mr. Slaton.

13          (Applause.)

14          CHAIRPERSON SLATON:   So thank you very much.   The  
15 last time this Committee met they got out at 6:38 p.m.  
16 We're going to -- we're going to be well ahead of that  
17 record, we hope.

18          So I'll now move to the election of Vice Chair.  
19 And for that, I'll call on Ms. Hollinger.

20          COMMITTEE MEMBER HOLLINGER:   Thank you.   I am --

21          COMMITTEE MEMBER MATHUR:   Microphone.

22          CHAIRPERSON SLATON:   Oh, just a second.

23          Okay.   Go ahead.

24          COMMITTEE MEMBER HOLLINGER:   I am delighted to  
25 nominate Richard Costigan.   He was an exemplary Chair of

1 the Finance and Administration Committee, and he was Vice  
2 Chair of this Committee under Mr. Bilbrey. And I am  
3 electing him for Vice Chair.

4 COMMITTEE MEMBER GILLIHAN: Nominating.

5 COMMITTEE MEMBER HOLLINGER: Nominating.

6 CHAIRPERSON SLATON: Okay. Mr. Costigan has been  
7 Nominated.

8 Any further nominations?

9 Any further nominations?

10 Third time, any further nominations?

11 With that, nominations are closed.

12 Do I hear a motion for acclamation?

13 COMMITTEE MEMBER MATHUR: Motion by acclamation.

14 CHAIRPERSON SLATON: Moved by Ms. Mathur.

15 COMMITTEE MEMBER GILLIHAN: Second.

16 CHAIRPERSON SLATON: Second by Mr. Gillihan.

17 All those in favor say aye?

18 (Ayes.)

19 CHAIRPERSON SLATON: Opposed?

20 Motion carried. Congratulations.

21 VICE CHAIRPERSON COSTIGAN: Thank you.

22 CHAIRPERSON SLATON: And he's in place.

23 (Applause.)

24 CHAIRPERSON SLATON: Okay. We need four minutes  
25 so stand by.

1 (Pause in the proceedings.)

2 DEPUTY EXECUTIVE OFFICER HOFFNER: While we're  
3 waiting, we're going into closed session right now, so I  
4 would just suggest we move the folks out that don't need  
5 to be here, and then time resets. We're making up time.

6 (Off record: 4:25 p.m.)

7 (Thereupon the meeting recessed  
8 into closed session.)

9 (On record: 5:06 p.m.)

10 CHAIRPERSON SLATON: Okay. All right. I'm  
11 calling together the open session of the Performance,  
12 Compensation and Talent Management Committee again.

13 And roll call, please.

14 COMMITTEE SECRETARY TAKEHARA: Bill slaton?

15 CHAIRPERSON SLATON: Here.

16 COMMITTEE SECRETARY TAKEHARA: Richard Costigan?

17 VICE CHAIRPERSON COSTIGAN: Here.

18 COMMITTEE SECRETARY TAKEHARA: Richard Gillihan?

19 COMMITTEE MEMBER GILLIHAN: Here.

20 COMMITTEE SECRETARY TAKEHARA: Dana Hollinger?

21 CHAIRPERSON SLATON: She's here.

22 COMMITTEE SECRETARY TAKEHARA: Henry Jones?

23 COMMITTEE MEMBER JONES: Here.

24 COMMITTEE SECRETARY TAKEHARA: Priya Mathur?

25 COMMITTEE MEMBER MATHUR: Here.

1 COMMITTEE SECRETARY TAKEHARA: Ramon Rubalcava?

2 COMMITTEE MEMBER RUBALCAVA: Here.

3 CHAIRPERSON SLATON: All right. The next item on  
4 the agenda is number 5, Action Consent item, approval of  
5 the December 19th minutes.

