



Performance, Compensation & Talent Management Committee Meeting Summary

February 14, 2018

This is intended as a guide for the Committee Chair. Other than the motions, this need not be read verbatim. The Chair may add context/comment as appropriate.

The Performance, Compensation & Talent Management Committee met on February 13, 2018.

The Committee held an election of the Performance, Compensation & Talent Management Committee Chair and Vice Chair. Bill Slaton was elected Chair and Richard Costigan was elected Vice Chair.

THE COMMITTEE RECOMMENDS AND I MOVE, the Board approve the following items reviewed in Open Session:

- AGENDA ITEM 7 – Semiannual Status Reports on Incentive Plans of the Chief Executive Officer and Chief Investment Officer

Approve the Fiscal Year 2017-18 Semiannual Status Reports of the CEO and CIO, and changes to the CIO's plan, as amended by the Committee and shown in Attachment 1.

- AGENDA ITEM 8 - Review of the Performance, Compensation and Talent Management Committee Delegation

The Committee deferred this item to a future meeting.

- AGENDA ITEM 9 – Executive Compensation Policy: Discretionary Modifier

Approve Option B, to amend the Executive Compensation Policy's Discretionary Modifier and increase flexibility by allowing discretion to be exercised upward or downward on an award by any percentage.

Summary of Committee Direction:

The Committee Chair gave direction to bring back information at future meetings on the following:

- Analysis on the Committee's delegation resolution and proposed changes
- Analysis and information related to incentive compensation pay structure, including long-term incentive opportunities
- Options for the Enterprise Operational Effectiveness metric and information on the Stakeholder Engagement metric

The Committee also directed staff to work with the Board's Executive Compensation Consultant to explore the possibility of differentiating the CEO incentive plan from her direct reports.

The next meeting of the Performance, Compensation & Talent Management Committee is scheduled for March 20, 2018, in Sacramento, California.




INCENTIVE PLAN | Fiscal Year 2017-18
Name: Ted Eliopoulos

Position: Chief Investment Officer

INCENTIVE METRICS

Weight	Metric																		
40%	Total Fund Performance (7/1/13 – 6/30/18) The Total Fund Performance Metric is measured based on fund performance against the policy benchmark for the five-year period of July 1, 2013, through June 30, 2018.	<table border="1"> <thead> <tr> <th>Variance (bps) from Benchmark</th> <th>Payout Ratio</th> </tr> </thead> <tbody> <tr> <td>+35</td> <td>1.50</td> </tr> <tr> <td>+30</td> <td>1.41</td> </tr> <tr> <td>+20</td> <td>1.25</td> </tr> <tr> <td>+5</td> <td>1.00</td> </tr> <tr> <td>0</td> <td>.76</td> </tr> <tr> <td>-15</td> <td>.05</td> </tr> <tr> <td>< -15</td> <td>.00</td> </tr> </tbody> </table>	Variance (bps) from Benchmark	Payout Ratio	+35	1.50	+30	1.41	+20	1.25	+5	1.00	0	.76	-15	.05	< -15	.00	
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15% 10%	Investment Office CEM The 2017-18 annual participation in the CEM benchmarking (CEM) survey analyzes CalPERS' investment costs and return performance over a five-year period against a customized peer group.	<table border="1"> <thead> <tr> <th>Score</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>Outperforms US Benchmark on Net Value Added (Returns) and Cost by 0.2% and 5 bps, respectively</td> <td>1.50</td> </tr> <tr> <td>Outperforms US Benchmark on Returns and Cost by .001% and 1 bps, respectively</td> <td>1.00</td> </tr> <tr> <td>Outperforms US Benchmark on Cost or Outperforms US Benchmark on Returns</td> <td>.50</td> </tr> <tr> <td>Underperforms US Benchmark on Returns and Cost</td> <td>0.00</td> </tr> </tbody> </table>	Score	Rating	Outperforms US Benchmark on Net Value Added (Returns) and Cost by 0.2% and 5 bps, respectively	1.50	Outperforms US Benchmark on Returns and Cost by .001% and 1 bps, respectively	1.00	Outperforms US Benchmark on Cost or Outperforms US Benchmark on Returns	.50	Underperforms US Benchmark on Returns and Cost	0.00							
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15%	Stakeholder Engagement The Stakeholder Engagement Metric for 2017-18 is based on results of the following three Stakeholder Engagement Survey questions: <ul style="list-style-type: none"> Is CalPERS sensitive to the needs of Stakeholders? Does CalPERS do a good job of keeping its stakeholders informed? On a scale of one to ten, how would you rate CalPERS being effective in engaging and communicating with stakeholders? 	<table border="1"> <thead> <tr> <th>Score</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td>> 75%</td> <td>1.50</td> </tr> <tr> <td>> 73% to 75%</td> <td>1.25</td> </tr> <tr> <td>> 71% to 73%</td> <td>1.00</td> </tr> <tr> <td>> 69% to 71%</td> <td>0.75</td> </tr> <tr> <td>> 67% to 69%</td> <td>0.50</td> </tr> <tr> <td>≤ 67%</td> <td>0.00</td> </tr> </tbody> </table>	Score	Rating	> 75%	1.50	> 73% to 75%	1.25	> 71% to 73%	1.00	> 69% to 71%	0.75	> 67% to 69%	0.50	≤ 67%	0.00			
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10% 5%	Enterprise Operational Effectiveness The Enterprise Operational Effectiveness Metric for 2017-18 is defined as Overhead Operating Costs as a percentage of Total Operating Costs ("OOC"). <ul style="list-style-type: none"> Total Overhead Operating Costs ("OOC") identify all administrative costs not mapped directly to Product and Service Delivery Operating Costs ("PSDOC") $OOC = OOC / (OOC + PSDOC)$ 	<table border="1"> <thead> <tr> <th>Score</th> <th>Rating</th> </tr> </thead> <tbody> <tr> <td><-1.1%</td> <td>1.50</td> </tr> <tr> <td>-1.1% to < -0.6%</td> <td>1.25</td> </tr> <tr> <td>-0.6% to 0.0%</td> <td>1.00</td> </tr> <tr> <td>> 0.0% to 1.0%</td> <td>.75</td> </tr> <tr> <td>> 1.0% to 1.5%</td> <td>.50</td> </tr> <tr> <td>>1.5%</td> <td>0.00</td> </tr> </tbody> </table>	Score	Rating	<-1.1%	1.50	-1.1% to < -0.6%	1.25	-0.6% to 0.0%	1.00	> 0.0% to 1.0%	.75	> 1.0% to 1.5%	.50	>1.5%	0.00			
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KEY BUSINESS OBJECTIVES

