MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, MAY 15, 2018

3:55 P.M.

JAMES F. PETERS, CSR
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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. 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. Kari Imai, Committee Secretary

ALSO PRESENT:

Mr. Eric Gonzaga, Grant Thornton, LLP

I N D E X

P R O C E E D I N G S

CHAIRPERSON SLATON: Okay. Welcome to Performance, Compensation and Talent Management Committee.

First order of business is call to order -- or roll call, please.

COMMITTEE SECRETARY IMAI: Bill Slaton?

CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY IMAI: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY IMAI: Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: Here.

COMMITTEE SECRETARY IMAI: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY IMAI: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY IMAI: Priya Mathur?

COMMITTEE MEMBER MATHUR: Here.

COMMITTEE SECRETARY IMAI: Ramon Rubalcava?

VICE CHAIRPERSON COSTIGAN: He's here, but...

He's sitting in the back

CHAIRPERSON SLATON: Oh, there he is.

And for the record please notice that -- please note that Mr. Miller, Mr. Saha, and Ms. Brown are here.

And next order of business is action consent.

Do I have a motion?

COMMITTEE MEMBER JONES: Move it.

CHAIRPERSON SLATON: Moved by Jones.

VICE CHAIRPERSON COSTIGAN: Second.

CHAIRPERSON SLATON: Second from Costigan.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

All right. On the information consent, I have no has indicated they wanted to remove anything. So we'll move very quickly to number five.

Actually, I didn't do the executive. You can combine them. Mr. Hoffner

DEPUTY EXECUTIVE OFFICER HOFFNER: That's -- we can -- we can do that if you'd like.

CHAIRPERSON SLATON: Sure. Go ahead.

DEPUTY EXECUTIVE OFFICER HOFFNER: It's going to be speaking about number 5 anyway. Good afternoon. Doug Hoffner, CalPERS team member. Today, we've got one item for action related to pay philosophy, discussion for covered positions. That will be conducted by Grant Thornton the Board's incentive comp consultants. Eric Gonzaga will be presenting that item. I also want to highlight that Andrew Junkin from Wilshire Consulting is also on the phone joining us today.

Based on the discussion and the information provided by Marcie related to Ted Eliopoulos yesterday, we thought it was important to have Andrew on as well. There may be some questions related to the CIO position and some of those questions related to compensation, we thought, in addition to the Grant Thornton folks, it would be nice if Andrew, given his role within the organization, from a consulting perspective to the full board.

So he's joining us on the call. This item essentially is going to talk about the pay philosophy within the current Board's policy. It's going to have a discussion about some fundamental parameters within that pay philosophy. We wanted to get you to affirm, or discuss, or modify some of those. We want to get your feedback related to these items. And then we've got some market data that we'll be bringing back through Eric and his team, at the June meeting.

So effectively, having a discussion about philosophy for these covered positions, be able to bring back specific data that you may have questions about in the June meeting for that broader discussion as it relates to these covered items.

I also wanted to highlight, we were asked by Mr. Costigan at the last meeting, I think it was in March to bring back some information on deferred compensation and some specific plans. The team has been working diligent on that. There have been a lot of work with CalHR a very collaborative process. We did not have enough information today with definitive answers. So I just wanted to give you a very high overview that it's really complex. And, yeah, that's not doing it justice, I guess.

But depending on which class of individuals maybe in the organization, from classic to PEPRA, there's different applications to some of these things. So we will defer that to a further discussion. We have the opportunity to bring back a formal written item, but I want you to know we have been working on that, and that will come forward at an appropriate time later this year.

With that, I'll just turn this over to both Tina Campbell and Eric Gonzaga for the presentation.

Thank you.

(Thereupon an overhead presentation was presented as follows.)

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good afternoon, Mr. Chair members of the Board. Tina Campbell, CalPERS team.

Agenda Item 5 is an action item. The Committee provided direction in March for team members and the Boards executive compensation consultant, Mr. Eric Gonzaga with Grant Thornton to work on fixed compensation options for the CalPERS CEO position.

Mr. Gonzaga is here to present and discuss the three major components of the overall pay philosophy. This discussion will set a foundation from which you can make salary range decisions at a future meeting for the CEO position, as well as other positions covered under the Board's Compensation Policy.

Before we transition to Mr. Gonzaga's presentation, I want to highlight key activities and discussions, which have occurred over the last few years to bring us to this point. In the last five years, the Board has adopted revised comparator groups for both investment and executive management positions. In 2015, a comprehensive survey was conducted for both executive and investment management positions, at which time the Board approved a revised comparator group for executive management positions.

The Board indicated a desire for future review, especially in the consideration of the disparity between certain salary ranges or earning opportunities and market 50th percentile. As a result, Grant Thornton was engaged as the Board's compensation consultant in 2016 to conduct a comprehensive review of CalPERS incentive programs.

Through that process, comparator groups were validated and analysis reconfirmed disparity in market positioning. Grant Thornton prepared several possible consideration for the Board to align CalPERS' compensation more competitively with the market.

Attachment 2 of the agenda item list those consideration and action taken since that time where applicable. Rather than conducting another survey in 2017, existing data sets were updated and additional salary data was brought forward for the Committee's review.

Slight salary adjustments to the maximum end of the range were made for some positions at that time. But no further action has been taken. Today, Mr. Gonzaga will set the foundation to the Committee can make important compensation structure decisions as we continue to work through the process over the next two or three meetings.

The two points of action we're seeking today are, one, for the Committee to affirm the policy purpose statement, and two, for the Committee to affirm previously agreed on comparator groups for executive and investment management positions.

In addition, Mr. Gonzaga will also review the importance of targeting a comparator group percentile. The process to do that, and how it leads to the outcome of establishing related compensation structures. These three components purpose, comparator group, and comparator group target percentile collectively set the framework that would become CalPERS overall pay philosophy.