6 Do I hear a motion?

7 COMMITTEE MEMBER MATHUR: Move approval.

8 VICE CHAIRPERSON COSTIGAN: Second.

9 CHAIRPERSON SLATON: All right. Moved from  
10 Mathur, second from Costigan.

11 All in favor say aye?

12 (Ayes.)

13 CHAIRPERSON SLATON: Opposed?

14 COMMITTEE MEMBER JONES: Abstain. I wasn't here.  
15 I wasn't on the Committee.

16 CHAIRPERSON SLATON: Well, okay then.

17 COMMITTEE MEMBER RUBALCAVA: I abstain too.

18 CHAIRPERSON SLATON: And you were too, but we  
19 have enough yes votes to do it. Okay.

20 All right. Luckily, we have four.

21 All right. We'll move to informational consent.  
22 Item 6a, annual calendar review. If you'll notice, it has  
23 only a June meeting there. And I think we have enough  
24 business that we're going to actually probably meet in  
25 March, you know, at least once or twice before June.

1 DEPUTY EXECUTIVE OFFICER HOFFNER: Sure.

2 CHAIRPERSON SLATON: So just to give heads up  
3 that we'll do that.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: Okay. Do you  
5 want me to run through --

6 CHAIRPERSON SLATON: Oh, I didn't -- I forgot  
7 your Executive Report. My apologies.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: I was going to  
9 cover that. So I'll be quick. So good evening, Mr. Chair  
10 and members of the Committee. Congratulations on the  
11 election at both Chair and Vice Chair. We've got a few  
12 items before you today from an actionable perspective.  
13 We've got the semiannual reports for both the CEO and the  
14 CIO for your approval later in the agenda item.

15 We've got two options related to the discretion  
16 modifier that the Committee asked us to bring back working  
17 with our -- the Board's consultant, Grant Thornton back in  
18 December. And that's later in the agenda as well.

19 I also wanted to highlight that -- you know, as  
20 we closer to the annual performance, you mentioned June,  
21 but really in the fall, we'll be doing that annual review  
22 for the covered personnel. And I just wanted to let you  
23 know we'll be bringing information back to this Committee  
24 to help -- I think, from a sort of tools perspective, to  
25 help understand that process, and get into the all of the

1 parameters related to the policy, how it affects, you  
2 know, the open meeting process, covered compensation for  
3 those individuals, and use of discretion as well as any  
4 other pieces. It's about a 25-page policy. And I think,  
5 as we have some new members of the committee. I think  
6 it's something that we will find is a useful tool for you  
7 going forward.

8           So we'll bring that back in a more appropriate  
9 time, but I wanted to let you know that's on our radar in  
10 terms of information for all of you.

11           Before we get started today, though, I want to  
12 talk about the work we've been doing. Since the December  
13 meeting, you asked us to come back with three or four  
14 different things. We brought one of them back today, and  
15 I want to give you sort of an update on where the others  
16 stand in terms of our future meetings. You've asked for a  
17 review of the enterprise operational effectiveness measure  
18 within our overall plans. You've asked for more  
19 information on our stakeholder engagement metric. And  
20 you've also asked for additional information related to  
21 long-term incentive plans. And that's something that the  
22 Board's consultant had recommended maybe two years ago.

23           It's sort of the final piece in terms of the  
24 recommendations that were not adopted by the Committee and  
25 the Board. And we've been working with the consultant

1 related to these three items. And since they're sort of  
2 interrelated, we thought it would be appropriate to bring  
3 that forward at a future meeting where any modification  
4 may have impact to others. We're not doing it in a sort  
5 of disparate treatment or fashion where we've been  
6 amending the policy every couple months.

7           We thought that would be a more appropriate use  
8 of time. As you've just indicated, Mr. Chair, we have  
9 checked with our consultant. He is available to meet any  
10 of the months between now and June, or all of them, or  
11 several of them. So he is flexible in those terms for all  
12 of you.