Weight	Key Business Objectives	Score	Payout Ratio
		Far Exceeds High Expectations	1.50 (150%)
Meets High Expectations	1.0 (100%)		
Does Not Meet High Expectations	0 (0%)		
<i>Intermediate points are interpolated</i>			
10%	<p>Business Plan and Investment Office Roadmap By June 30, 2018, in support of the CalPERS 2018-18 Business Plan, improve CalPERS' ability to achieve risk-adjusted investment returns.</p> <p>Goal A: Improve long-term pension and health benefit sustainability Fund the System through an integrated view of pension assets and liabilities:</p> <ul style="list-style-type: none"> • Build effective investment risk and performance attribution review and decision processes within and across asset classes to ensure risks are fully understood, intended, and compensated • Enhance the Capital Allocation framework through improved risk factor modeling and greater understanding and ownership of trust-level investment risk and performance <p>Deliver target risk-adjusted investment returns:</p> <ul style="list-style-type: none"> • Explore long-term planning considerations including private assets business model, talent management, and office locations • Develop enhanced governance and protocols to improve efficiencies and controls in assessing and engaging external managers and migrating additional asset types in house • Enhance cost effectiveness, resource allocation, and efficiency of the investment program to increase net returns on assets • Enhance the investment platform and internal controls environment to achieve optimum efficiency • Develop a framework for the integration of CalPERS Investment Beliefs and ESG risk considerations into the investment decision-making process, including completing the key deliverables and objectives targeted for the current fiscal year in the Global Governance ESG Strategic Plan approved by the Board in August 2016. <p>Implement the objectives set forth for FY 2017-18 in the FY 2017-18 Investment Office Roadmap.</p>		
10% 20%	<p>Organizational Leadership Through June 30, 2018, provide organizational leadership, decision-making, and reliable fund stewardship in support of the following Strategic Outcome Measures:</p> <p>Open and Transparent Communication</p> <ul style="list-style-type: none"> • Set and exemplify standards for respectful, candid, and transparent communication; and • Be open and accessible, working towards solutions in collaborative ways. <p>Efficient and Effective Organization</p> <ul style="list-style-type: none"> • Support the CalPERS work environment's high levels of accountability and focus on cost-effectiveness without negative consequences to service levels; and • Participate in and support ongoing Workforce Planning efforts. <p>Supportive and Engaged Leadership</p> <ul style="list-style-type: none"> • Participate in the development of current and future leaders through: <ul style="list-style-type: none"> ○ Informal mentoring and continued leadership development at all levels; and ○ Participation in and support of the completion of mandatory leadership training. • Create clear links between performance and consequences, including: <ul style="list-style-type: none"> ○ Timely completion of probationary reports and EPADs; ○ Holding team members accountable for poor performance and behavior; and ○ Rewarding team members for displaying positive behavior and exceptional performance. <p>Customer Satisfaction Driven Organization</p> <ul style="list-style-type: none"> • Support the development of a comprehensive understanding of customer needs, expectations, and employees' connection to customer satisfaction; and • Support an environment in which employees work to improve processes and focus on delivering upon customer expectations. <p>Team Member Engagement</p> <ul style="list-style-type: none"> • Support efforts to create an environment where team members can thrive in a culture of inclusion, opportunity and representation; and • Instill a positive work culture where CalPERS is seen as a destination employer. 		
100%	Total Plan Weight		