



INCENTIVE PLAN SEMIANNUAL UPDATE | Fiscal Year 2017-18

Name: Marcie Frost

Position: Chief Executive Officer

KEY BUSINESS OBJECTIVES

Weight	Key Business Objectives											
25%	<p>Organizational Leadership Through June 30, 2018, provide organizational leadership in support of the following priorities:</p> <ul style="list-style-type: none"> • Board Support • Open and Transparent Communication / Building Relationships • Efficient and Effective Organization • Supportive and Engaged Leadership • Customer Satisfaction Driven Organization • Team Member Engagement 	<table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="background-color: #d9e1f2;">Score</th> <th style="background-color: #d9e1f2;">Payout Ratio</th> </tr> </thead> <tbody> <tr> <td>Far Exceeds High Expectations</td> <td>1.50 (150%)</td> </tr> <tr> <td>Meets High Expectations</td> <td>1.0 (100%)</td> </tr> <tr> <td>Does Not Meet High Expectations</td> <td>0 (0%)</td> </tr> <tr> <td colspan="2" style="text-align: center;"><i>Intermediate points are interpolated</i></td> </tr> </tbody> </table>	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>	
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Semiannual Status Update

Board Support:

- Weekly dialogs with most board members continue as a means of information flow between the board and the organization.
- The team continues to assist board members who are traveling to meetings and investor events in preparing talking points, speeches, etc. This has helped to ensure consistent communication and information about CalPERS approved policies.
- Board meeting agendas are a focus area for the next six months to refine appropriate timeframes for each item and to ensure items are relevant, timely and have sufficient information prior to action.

Open and Transparent Communication/Building Relationships:

- Participated in multiple stakeholder meetings to engage and educate attendees on various items including ALM and associated asset allocation and discount rate, amortization policy, health rates, risk adjustment, OptumRx transition, and engagement/divestment. Spoke to retiree associations, employer and member roundtable meetings, employer education conferences and legislative committees – including hearings on public agency terminations and engagement practices.

Efficient and Effective Organization:

- Engaged CalPERS leaders in “How you lead matters” events. Event 1 detailed the workplace culture behaviors for leaders with a call to action for each leader to identify and work on one behavior with their team. Event 2 was a live report out of how the call to action worked with 3 very strong examples and additional ones coming from the audience. These are also videotaped for those who wish to take the challenge at a later date.
- Continued implementation of Enterprise Position Pooling with the first move of three PYs from back office to front office. This is in addition to moves happening within programs to allocate resources to where the need is most critical. Critical needs are defined through the enterprise performance reporting system.

- Full implementation of the Enterprise Performance Reporting management system with all lines of business reporting on operational measures and connection to 5 year strategic plan initiatives. Created annual process to review measures as the system will mature over the next 1-3 years.
- Expanded the role of the Senior Leadership Council with additional responsibilities for identifying and prioritizing lean projects and IdeaFactory submissions.
- Built infrastructure for Lean/Six Sigma within RRPD and Customer Support Services

Supportive and Engaged Leadership:

- Continue to build out leadership behavior expectations across the enterprise, modifying leadership development curriculum programs and criteria for awards.
- Ensured employee engagement survey questions were reflective of leadership competencies and subsequent action plans for each leader based on their own individual results.
- Focused the organization on building internal capacity and eliminating three outsourced contracts for services.
- Spoke to all program areas within the last 6 months to illustrate the importance of the five values

Customer Satisfaction Driven Organization:

- Continue to build a culture where we look at the processes through the eyes of the customer. Ensure understanding of the purpose of the organization is to serve the member/customer. Created understanding of the definition of customer versus partner.
- Focus resources where the customer needs are – using performance data in the EPR, positions are realigned as we see customer needs not being met – CSOD in particular has done this well.

Team Member Engagement:

- Instituted new team member engagement survey, aligning questions with the culture we expect. For the first time, each team leader has individual results to measure their baseline and subsequent improvements.
 - Focus on leadership behaviors as the number one detractor from employee engagement. Beginning to institute individual leader development plans based on their team's evaluation, starting with the executive team and then cascading into the organization.
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INCENTIVE METRICS (Performance data for all metrics to be provided at year-end.)