13           Other than that, we do have some non-substantive  
14 changes we'd like to bring forward at the appropriate time  
15 to sort of clean up and clarify the overall policy. We  
16 think it will be more reader friendly for all of you and  
17 others in the constituent group, and we'll bring that back  
18 at the appropriate time. And if that makes sense, we'll  
19 just transition to the actionable items today

20           CHAIRPERSON SLATON: Okay. Very good. Thank  
21 you.

22           On 6a, the annual calendar review, I talked about  
23 that. And the draft agenda, obviously it's going to be  
24 modified as we decide on what our future calendar is. SO  
25 let's move to number 7, semi-annual status report on

1 incentive plans for the CEO and CIO.

2 Ms. Campbell.

3 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good  
4 afternoon, members of the Committee. Tina Campbell,  
5 CalPERS team member. I'd also like to extend my  
6 congratulations to the Chair and Vice Chair.

7 Agenda Item 7 is an action item. As discussed  
8 earlier in closed session, the executive compensation  
9 policy requires that executives prepare semi-annual status  
10 reports on their respective incentive plans for the  
11 Performance, Compensation and Talent Management Committee.

12 These reports provide a means of informing the  
13 Committee of progress toward achieving the measures in the  
14 incentive plans. Presented in this item are the  
15 semi-annual status reports for the CEO and CIO covering  
16 the time period of July 1st to December 31st, 2017.

17 Before we get to the reports, I just want to make  
18 the Committee aware that staff identified some  
19 typographical inconsistency in the presentation of several  
20 incentive metric payout ratio tables for the enterprise  
21 operational effectiveness, customer service and  
22 stakeholder engagement metrics. These errors have been  
23 corrected and are marked in bold in both attachments, and  
24 surrounded by heavy borders to indicate those boxes were  
25 corrected -- where corrections are included.

1 All the information presented today correctly  
2 reflects the metric details originally approved by the  
3 Committee. And it's important to note at no time did  
4 these typos impact the results of any metric or subsequent  
5 award.

6 To be sure, Human Resources team members double  
7 checked metric outcomes and calculations, and we are  
8 confident associated payouts were not impacted.

9 Unless there are other questions, we now move on  
10 to your review of the semi-annual status reports for Ms.  
11 Frost and Mr. Eliopoulos. And they are here to answer any  
12 questions you may have. And if there is any direction  
13 from closed session, please provide it before we conclude  
14 this item.

15 That concludes my report, and I'm able to answer  
16 any questions you may have.

17 CHAIRPERSON SLATON: All right. I -- nobody has  
18 pressed any buttons. So we have no questions.

19 Oh, Ms. Mathur.

20 COMMITTEE MEMBER MATHUR: Well, I think we do  
21 have direction from the closed session to modify the  
22 CIO's --

23 CHAIRPERSON SLATON: True.

24 COMMITTEE MEMBER MATHUR: -- report -- or  
25 performance plan. Would you like me to review what that

1 was. Is that -- is that -- that's we need to report out  
2 now, is that correct?

3 HUMAN RESOURCES DIVISION CHIEF CAMPBELL:

4 Correct.

5 COMMITTEE MEMBER MATHUR: Or did you want to  
6 do --

7 CHAIRPERSON SLATON: Well, I think Ms. Campbell  
8 can report it back and we'll see if it matches.

9 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.

10 Okay. So we did take action. The Committee did  
11 take action on the CIO's performance plan and we will be  
12 changing the actual percentages in the items for  
13 organizational leadership. That will be moved up to 20  
14 percent. And then in -- sorry. Let me get to the rest of  
15 these. Organizational leadership will be 20 percent, and  
16 enterprise operational effectiveness will be five percent,  
17 an Investment Office CEM will now be five percent -- 10  
18 percent, I'm sorry. Thank you.

19 CHAIRPERSON SLATON: Okay.

20 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: And  
21 those were the changes for the plan.