At future meetings, the Committee will refer to and consider the pay philosophy when we are dis -- we are discussing today to establish compensation structures for positions covered under the Board's related policy.

CalPERS team members and Mr. Gonzaga are currently in the process of organizing comparator group salary and total cash data, as well as how the data would translate by applying the overall pay philosophy based on potential target percentiles. This data will be presented at future meetings for the Committee's reviewed and decisions. We'll arrange the timeline to ensure the Committee's request to have a fixed compensation salary range for the CEO will become effective this fiscal year July 1st.

There will also be opportunities to discuss and decide on salary ranges and overall compensation structures for the remaining positions covered by the Board's policy and future meetings.

Now, I'll turn it over to Mr. Gonzaga who will lead the discussion on pay philosophy components that I mentioned earlier so the Committee can take action on the policy purpose statement and comparator groups, as well as engage in discussion regarding the comparator group target percentile. Mr. Gonzaga or I will be happy to answer questions after or during the presentation.

Mr. Gonzaga.

MR. GONZAGA: Well, thank you, and, you know, good to be here again.

What we want to cover today, you know, as it's outlined on that firs slide is really again going back to philosophy, you know, what is the philosophy? Well, it's kind of that constitution with which to govern your compensation program.

And it's important, you know, just to revisit this on occasion just to make sure that when we start thinking about recruitment, retention, considerations in addition to rewards, you know, it's driven by that same neutral strategy, you know, that the Committee and the Board agrees with.

And so what we want to cover today again are three things. One, let's talk about the purpose of the pay philosophy. Number two, what are the appropriate peers. And finally, what's the right target percentile. And we have perspectives on, you know, all of these various elements.

You know, what I will say is that if we go back and look at the work that was done even preceding us, you know, I think that when you think about the complexity of the organization, the work that's been done, certainly I would consider is, you know, best practice peer group representing, you know, the complexity of this organization, you know, to the extent that you can.

I mean, even when you think about, you know, like organizations, there's very few. Absolutely apples to apples type organizations at CalPERS, if only because of the size of the fund itself.

So with that in mind let's -- we'll talk about purpose, peers, and target market percentile. The hope is to walk away with affirmation of what those guidelines should be, and then we'll come back in June to discuss, you know, specific numbers as it relates to how can we, you know, move -- continue to move towards that philosophy, so...

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MR. GONZAGA: Now, in terms of compensation purpose, let's just talk about philosophy and, you know, what are the different elements that we're talking about here --

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MR. GONZAGA: -- just to bring everybody up to stage, because I know there's been -- there often is with most boards, there's some turnover in different spots. But, you know, the philosophy is really what is your strategy to recruit/retain your fair share of employees. It's that foundational statement. The comparator group is, okay, these are the organizations of like size, like complexity that would represent, you know, organizations that have jobs of comparable complexity to those at CalPERS.

And finally, that target percentile is, okay, what are we targeting from a pay standpoint? And when I say that, I just want to be very clear that when we say target percentile, it is not where everybody should be positioned. Generally, there should be an array of folks below that mid-point, above that mid-point based on combination of both organizational, individual performance, and experience.

So as we go through this, let's just say we start talking about targeting the 50th percentile. We're not saying every executive, every investment management professional should be positioned right at that 50th percentile.

To the contrary, it may be fine for certain individuals to be positioned 20 percent below that mid-point or another individual five or 10 percent above that target depending on experience.

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MR. GONZAGA: So with that, you know, just what we want to talk about, first, is what is the plan purpose? What is the executive compensation purpose? What are we trying to drive through the CalPERS compensation program?

Now, what you have there in front of you, and I'll just read it quickly, you know, the intent is to recruit and retain highly skilled professionals who are the foundation for CalPERS success to meet that mission that you all have.

And the common principles that you've stated are must be high enough to encourage individuals is to come aboard and retain them, but not so high that individuals are joining the organization for compensation only.

Additionally, it's reactive to the labor markets with which you recruit and retain from. And finally, that there should be a substantial portion that's subject to risk based on performance.

Now, with those criteria, I mean, are those -- do those continue to be and would you agree with that underlying statement. I think it's eloquent. I think it makes sense from my perspective, but just affirmation in terms of those various elements.

CHAIRPERSON SLATON: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you very much, Mr. Chair. I would agree with you that generally I think this is -- this still pertains today. The one thing that we might want to consider is on the second line enough to encourage and maybe add "highly qualified" individuals to accept or remain in positions.

But otherwise, I think -- I like it as it stands. So I don't know if you want a motion at this time, Mr. Chair, but I'm happy to move -- move the language -- that we affirm the compensation policy with that one modification.

CHAIRPERSON SLATON: Okay. All right. I'll accept that as a motion. Is there a second and then we can have Board discussion.

COMMITTEE MEMBER RUBALCAVA: I'll second.

CHAIRPERSON SLATON: All right. So moved and seconded.

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON SLATON: Further discussion?

Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yes. This is my concern. I think that life has changed, and life has changed in terms of our funded status. And when I went to the Rotman Institute and CPPIN, they look at the compensation. And when you're looking at purpose, and they tie it into their funded status, I think that to really answer our stakeholders, I just saw that when we checked with them, that in 2017 it looked like 70 -- I don't know if it's 70 percent or 70 people that felt that their retirement money is safe, the unfunded liability. People are really concerned about the long-term sustainability of the fund.

And if we want to drive -- I'm not sure if it's necessarily performance. But if we want a message to our stakeholders coming from the Board that we care about the funded status, we care about the sustainability, then I think it also has to -- somehow performance -- if the funded status goes down, that's not a good sign. So I think we have to link it to the -- to increasing the funded status.

And I'm not exactly -- I know it's easy to say these things. It's like you don't want to complain about the chef in the kitchen unless you plan on cooking, but I think it's going to -- we really need to send a message to the marketplace. And also if that message is there, it's going to have everyone in the Investment staff focused on the funded status. We have to increase the funded status of this fund.