Weight	Metric																		
15%	<p>Total Fund Performance (7/1/13 – 6/30/18)</p> <p>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.</p>	<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 (150%)</td></tr> <tr><td>+30</td><td>1.41 (141.7%)</td></tr> <tr><td>+20</td><td>1.25 (125%)</td></tr> <tr><td>+5</td><td>1.00 (100%)</td></tr> <tr><td>0</td><td>0.76 (76.3%)</td></tr> <tr><td>-15</td><td>0.05 (5%)</td></tr> <tr><td>< -15</td><td>0.00 (0%)</td></tr> </tbody> </table>	Variance (bps) from Benchmark	Payout Ratio	+35	1.50 (150%)	+30	1.41 (141.7%)	+20	1.25 (125%)	+5	1.00 (100%)	0	0.76 (76.3%)	-15	0.05 (5%)	< -15	0.00 (0%)	<p style="text-align: center;"><i>Payout ratio for intermediate results will be determined by interpolation.</i></p>
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20%	<p>Enterprise Operational Effectiveness</p> <p>The Enterprise Operational Effectiveness Metric for 2017-18 is defined as Overhead Operating Costs as a percentage of Total Operating Costs ("OOC").</p> <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>Payout Ratio</th> </tr> </thead> <tbody> <tr><td><-1.1%</td><td>1.50 (150%)</td></tr> <tr><td>-1.1% to < -0.6%</td><td>1.25 (125%)</td></tr> <tr><td>-0.6% to 0.0%</td><td>1.00 (100%)</td></tr> <tr><td>> 0.0% to 1.0%</td><td>0.75 (75%)</td></tr> <tr><td>> 1.0% to 1.5%</td><td>0.50 (50%)</td></tr> <tr><td>>1.5%</td><td>0.00 (0%)</td></tr> </tbody> </table>	Score	Payout Ratio	<-1.1%	1.50 (150%)	-1.1% to < -0.6%	1.25 (125%)	-0.6% to 0.0%	1.00 (100%)	> 0.0% to 1.0%	0.75 (75%)	> 1.0% to 1.5%	0.50 (50%)	>1.5%	0.00 (0%)			
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10%	<p>Investment Office CEM</p> <p>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.</p>	<table border="1"> <thead> <tr> <th>Score</th> <th>Payout Ratio</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 (150%)</td></tr> <tr><td>Outperforms US Benchmark on Returns and Cost by .001% and 1 bps, respectively</td><td>1.00 (100%)</td></tr> <tr><td>Outperforms US Benchmark on Cost or Outperforms US Benchmark on Returns</td><td>0.50 (50%)</td></tr> <tr><td>Underperforms US Benchmark on Returns and Cost</td><td>0.00 (0%)</td></tr> </tbody> </table>	Score	Payout Ratio	Outperforms US Benchmark on Net Value Added (Returns) and Cost by 0.2% and 5 bps, respectively	1.50 (150%)	Outperforms US Benchmark on Returns and Cost by .001% and 1 bps, respectively	1.00 (100%)	Outperforms US Benchmark on Cost or Outperforms US Benchmark on Returns	0.50 (50%)	Underperforms US Benchmark on Returns and Cost	0.00 (0%)							
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15%	<p>Stakeholder Engagement</p> <p>The Stakeholder Engagement Metric for 2017-18 is based on results of the following three Stakeholder Engagement Survey questions:</p> <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>Payout Ratio</th> </tr> </thead> <tbody> <tr><td>> 75%</td><td>1.50 (150%)</td></tr> <tr><td>> 73% to 75%</td><td>1.25 (125%)</td></tr> <tr><td>> 71% to 73%</td><td>1.00 (100%)</td></tr> <tr><td>> 69% to 71%</td><td>0.75 (75%)</td></tr> <tr><td>> 67% to 69%</td><td>0.50 (50%)</td></tr> <tr><td>≤ 67%</td><td>0.00 (0%)</td></tr> </tbody> </table>	Score	Payout Ratio	> 75%	1.50 (150%)	> 73% to 75%	1.25 (125%)	> 71% to 73%	1.00 (100%)	> 69% to 71%	0.75 (75%)	> 67% to 69%	0.50 (50%)	≤ 67%	0.00 (0%)			
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15%	<p>Customer Service</p> <p>The Customer Service Metric for 2017-18 is based on the following two Service Dimensions:</p> <ul style="list-style-type: none"> Percentage of benefit payments issued to our customers within established service levels Customer service with CalPERS services as measured by surveys and other methods 	<table border="1"> <thead> <tr> <th>Score</th> <th>Payout Ratio</th> </tr> </thead> <tbody> <tr><td>≥ 95%</td><td>1.50 (150%)</td></tr> <tr><td>94% to < 95%</td><td>1.25 (125%)</td></tr> <tr><td>92% to < 94%</td><td>1.00 (100%)</td></tr> <tr><td>90% to < 92%</td><td>0.75 (75%)</td></tr> <tr><td>88% to < 90%</td><td>0.50 (50%)</td></tr> <tr><td>< 88%</td><td>0.00 (0%)</td></tr> </tbody> </table>	Score	Payout Ratio	≥ 95%	1.50 (150%)	94% to < 95%	1.25 (125%)	92% to < 94%	1.00 (100%)	90% to < 92%	0.75 (75%)	88% to < 90%	0.50 (50%)	< 88%	0.00 (0%)			
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100%	Total Plan Weight																		

NOTE: Boxes surrounded by heavy borders contain the bolded symbols (e.g., greater-than, less-than) and percentages that were corrected to rectify inconsistencies from prior versions.