22 CHAIRPERSON SLATON: Okay. So we're in synch.

23 So do we need a motion to approve them as  
24 amended.

25 DEPUTY EXECUTIVE OFFICER HOFFNER: (Nods head.)

1 CHAIRPERSON SLATON: Do we need that or --

2 DEPUTY EXECUTIVE OFFICER HOFFNER: It's an action  
3 item in open session. So you're reporting out, unless  
4 you -- I don't know if you voted or not in closed session,  
5 but it --

6 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: We did.

7 COMMITTEE MEMBER MATHUR: We did vote in closed  
8 session.

9 CHAIRPERSON SLATON: So we just need to report  
10 that we did vote.

11 Pardon me?

12 VICE CHAIRPERSON COSTIGAN: You just need to  
13 report the action.

14 CHAIRPERSON SLATON: Oh. Yeah, so we're  
15 reporting the action that we did vote these out in closed  
16 session.

17 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So I  
18 think it would be helpful if you voted, because there's a  
19 modification to a plan.

20 CHAIRPERSON SLATON: Gotcha.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: And you've  
22 identified what that was, but I think for the vote, and  
23 then we'll report that to the full Board tomorrow for  
24 those members who are not here today.

25 CHAIRPERSON SLATON: All right. Ms. Mathur.

1 COMMITTEE MEMBER MATHUR: I'll make that motion  
2 then. Thank you for the clarification of process. I will  
3 make the motion to modify the CIO's performance plan to  
4 increase organizational leadership to 10 -- to 20 percent,  
5 to reduce enterprise organizational effectiveness to five  
6 percent, and to increase Investment Office -- decrease  
7 Investment Office CEM to 10 percent. That's my motion.

8 CHAIRPERSON SLATON: All right.

9 VICE CHAIRPERSON COSTIGAN: Second.

10 CHAIRPERSON SLATON: Motion, second from Mr.  
11 Costigan.

12 Okay. No further discussion.

13 All those in favor say aye?

14 (Ayes.)

15 CHAIRPERSON SLATON: Opposed?

16 Motion carries. Thank you.

17 We'll move to number 8 on the agenda. And I did  
18 comment earlier that this one there are things that -- in  
19 the -- both in the delegation, and that rolls over to the  
20 compensation policies, that I think we need to take a  
21 deeper dive into. So I'd like to defer that item to a  
22 future agenda where we can spend a little more time on it,  
23 okay?

24 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay.

25 CHAIRPERSON SLATON: All right. SO we'll do

1 that. We'll move to Item 9, Executive Compensation  
2 Policy: Discretion Modifier.

3 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay.  
4 Tina Campbell, CalPERS team. Agenda Item 9 is also an  
5 action item. And the purpose of this agenda item is to  
6 present the Board consultant's recommendations for  
7 updating the discretion performance adjustments section of  
8 the Executive Compensation Policy.

9 Proposed amendments are based on Committee  
10 feedback and are recommended to become effect immediately  
11 allowing for additional flexibility in applying discretion  
12 during the fiscal year 2017-18 year-end process.

13 In August 2016, you may recall the Board approved  
14 a policy provision allowing discretionary performance  
15 adjustments as an important pay strategy in ensuring  
16 incentive pay appropriately reflects a balanced and  
17 thoughtful view of individual performance.

18 The key purpose of discretion is to reward  
19 extraordinary accomplishments, or address unsatisfactory  
20 performance. In other words, it's not a means to increase  
21 or decrease an award or supplement pay, rather it's an  
22 industry standard tool, which is infrequently used to  
23 incentivize for performance that substantially sways from  
24 expectations.

25 The incentive plan is drafted within a framework,

1 including quantitative and qualitative components. But  
2 during the year-end appraisal process, situations may be  
3 discovered where the planned and associated  
4 accomplishments don't reflect the full breadth and impact  
5 of accomplishments or unsatisfactory performance.