CHAIRPERSON SLATON: Well, you know, I think you've raised an interesting point. I think it drives a couple of things in my mind. One is that I think we need to still consider because of the last sentence, a substantial portion of compensation at risk, that I think we need to still consider the possibility of the CEO compensation still having a portion at significant risk. I think that -- that goes to that issue, so that nobody's compensation is totally fixed.

The second thing is the question is it appropriate to tie to the health of the organization or funded status, which gets very specific in the compensation policy, or is that in the evaluation model? Is that how we're going to hold management accountable? Should it be in this purpose statement?

I just have a question about whether it should be here. I'd like to hear from other Committee members, because I think that's what I'm hearing you say is somehow tying into the wording here.

COMMITTEE MEMBER HOLLINGER: Yes, because --

CHAIRPERSON SLATON: Just a minute. Just a minute.

Okay.

COMMITTEE MEMBER HOLLINGER: I din't realize you were going to talk back. I think we have to send that message to the marketplace. And I also think that -- yeah, I think it needs to be in the purpose, yes, because that -- that -- people focus on what they get compensated on.

CHAIRPERSON SLATON: Um-hmm.

COMMITTEE MEMBER HOLLINGER: That's just the way life is?

CHAIRPERSON SLATON: Well, I will take some more comments. I just noticed that we both recognize labor market forces and reinforce Maximum performance. And maybe where that maximum perform needs to be is to the benefit of the fund, or to the benefit of the members, and maybe that gets to the point.

CHAIRPERSON SLATON: You keep cutting off.

COMMITTEE MEMBER HOLLINGER: My other point to --

CHAIRPERSON SLATON: Just a second.

COMMITTEE MEMBER HOLLINGER: Oh, my other point to make in that context, the reason I like funded status is because you -- you know, I come from insurance, so I don't want somebody to take an inordinate amount of risk to achieve necessarily a great return, but that would jeopardize our funded status. You know, I think there's a balance. It's got to be a risk-adjusted return. So I think it also keeps -- keeps that in line, you know, the level of risk.

CHAIRPERSON SLATON: Okay. Well, let's hear from some others.

COMMITTEE MEMBER HOLLINGER: Okay.

CHAIRPERSON SLATON: Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr.

Slaton. So I appreciate that report. I mean, this has been a struggle of mine over the years. I've moved from they're civil servants who have protections that the private sector doesn't have. That's where I started off and that's the other hat I wear at SPB, because, I mean, there's a balance between compensation and the protections.

I mean, I think Ms. Hollinger is right. On one you hand you look at total fund performance and the activities. On the flip side, because they are not at-will employees, oftentimes the protections of civil service come into play. But I don't think the Investment staff -- or our executive staff actually look at it the same way. They really look towards compensation and pride of performance.

And over the last few years, I've had this sort of transition. When we look at 1.9 million members and 1.5 million on the pension side. And we're the largest health care, and we're the largest pension fund, we're not going to pay -- and not to get too much into what happened on Monday. But when we have this discussion on Monday about where Investment Committee and investments may go, we've really got to start recognizing how things are changing. And that starts from the CEO down.

You hold the CEO -- how do you attract someone to a -- we have to think we're a 356, 360, whatever we are today, billion dollar organization with over 2,800 employees that has a multi-billion dollar impact on the State of California. And then we have a global presence.

And so when you look at compensation, I'm not saying don't move away from total fund. I think that's an element of it, but our compensation is just really the relevant -- realization I've had the couple last years is it's just too low. We're not attracting quality candidates. The quality candidates who want to come here are, in fact -- are negatively impacted both because of the salary levels. And then I know that Mr. Hoffner, because we were talking earlier about some additional types of incentive comp, and not to -- necessarily are going to get into it.

But one of the reasons that we looked at these models is as a result of the federal tax policies. Someone coming to California is now subject to the $10,000 on personal -- on State income tax and property taxes. I mean, you already know in California the average property tax is close to 10 grand. And so all of a sudden, we're creating these economic dissentives already with low wages to begin with vis-à-vis the other peer groups that you use.

To now say, if we're just going to tie it into solely fund performance or make that a big element of it, I'm just concerned with that. I really think we should be looking at moving compensation up, beginning to pay it. I think the Board acknowledges -- I'll talk on the Investment side -- we're paying millions of fees to outside managers. We ought to begin addressing that inside. It's a cost -- it does lead to cost control. It allows us to control our costs more as we look at bringing these salaries up. So I'm not sure, Mr. Slaton, how we're looking at it as a Committee moving forward.

I think some element of the Board retaining some discretion over awarding of bonuses there. Although, my argument is as it relates to the CEO, we have the ultimate discretion, because we can tell her thank you very much, you're out of here in 37 -- 33 minutes, because she's an at-will employee.

After that, we have to empower the CEO to bring in the best type of folks in order to meet our objectives for our members. And that means moving up -- we're not going to go to the top quartile. That's just -- again, we're a state agency. There are certain things. And we're not like some of the Canadian systems.

But we need to be moving our salaries up. We're a transitional organization. We are changing. Our portfolio is getting more diverse. Our membership is getting more diverse. The pressure that we're getting from the legislature, the Executive Branch, whether it's ESG, you name it, the professionalization of our staff is important. Compensation drives that.

So I would support at some point whether it's next month or if you need something in this, we'd begin looking at increasing the salary for our -- starting with our CEO and others, and what the incentive package should look like. But where we are now is not acceptable to me.

Thank you.

CHAIRPERSON SLATON: Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

I hesitate to speak on these topics, because it often puts me in a difficult position. But I agree on some level, we have to pay these folks enough to get the people with the skill sets we need. And it looks like we're going to put that to the test fairly shortly here.