6 As a reminder of what Eric Gonzaga, your  
7 executive consultant from Grant Thornton, said when we  
8 were here in December, 2017, you might apply discretion  
9 for outstanding leadership, taking on additional projects  
10 or consistency with risk protocols. Those are just a few  
11 examples of contributions which might warrant an upward  
12 adjustment in an award.

13 Alternatively, discretion can also be applied as  
14 a downward adjustment for performance that substantially  
15 sways from expectations. Through the course of the fiscal  
16 year 16-17 year-end evaluation process, the Committee  
17 voiced a need for more flexibility in the application of  
18 discretionary adjustments to incent -- incent -- incentive  
19 awards and directed staff and the Board's consultant to  
20 bring back recommendations for policy amendment.

21 The current policy provision reflects the Board  
22 consultant's original recommendation which allows for  
23 upward or downward adjustment of an incentive award by 25,  
24 50, or 100 percent, not to exceed 150 percent of target  
25 based on the qualitative individual contributions or

1 performance.

2           To address the need for more flexibility, there  
3 are two options proposed for the Committee's consideration  
4 today. Option A would increase the Committee's  
5 flexibility by allowing discretion to be exercised upward  
6 or downward on an award in 20 percent increments, or  
7 option B which would allow maximum flexibility in applying  
8 discretion upward or downward on any award by any  
9 percentage.

10           And for further detail on these options, you  
11 could refer to attachments 1 and 2 for the full  
12 description. And attachment 2 actually has the strike-out  
13 to show what the difference is.

14           I want to emphasize that with either option a  
15 participant's award may never exceed their respective  
16 maximum incentive opportunities. This aligns with the  
17 current policy provision and would not change this part of  
18 the policy regardless of the selected option.

19           As you may have noted in the opinion letter from  
20 Grant Thornton, the consultant is recommending option A.  
21 The rationale is that option A differentiates between  
22 performance levels in a meaningful manner.

23           While we prepared for this agenda item, Grant  
24 Thornton alluded that having parameters may aid in  
25 limiting use, whereas Option B, which allows for selection

1 of any percentage, increases the number of levels  
2 available for use.

3           It's important to note that all adjustments would  
4 continue to be based on the overall performance evaluation  
5 process, including quantitative and qualitative factors,  
6 and related extraordinary or unsatisfactory contributions.

7           And as I just mentioned, discretionary  
8 adjustments may never result in an award that exceeds a  
9 participant's maximum incentive opportunity. So in the  
10 event a selected adjustment would result in award greater  
11 than the maximum incentive opportunity, the award would be  
12 limited to the maximum incentive opportunity as defined in  
13 the policy.

14           Attachment 1 presents a clean version, and then  
15 attachment 2 shows the striked-out version as I mentioned  
16 earlier.

17           And at a future meeting, we plan to present  
18 primarily nonsubstantive changes for this section which  
19 will better align it with the rest of the policy, as well  
20 as establish consistencies and improved readability.

21           We will present those changes, as part of a  
22 larger policy item, at our next Committee meeting.

23           We're also working on simple tools and guidelines  
24 to highlight key information you may need as just-in-time  
25 reference to maintain an understanding of this policy

1 provision and how it's used. We plan to include this on  
2 the Board books in the Resource Guide once we've completed  
3 it.

4 Thank you, Mr. Chair. This concludes my report,  
5 and I'm happy to answer any questions you may have.

6 CHAIRPERSON SLATON: Okay. Thank you very much.  
7 Mr. Gillihan.

8 COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

9 As I recall the conversation in committee that  
10 led to this -- or this item coming back before the Board,  
11 I think we found ourselves in a couple unique situations,  
12 and that perhaps our own policies were a little limiting  
13 on this Committee's flexibility to do what made the most  
14 sense or what was, I think in a majority of folks view,  
15 the right thing to do in a given circumstance.

16 And in light of that, I think option B actually  
17 provides this Committee the flexibility to apply sort of  
18 some common sense in a given circumstance. So I'm  
19 prepared to support option B. And if anybody would second  
20 it, I would make a motion that we adopt option B.

21 VICE CHAIRPERSON COSTIGAN: I'll second.

22 CHAIRPERSON SLATON: Okay. We have motion from  
23 Mr. Gillihan, second from Mr. Costigan.

24 Ms. Mathur.

25 COMMITTEE MEMBER MATHUR: Yes, I have a question.

1 Under the first sort of section of each of these options,  
2 it lists how the adjustments will be administered. And  
3 it -- the third bullet says the CEO will have discretion  
4 to modify any incentive award for direct reports and  
5 participants reporting up to the direct reports other than  
6 the CIO. Are there participants reporting to direct  
7 reports other than the CIO?

8 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: To the  
9 CEO?

10 COMMITTEE MEMBER MATHUR: So through the -- so  
11 there's the CEO, and then there are direct reports. And  
12 are there -- are there individuals who qualify under those  
13 direct reports that report up through the direct reports  
14 that are not under the CIO?

15 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.

16 COMMITTEE MEMBER MATHUR: Yes?

17 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.  
18 So are you talking about like the General Counsel, the  
19 Chief Actuary, those positions?

20 COMMITTEE MEMBER MATHUR: I think one level down.

21 DEPUTY EXECUTIVE OFFICER HOFFNER: So I think to  
22 your point, that's the Government Code 2098. Those would  
23 be the individuals that are in the Investment Office that  
24 have --

25 COMMITTEE MEMBER MATHUR: Yes.

1           DEPUTY EXECUTIVE OFFICER HOFFNER:  -- that this  
2 policy applies to that roll up through the CIO, in this  
3 case.

4           COMMITTEE MEMBER MATHUR:  Right.  So --

5           DEPUTY EXECUTIVE OFFICER HOFFNER:  And other than  
6 the handful that Tina just talked about, that's the only  
7 group that has -- this applies to.

8           COMMITTEE MEMBER MATHUR:  So is bullet number  
9 three just anticipating that there might be in the future  
10 some participants that report up through the other direct  
11 reports other than the CIO?

12           HUMAN RESOURCES DIVISION CHIEF CAMPBELL:  No.  
13 This one is just covering the ones that report to the CIO  
14 that would also potentially be eligible for this.

15           COMMITTEE MEMBER MATHUR:  Okay.  Well, what it  
16 says is it's -- is direct reports and participants  
17 reporting up through the direct reports.  So I'm just  
18 wondering if it's anticipating in the future there might  
19 be --

20           DEPUTY EXECUTIVE OFFICER HOFFNER:  I think to the  
21 point that the flexibility allows for that.

22           COMMITTEE MEMBER MATHUR:  Okay.

23           DEPUTY EXECUTIVE OFFICER HOFFNER:  And it's -- I  
24 think to the consultant's comment from December was that  
25 this would be utilized in a very infrequent basis.  And

1 so -- but it does allow for it, because the policy covers  
2 those covered personnel within the organization.

3 COMMITTEE MEMBER MATHUR: So then why would we  
4 treat any potential future participants reporting up  
5 through those other direct reports differently than those  
6 reporting up through the CIO? Meaning, should the  
7 discretion for the CIO be different from the discretion  
8 that the other direct reports to the CEO might have?

9 Does that make any -- I know it's convoluted, but  
10 what I'm trying to get at --

11 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, I  
12 mean -- Yeah. Help me out. I actually think -- and let  
13 me pull it up. I actually think those provisions are part  
14 of the current policy, but it's just spelled out in the  
15 bullet points.

16 COMMITTEE MEMBER MATHUR: So it used to be that  
17 the CIO and the CEO both reported to the Board. I guess  
18 what I'm trying to get at is that the CIO should not have  
19 different discretion than other direct reports to the CEO.