But with respect to Ms. Hollinger's comments, I agree one critical measure is our funded status. But kind of leaving in the direction of what Mr. Costigan just said, tying it back to Ms. Hollinger's comments is that this Board takes actions that affect our funded status. It also takes actions that affect our risk appetite.

The Board establishes risk, and our Investment staff operate within very tight tolerances within the risk appetite that's established by the Board. So they only have so much wiggle room to produce excess gains or to manage within the box we put them in.

And the same thing on the discount rate. We make a change, whether it's on the rate or on other assumptions, and we recalculate our -- you know, our unfunded liability and the ratios change. And it -- so I guess my point is I agree that the funded status should be a significant performance indicator, but I also agree with Mr. Costigan that this Board needs to retain the flexibility to adjust for those things for which we've sort of constrained their ability to perform or how a measurement reflects back on staff when it's actually more a reflection of a Board decision.

Thank you.

CHAIRPERSON SLATON: Mr. Rubalcava.

COMMITTEE MEMBER RUBALCAVA: Thank you, Chair. This is very new to me, and this whole thing about compensation policy. But as I read the presentation, I think it is -- what we have here is a very solid policy statement. And like somebody mentioned, there is an acknowledgement that some of the compensation will be put at risk. So the question is, is this statement -- does it work for us or does it need to be modified?

I support that there should be something about highly skilled. But to follow on some of the statements that were already made by our colleagues here is that we -- this Board does establish the benchmarks. We do -- for the various asset classes. We do set up some of the funding policy, and the strategic allocation, asset allocation, stuff like that.

So if we're -- I think a lot of it falls on the recruitment process, the -- and I would say the evaluation process. So I will be -- I mean, the question is do we affirm or -- and/or modify the statement. I think we -- I'm in the position that we -- I think this works for us. I don't think we -- if we put funded status in there, I think it's almost telling what the press is saying that somehow that's the only judge of the found -- how sound the fund is. And I don't think it is. I think it's are we meeting our benchmarks, are -- are we -- relative to the market and where everybody else.

So I would say we should not -- I'm not sure how much work came into this statement, but I like it. So I'll leave it at that in my new member look.

Thank you.

CHAIRPERSON SLATON: Mr. Jones.

COMMITTEE MEMBER JONES: Yeah. Thank you, Mr. Chair.

Yeah, I -- I agree with Rubalcava on this. And I would support Priya's suggestion of highly skilled. But I think we can't for -- walk away from what Dana was saying. And perhaps maybe how we address that is some kind of introduction to this whole area that you talk about, you know, the funded status or whatever else you want to do to lead into this, rather than trying to make this particular purpose statement to deal with the broader issue. And so but I think it -- I assume that eventually there's going to be some narrative around these items.

And so the introduction to this would be, I think, the appropriate place to go with some kind of language that Dana is talking about.

CHAIRPERSON SLATON: Yeah. I tend to agree. This is compensation policy. You know, we could go down the rabbit hole of adding all the different things that we want people to do as a result of that. But I think we need to stay at a relatively high level at this point, and then when we get into how the compensation plans are constructed, then you get to what levers you want pushed based on what results we want to achieve.

And I think that we're going to get to a point. And I don't know whether it's going to be today or in June we're going to have a conversation about where this Committee's role is versus the CEO when it comes to the people who she hires, and engages, and what -- how much --

what level of detail beyond setting the ranges, because our fiduciary responsibility absolutely we have the responsibility to set how much we're willing to pay.

But those details beyond that, I think we need to have a discussion about where that should be aligned, and how much we should be doing, and how much should be delegated to the CEOs. So I think we can have that conversation.

But I don't see any more hands going up on this, so we'll call the question. Let's vote on the motion.

All those in favor -- do we need to repeat the motion? We've had a lot of conversation. So it's basically this statement with the addition of to encourage -- what were the two words?

COMMITTEE MEMBER MATHUR: Highly qualified.

CHAIRPERSON SLATON: Highly qualified individuals.

All right. So that's the motion.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

COMMITTEE MEMBER JONES: Mr. Chair.

CHAIRPERSON SLATON: Yes.

VICE CHAIRPERSON COSTIGAN: Push your microphone.

CHAIRPERSON SLATON: Oop, just a minute.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah, I pushed it.

But I don't want to lose sight of what Dana is concerning with.

CHAIRPERSON SLATON: Yes.

COMMITTEE MEMBER JONES: So will you -- we're still going to have a narrative surrounding to address those issues?

CHAIRPERSON SLATON: And the only question is where should those narratives be?

COMMITTEE MEMBER JONES: Yeah. Okay. And I don't want to dictate where, but I --

CHAIRPERSON SLATON: Right.

COMMITTEE MEMBER JONES: -- I think it's important that we don't lose site of that.

CHAIRPERSON SLATON: So I think that's -- that will be a direction from the Chair that we try to incorporate the critical elements somehow creatively in this, rather than us wordsmithing this afternoon.

MR. GONZAGA: Yeah, and I'd just say that in the policy, there's certain -- there's a section that discusses specific performance criteria, the strategic performance criteria and obviously funded status is a subset of it that we could call out much more clearly.

Okay.

DEPUTY EXECUTIVE OFFICER HOFFNER: Just one other comment. So you -- there will be individual plans that are presented, right? So I think to all of your points, it's not lost the comments and the weight that you're applying to today. So as those are applied to individuals, we can look and see how those are modified given the role they have in the organization, because they could quite different from the Investment Office to other portions of the covered individuals. So we I think we clearly hear what you're saying.

CHAIRPERSON SLATON: Okay. Comparator group.

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MR. GONZAGA: Great. So the next couple slides represent the peers that have been relied on for the two different groups, the executive management, and investment management specifically.

Now, the executive management peer group is a little bit broader. Very similar to what's used for investment manage -- investment management. However, it's focused on U.S. public funds, the larger -- the leading Canadian public fund, select -- select California based agencies that have comparable scope, comparable employees, and are run by their own board. And then a general industry look at other asset managers, whether they be banks and insurance companies.