20 DEPUTY EXECUTIVE OFFICER HOFFNER: Which I think  
21 this alludes to the comment that the Chair made earlier.  
22 There's some provisions of the Committee delegation that  
23 speak to -- maybe don't fully align with the overall  
24 delegation given to the CEO related to the reporting  
25 relationships. And that would be something for us to look

1 at in terms of how they align themselves, because it is  
2 maybe not fully identified, and in a way that's really  
3 clear.

4 COMMITTEE MEMBER MATHUR: So I think for these  
5 types of extraordinary modifiers, the CEO should  
6 ultimately approve them. So I guess what I would suggest  
7 is that the CIO should certainly consult with the CEO, and  
8 obviously have input, of course, into which of his or her  
9 staff might qualify for an adjustment up or down. But I  
10 do think that ultimately the CEO should make the  
11 determination.

12 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: And she  
13 does currently review and approve the ones that are  
14 recommended by the CIO.

15 COMMITTEE MEMBER MATHUR: Okay. But that's not  
16 exactly what this language says.

17 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: What  
18 this says, yeah.

19 COMMITTEE MEMBER MATHUR: So I think we just need  
20 to clean up the language to reflect the impact.

21 So I think -- so what you would be adopting  
22 today, if you adopt either option, is the actual  
23 modification to the discretion, not necessarily the -- how  
24 it's administered. We would default to the policy, and I  
25 think that's more clear than maybe these bullet points, in

1 terms of what you're talking about.

2 CHAIRPERSON SLATON: And the plan is to come back  
3 and look at revisions to the policy that would clean that  
4 part up about the authority of the CEO versus the CIO, and  
5 the other direct reports.

6 COMMITTEE MEMBER MATHUR: Okay.

7 CHAIRPERSON SLATON: But that doesn't exclude  
8 giving this -- changing this discretion.

9 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: And our  
10 process is that way, but the policy isn't spelled out as  
11 clearly as you're talking about. That's one of the things  
12 that we're going to be asking for revisions to the policy.

13 COMMITTEE MEMBER MATHUR: Okay. So in adopt --  
14 if we adopt option B, are we adopting the discretionary  
15 modifier adjustments will be administered as follows  
16 section? And if so, should we just -- should we -- I  
17 mean, I don't think it's that complicated to change it. I  
18 think we would just strike number -- bullet number 4, and  
19 also the parens on bullet number 3.

20 DEPUTY EXECUTIVE OFFICER HOFFNER: I think if we  
21 just -- if you just adopt --

22 COMMITTEE MEMBER MATHUR: They're the same on  
23 both A and B.

24 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, if you  
25 adopt option B in the strike-out language, because that's

1 only -- so that's the amendment of the policy that we're  
2 looking to change --

3 COMMITTEE MEMBER MATHUR: I see.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: -- I think  
5 that covers you without getting to the discretionary  
6 application piece of how these five bullets take about.  
7 You're basically saying here's the amendment we're looking  
8 to adopt should there be a second, and that gets voted.  
9 So I think if you identified it --

10 COMMITTEE MEMBER MATHUR: You know what I was  
11 only looking at the clean language. Okay.

12 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, I'm  
13 sorry. So --

14 COMMITTEE MEMBER MATHUR: Thank you. That's  
15 helpful.

16 DEPUTY EXECUTIVE OFFICER HOFFNER: If we do that,  
17 I think that's helpful.

18 COMMITTEE MEMBER MATHUR: And then we'll come  
19 back and review --

20 DEPUTY EXECUTIVE OFFICER HOFFNER: But that's the  
21 actual amendment we're talking about.

22 COMMITTEE MEMBER MATHUR: -- the administration  
23 language --

24 DEPUTY EXECUTIVE OFFICER HOFFNER: Right.

25 COMMITTEE MEMBER MATHUR: -- at a later time,

1 yes.

2 DEPUTY EXECUTIVE OFFICER HOFFNER: Happy too.

3 COMMITTEE MEMBER MATHUR: Thank you.

4 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, thank  
5 you.

6 CHAIRPERSON SLATON: Mr. Gillihan.

7 COMMITTEE MEMBER GILLIHAN: I think the question  
8 Ms. Mathur was asking is the -- relative to your CEAs in  
9 the other parts of the organization have a bonus  
10 structure. You were talking about other people in other  
11 parts of the organization.

12 DEPUTY EXECUTIVE OFFICER HOFFNER: This Policy  
13 doesn't apply to them.

14 COMMITTEE MEMBER MATHUR: I was -- yeah, the  
15 policy doesn't apply to them. I was trying to understand  
16 why it was specifying -- it was differentiating between  
17 one set of direct reports to the CEO and the CIO, and to  
18 clarify that. Thank you.

19 CHAIRPERSON SLATON: We will get there.

20 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: It  
21 really is the way our policy is written and we do need to  
22 change it.

23 CHAIRPERSON SLATON: Yeah. We'll get there. All  
24 right. So we have a motion on the floor with a second. I  
25 see no further commentary.

1           So all those in favor say aye?

2           (Ayes.)

3           CHAIRPERSON SLATON:   Opposed?

4           Motion carries.

5           HUMAN RESOURCES DIVISION CHIEF CAMPBELL:   And  
6 that was for option B?

7           CHAIRPERSON SLATON:   That was for option B.

8           All right.  I think we've moved to Summary of  
9 Committee Direction.  What do we got, Doug?

10          DEPUTY EXECUTIVE OFFICER HOFFNER:  I had a  
11 comment from the Chair about a deeper analysis related to  
12 the delegations and brining back additional material at a  
13 future meeting, whether that's March or a different point  
14 in time.  I think March works for us.  We'd be happy to do  
15 that.

16          CHAIRPERSON SLATON:   Okay.  Right.

17          DEPUTY EXECUTIVE OFFICER HOFFNER:  And then the  
18 other modifications that we already talked about in sort  
19 of my presentation that would be related to the analysis  
20 we'll be working on with the Committee's consultant to  
21 bring that back, and be happy to start that conversation  
22 in March as well.  I think it will take a couple  
23 meetings --

24          CHAIRPERSON SLATON:   Okay.

25          DEPUTY EXECUTIVE OFFICER HOFFNER:  -- between now

1 and that June time period to talk about the other  
2 issues -- or the other identified items that we've brought  
3 up.

4 CHAIRPERSON SLATON: Okay. Now, we did talk  
5 about, and I don't know where it exactly fits, but looking  
6 at the measurements for the CEO being differentiated in  
7 order not to have a conflict.

8 DEPUTY EXECUTIVE OFFICER HOFFNER: Right. So I  
9 think the -- related to that item, I mean, that's  
10 something we can -- and we can identify and talk with the  
11 consultant about per your review. And we'd be happy to,  
12 now that you're the Chair, establish that connection with  
13 Eric --

14 CHAIRPERSON SLATON: Okay. Good.

15 DEPUTY EXECUTIVE OFFICER HOFFNER: -- and help  
16 facilitate that dialogue, so they get real direct feedback  
17 from you as it's your consultant. I'm happy to help  
18 facilitate that conversation and bring the material back.

19 CHAIRPERSON SLATON: Great. All right. Very  
20 good.

21 We move to any public comment? Anybody wish to  
22 address the Committee?

23 Seeing none.

24 What did I miss?

25 Number 8 to a later date. That's correct.

1 All right. With that, this meeting is adjourned.  
2 (Thereupon the California Public Employees'  
3 Retirement System, Board of Administration,  
4 Performance, Compensation, & Talent Management  
5 Committee open session meeting adjourned  
6 at 5:29 p.m.)  
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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 open session 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 20th day of February, 2018.

JAMES F. PETERS, CSR  
Certified Shorthand Reporter  
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