And so the peer group that's been relied on historically is reflective of both, you know, the government perspective as well as comparable asset managers, you know, regardless as to whether it's on the public or the private side.

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MR. GONZAGA: And if you go to, you know, page seven, it just kind of reflects the historical peers relied upon. Now, what I'll tell you is that -- you know, so this was, you know, the approach that you all took in 2015. We followed a similar approach in 2016, and validated, you know, the relationships relative to market. But our perspective is that this is a pretty darn good peer group in terms of getting as close as possible to organizations of comparable size and complexity, recognizing that CalPERS is still, you know, the largest one, you know, as part of the pensions. And, you know, taking a look, of course, at other comparable asset managers in industry.

Now, you know, recognizing our thought it's a best practice peer group, reflective of comparable pools of talent, organizations of comparable size and complexity. You know, the ask here is do you affirm that this continues to be the well balanced peer group that would also reflect your talent pool for talent -- labor pool for talent, I should say.

CHAIRPERSON SLATON: Okay. Ms. Mathur.

COMMITTEE MEMBER MATHUR: Thank you.

Just a couple of questions. And forgive me for not remembering exactly, but the -- this is a subset of a standard survey that is done by -- I'm drawing a blank on the name of the provider --

COMMITTEE MEMBER HOLLINGER: McLagan.

COMMITTEE MEMBER MATHUR: McLagan, right. And did we -- we picked these specific entities to be considered in the comparator group, is that right?

MR. GONZAGA: (Nods head.)

COMMITTEE MEMBER MATHUR: So there are a couple that -- there's one in particular that seems to be missing that I think we might want to consider under the Canadian. Pension funds, and that's BCI, the British Columbia Investment Management Corporation. That might be a good comparator.

And I note also that we've got some retirement systems under the California based agencies, but not under U.S. pension funds. I thought that was a little curious. Maybe it doesn't really matter what category we put them in, but -- and then I guess I just wanted to remember -- be reminded. The banks -- so it's 50 percent -- the target was 50 percent for all the public sector employers and 25 percent for banks and insurance companies, is that where we had pegged it?

DEPUTY EXECUTIVE OFFICER HOFFNER: Doug Hoffner, CalPERS team.

So I think you remembered it pretty close to what was happening back in 2015. McLagan was the firm that the Board -- the Committee picked to do the comparator group for both the investment management positions, as well as the executive management positions. The investment one was done slightly earlier, in like the prior two years before then.

COMMITTEE MEMBER MATHUR: Yeah.

DEPUTY EXECUTIVE OFFICER HOFFNER: And I'm looking at it -- I'm looking at the deck that was provided by them back in 2015. I want to say they did break out a ratio of -- data was weighted 50 percent on the median of financial large services. Was that the old policy?

Okay. So the prior policy to that point that was modified was -- it was 50 percent weighted at the 75th percentile for large global U.S. And non-public sector firms with greater than 75 billion in assets, and then a weight to if only one sector was available, then weight 200 percent.

So what -- you guys went away from that, and we basically identified mission-driven organizations that were similar size, complexity, scope, that investment classes, they had a call center, they had a contact kind of center, they had similar roles and responsibilities as CalPERS.

The Committee then identified those like 10 California-based agencies as another comparator group that we would draw or lose talent to. And that was what was the subset that was selected back in August and September of 2015.

COMMITTEE MEMBER MATHUR: So the comparator group that is in front of us on page seven is not the current comparator group, is that what you're saying?

DEPUTY EXECUTIVE OFFICER HOFFNER: No. That's the -- that's the existing one today.

COMMITTEE MEMBER MATHUR: That's the existing one today.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah.

COMMITTEE MEMBER MATHUR: Okay.

DEPUTY EXECUTIVE OFFICER HOFFNER: And so you have U.S. funds, corporate plans, Canadian funds, and a select group of banks/insurance companies, and then the California based entities, which is a differentiator from what we have in the investment management side of the house. Those were not included at that time.

COMMITTEE MEMBER MATHUR: Right. Okay. So -- so just -- I'm sorry. So I just want to make sure I understand you. So this list is more than 10. So you said there were 10 -- did I mis-hear something?

DEPUTY EXECUTIVE OFFICER HOFFNER: I'm sorry. It's the -- it's the california based agencies.

COMMITTEE MEMBER MATHUR: Oh, those are the 10.

DEPUTY EXECUTIVE OFFICER HOFFNER: So, yes, it's many more than that, but there was -- the Committee specifically said we wanted to include other entities whereby we think we will lose talent to or, you know, attract talent from.

COMMITTEE MEMBER MATHUR: Yeah, right

DEPUTY EXECUTIVE OFFICER HOFFNER: And they added the -- what you see on that last bullet. And maybe it's more than 10. I didn't count it recently. Sort of the rapid transit, the City of Los Angeles, L.A. County, some of the other systems.

Those were called out specifically. And then McLagan helped provide data for those McLagan, based upon that feedback from the Committee at that time.

COMMITTEE MEMBER MATHUR: Okay. Thank you. That's really helpful.

So, I mean, I'm pretty comfortable with this comparator group. I mean, I -- if I was to really think about who I might consider expanding it beyond just U.S. and Canada pension funds, just given that our competitors now are truly global. I mean, we had our former private equity -- I know we're talking about the executive management group, but out former private equity MID went to the Middle East -- went to China, and we've had -- you know, we've had people go from broad, and we've actually recruited people from abroad.

So we might want to think about that at some point. I don't know that it's an urgent issue, but that would be my one comment.

Thank you.

CHAIRPERSON SLATON: Let me, before calling the next person, let me ask a question. What's the -- I'm a little confused about what the mathematics are. So you have a comparative group, I get that. What -- how is the math constructed? So when you come back next month, and we look at numbers, how are the calculations done?

MR. GONZAGA: Yeah. Our typical approach for, you know, hybrid type organizations like yours, would just simply be to you know, weight each of the peer groups comparably, and so it's a weighted average, essentially of each one of the peer groups.

Now, in this instance, and the one thing I will say is that primarily when -- because I don't want there to be any perspective of, you know, inflation of the data. When we're taking a look at industry, we recognize that, you know, a significant portion of what is offered in the for-profit side of the house is in the form of equity.

We're not taking a look at that historically.

CHAIRPERSON SLATON: Right.

MR. GONZAGA: It's just total cash compensation. So it's salary plus bonus, exclusive as to the offering of long-term incentives. I mean, just being pragmatic --

CHAIRPERSON SLATON: You can't really get there --

MR. GONZAGA: Right.

CHAIRPERSON SLATON: -- to use the data.

MR. GONZAGA: And so we're ignoring that altogether and just assuming it's total cash.

So on the industry side, it's -- it is a conservative look from a for-profit side of the house standpoint, but it's also realistic. So we're just trying to come up with, you know, the best available data in a weighted average.

CHAIRPERSON SLATON: I see. Well, you weigh stock options against living in beautiful Sacramento, so maybe --

(Laughter.)

MR. GONZAGA: That's right.

CHAIRPERSON SLATON: -- maybe that's the tradeoff.

So do you -- and when you do that, do you drop the highs and lows? Do you -- is there mathematical adjustments that are done, or is it just --

MR. GONZAGA: No, we -- you can do, you know, statistical -- you can do, you know, statistical one-offs. But our approach is because it is a broad peer group, just to weight --

CHAIRPERSON SLATON: Broad enough.

MR. GONZAGA: Yeah. We weighed it, you know, equally. And the numbers are what they.

CHAIRPERSON SLATON: All right.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah, thank you. I thought I understood this statement, but I keep reading -- rereading it. And you're -- what's local in here, Sacramento?

CHAIRPERSON SLATON: SMUD.

COMMITTEE MEMBER MATHUR: Local public agencies.

COMMITTEE MEMBER JONES: Okay. And so California based agencies are the ones that you're referring to the banks and the insurance companies?

No.

Okay. So California based agencies is this group on page seven. Let me see where. Okay. It's primarily pension funds then.

CHAIRPERSON SLATON: Well, you've got --

COMMITTEE MEMBER JONES: It's a little different. Okay. Okay.

CHAIRPERSON SLATON: County of L.A., and Covered California.

COMMITTEE MEMBER JONES: All right. Okay. I see -- now that I'm looking at the list, I understand.

Okay. Thank you.

CHAIRPERSON SLATON: Okay. Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah. Part of this is a bad trait about myself. I don't have a lot of patience. So I'm just curious, what's the maximum we can raise somebody right now?

CHAIRPERSON SLATON: Well, if it's -- Mr. Hoffner, I think --

COMMITTEE MEMBER HOLLINGER: Because I know we're going through all these gyrations. But I sit next to Mr. Gillihan, and what would be -- there's got to be a -- because, I mean, the disparity when I look at insurance carriers, and I know what a Chief Actuary makes at a carrier versus here. And like I'm just wondering if we're doing all of this and it's really kind of an exercise in futility, because we can only go X, because the optics won't look good, because --

CHAIRPERSON SLATON: Optics are different than authority, so we --

COMMITTEE MEMBER HOLLINGER: Okay. What's the max?

DEPUTY EXECUTIVE OFFICER HOFFNER: Okay. So let me just kind of take a run at that. Doug Hoffner, CalPERS team. So in your policy, you have established existing ranges for all these covered positions. That's solely within the Board's authority under the Government Code 20098. Within that, you've got quartile minimums to max ranges for folks.

COMMITTEE MEMBER HOLLINGER: Right.

DEPUTY EXECUTIVE OFFICER HOFFNER: So they're set salary maxes today.

COMMITTEE MEMBER HOLLINGER: Right.

DEPUTY EXECUTIVE OFFICER HOFFNER: That's predicated on a decision that the Committee and Board made in the past.

You could change those things in the future to modify the existing compensation, and so when say what's the limit? It's purely tied typically to a salary survey and then data that would drive those decisions. But you have the authority to set compensation.

COMMITTEE MEMBER HOLLINGER: But -- okay. So even having this authority to set compensation, could I set a seven figure compensation today?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: If it's within the range.

COMMITTEE MEMBER HOLLINGER: If it's

DEPUTY EXECUTIVE OFFICER HOFFNER: If it's appropriately agendized.

COMMITTEE MEMBER HOLLINGER: If it's appropriate agendized.

CHAIRPERSON SLATON: And if we set a range in public session, in public decision making that goes to that level, we have the authority to do that. Now whether we chose to do it or not, that's all --

COMMITTEE MEMBER HOLLINGER: Right.

CHAIRPERSON SLATON: -- that's another issue.

COMMITTEE MEMBER GILLIHAN: We could go to 10 million a year.

COMMITTEE MEMBER HOLLINGER: We can go to 10 million.

COMMITTEE MEMBER HOLLINGER: Okay. I didn't know if there was a --

CHAIRPERSON SLATON: Note that Mr. Gillihan said we can go to 10 million.

(Laughter.)

COMMITTEE MEMBER HOLLINGER: Right.

COMMITTEE MEMBER GILLIHAN: I'm not saying I would vote for it. I'm just saying.

(Laughter.)

COMMITTEE MEMBER HOLLINGER: Okay. I didn't know that -- well, then why are we so below on -- I mean, and for so long?

CHAIRPERSON SLATON: Well --

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So just over the years we haven't taken the action to do anything differently.

COMMITTEE MEMBER HOLLINGER: What?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Because we set the salary ranges -- the Board set the salary Ranges. Until the Board changes those salary ranges, we can't do anything. And for different reasons, the Board hasn't taken action to change them, even though we've done salary surveys in the past.

COMMITTEE MEMBER HOLLINGER: You know, I'm coming from the private sector, so -- I'm just saying it's made it very challenging to -- so -- to appropriately run the organization. Okay. So got it.

CHAIRPERSON SLATON: All Right. Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: So again, I just want to weigh in a little bit on the comparator group. So in answer -- first of all, to answer Ms. Hollinger's question, I think over the years the Board has been concerned about raising salaries because of the perception of it. I think what the last couple years has really shown is we've -- and we took it up in Finance and Admin earlier today. We've gotten the budget under control. We've taken moves to strengthen the fund. Each of this is a component in strengthening the system I think.

And what we're getting to now is the compensation issue. I just want to talk a little on the comparative side. I think as you may know, one of my partners is chair of the regents, and I'm constantly looking more at UC as a comparator.

Just to put it in a little context, the Chancellor of the University of California at Los Angeles made 428,480 last year. Currently, the Chancellor of UCSF makes $819,545, not including other incentives they get.

On UCLA very quickly, the economic impact that UCLA creates is 12.7 billion for the region, and they pay approximately $1.8 billion in taxes in federal, State, and local level.

CalPERS generated $9.6 billion in California activity last year, including nearly $2.2 billion in Los Angeles, and nearly two billion alone in Sacramento.

So when you start looking at sort of this comparison just to other public sectors. Not picking on

UCLA. Fine school. Yet, the -- or UCSF, for that matter, at 819,000, what our staff does, from the Investment Office down, the Board just has to make the realization we've got to pay higher salaries. And I think Ms. Mathur is correct, when we look at some of these other organizations.

And I know, the 20, the banks and the insurance companies part of that is proprietary. If I recall correctly, at least they fit. It was 150 billion to 300 billion. So at least from a comparative group, it was somewhat similar. We may not -- we can figure out kind of who they are, but without knowing them.

But again, I think the regents last year gave a 20 percent increase in the pay of their chancellors, and that's just the chancellor's office. That's not talking about the presidents. But if even we're just doing a comparison on economic modeling, UCLA generates only 12.7. We're doing almost 10 billion just in California alone, and our salaries are nowhere near that.

So in answer to your question Ms. Hollinger, the reason we're having this meeting and I think we'll do in June is to begin addressing the salary disparities.

CHAIRPERSON SLATON: Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair. I just -- maybe another perspective to this discussion, and that is we should pay the price we need to get the people with the talent we need.

COMMITTEE MEMBER HOLLINGER: Yes.

COMMITTEE MEMBER GILLIHAN: And I would submit that we've got a talented team here, and that the salaries have not been necessarily a problem. But as time moves on, we do need to revisit this. And, you know, with Mr. Eliopoulos's planned departure, I think that, you know, we're going to have to take a hard look a that. I'm not opposed to paying the right salary for the right skill set. But I think we need to have a need before we just decide we're going to raise salaries. I mean, these are public funds. These are the members' retirement funds. And every dollar we spend on salary is a dollar that's not in the PERF generating investment returns. So as a fiduciary, you know, there's a balance there.

And I'm not at all opposed to raising salaries to get the talent we need, but, you know, there's a bit of chicken and egg here. I don't think we need to just outright raise salaries. We can perhaps look at our corridors or our ranges, and where we've benchmarked somebody within that relative to our peer group, but, you know, it should be based on a demonstrated need.

CHAIRPERSON SLATON: You know, if the people don't mind who are scheduled to speak, Mr. Junkin is on the phone. And I think maybe this is an appropriate time to get a read from him, because we're going to face this vacancy, and, you know -- Andrew are you there?

MR. JUNKIN: I am. Can you hear me?

CHAIRPERSON SLATON: All right.

COMMITTEE MEMBER HOLLINGER: Yeah.

CHAIRPERSON SLATON: So what does the market look like?

MR. JUNKIN: Well, it's certainly become a much more lucrative market for investment professionals over the last -- really, I think it's accelerated quite a bit over the last three or four careers. Looking at some information in preparation for this meeting, you can really see that. And one of the data sources that I looked at was focused on university endowment CIOs, which I would suggest for the investment comparator group would be worth considering adding, because a number of the CIO's for the university endowments are former public plan CIOs.

So they are, whether you like it or not, a competitor of yours. And they have peeled off some of the talent here. But there's -- in this particular data source, there's is 107 CIOs. Total pay is listed as of 2014, so it's a little out of date. If you're looking at kind of top third, it's a pretty big number. It's about a million bucks a year three years ago.

So likely to be somewhat higher from there. So I think, you know, the market really has changed a lot in the last few years. Certainly unemployment in the U.S. overall at 3.9 percent has tightened up a lot of things in the job market. But certainly, there's no shortage of opportunities in the investment business.

And to get back to some of the comments earlier about talented individuals, you are going to have to pay up for that. I had one more comment. Let me see if I can scroll back. I've forgotten it. I want to go back and see if I can trigger it again.

CHAIRPERSON SLATON: Do you have the 50 percent number by chance?

MR. JUNKIN: I do. It is total comp would have been $775,000 three years ago.

CHAIRPERSON SLATON: Three years ago. Okay.

MR. JUNKIN: And some of these numbers -- don't get me wrong, some of these numbers are off the charts insane, right? There's a handful of people that make more than $5 million a year.

CHAIRPERSON SLATON: Make more than what, I'm sorry?

MR. JUNKIN: Five million dollars.

CHAIRPERSON SLATON: Five million, yeah. So there's quite a dispersion.

MR. JUNKIN: There is. And so I think, you know, the top third is probably a reasonable group to compare against, given that, you know, they are university endowment. I would suggest that world tends to be a little bit more highly comped than the public fund world. But you are competing there, and, you know, some of the names on the list, you know, Britt Harris was a public fund CIO of -- Lisa Mazzocco. I mean, there's a few on here that have just gotten peeled off. And so I think that that's a risk that you run.

CHAIRPERSON SLATON: Okay. Thank you.

MR. JUNKIN: Okay.

CHAIRPERSON SLATON: Ms. Mathur.

COMMITTEE MEMBER MATHUR: Sorry --

CHAIRPERSON SLATON: Is that okay, Andrew. Did you have another comment?

MR. JUNKIN: No.

COMMITTEE MEMBER MATHUR: I think it was Mr. Gonzaga had a comment, and then --

CHAIRPERSON SLATON: Oh, okay.

COMMITTEE MEMBER MATHUR: -- I'm happy to wait --

CHAIRPERSON SLATON: Go ahead.

COMMITTEE MEMBER MATHUR: -- till he's done.

MR. GONZAGA: Yeah, I was just going to follow up and say that -- so, you know, like Andrew, we work with and study what goes on with respect to the private, you know, foundations, whether it's the university or just, you know, charitable foundations. And I think that working with -- I'm -- I think working with a couple -- just I'll give you some references within the last year, where we worked with one private foundation to the tune of about 12 billion. And another university foundation that managed about a billion in assets.

And in both instances, the CIO, you know, based on their philosophy, was compensated right at a million or in excess of a million, pretty heavily salary based with a decent -- a modest amount, you know, annual incentive based. But it's just more to, you know, indicate what Mr. Junkin was discussing is certainly comparable in our experience as well, so...

COMMITTEE MEMBER MATHUR: Thank you for that. So with that feedback, and I think both the comments by Mr. Junkin and by Mr. Gonzaga are really helpful, I would move that we modify the executive management comparator group to -- to include BCIMC, the UC Office of -- well, I guess I should say the executive management comparator is not the investment management comparator group.

So for the executive management comparator group, I would add sort of the BCIMC. And then for -- but otherwise, affirm the existing group.

For the investment management comparator group, I would actually -- perhaps, we should think about replacing the investment management, advisory firms, banks, and insurance companies with university endowments as a category, and also add BCIMC as a Canadian pension fund that we should -- and the UC office of the CIO, which manages the UC pension system also as another pension fund that we consider in our comparator group.

CHAIRPERSON SLATON: Would you mind splitting the issue, so let's do the executive first for the motion.

COMMITTEE MEMBER MATHUR: That's fine.

CHAIRPERSON SLATON: Do you want to make that motion?

COMMITTEE MEMBER MATHUR: Yeah, so both of them are a motion, so I'm happy to split them if you'd like.

CHAIRPERSON SLATON: Okay. Let's take the --

VICE CHAIRPERSON COSTIGAN: I'll second it.

CHAIRPERSON SLATON: -- executive one first.

And do you -- does staff have down -- does everybody understand the additions on the executive side?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah.

CHAIRPERSON SLATON: And so moved by Mathur, seconded by Costigan.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

Now, the second part.

COMMITTEE MEMBER MATHUR: The second one was for the investment com -- to modify the investment comparator group, to replace the investment management, advisory firms, banks and insurance companies component with University Endowment Offices of the CIO, because obviously it's not just for the CIO position. It's for other investment management positions within the organization -- our organization. So they also employ other investment management folks, so -- and then also to add again BCI and the UC office of the CIO to the comparator group as well.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: Yes. Just a minute.

Ms. Hollinger, first.

COMMITTEE MEMBER HOLLINGER: Oh, I was just going to respond to Mr. Gillihan and just say that I think having this salary where it is, is really inhibited Marcie's ability to attract a head of private equity. Because, you know, people who run -- I mean, we have the largest private equity portfolio on the planet, right behind CCPIB. And I can tell you, you know, the Canadians pay -- they're not at the top of the market, but they're in line. And so I think it inhibits our ability to attract the right talent that we need, especially when we're -- what we're looking to do in the future. I really think I'd want to know that we had the ability to get the top person.

CHAIRPERSON SLATON: Okay. We have -- that was a motion by Ms. Mathur --

COMMITTEE MEMBER HOLLINGER: And I eye seconded it.

CHAIRPERSON SLATON: And you seconded it. Ms. Hollinger seconded it.

MR. GONZAGA: Could I -- just one comment. I know that -- and this is just my suggestion. I do agree adding the endowments and the university funds makes sense. I would still include, I mean at least for a reference point, the industry, and advisory firms or what have you, because -- a couple reasons. One we're just talking about total cash compensation. We're not including the equity that they often get.

COMMITTEE MEMBER MATHUR: Right.

MR. GONZAGA: The other component is that recognizing your competition for talent. This is just one data point, and, you know, it's one of five different peer groups, at this point, if we add the endowments.

So I think at least it gives that secondary reference check, as opposed -- it's not to -- it's not going to go all the way up to the for-profit numbers.

CHAIRPERSON SLATON: Would you consider --

COMMITTEE MEMBER MATHUR: Okay. Well, I'm comfortable with that. I'm comfortable with. I can --

CHAIRPERSON SLATON: So you're making an addition to that as opposed to a replacement?

COMMITTEE MEMBER MATHUR: So I can -- I can -- I can -- yeah, so we'll -- I won't say it's replacing that, but that it's in addition to, that we're adding a category on university endowment CIO offices.

CHAIRPERSON SLATON: Okay. So that's now the motion.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: That's the motion on the floor.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: So just a --

CHAIRPERSON SLATON: Wait a minute I need to -- wait a second, I've got to --

VICE CHAIRPERSON COSTIGAN: It's lit.

CHAIRPERSON SLATON: I've got to cancel some people here.

Press your button.

Oh, you're on. Go ahead.

VICE CHAIRPERSON COSTIGAN: So I just want to make sure we are -- we're talking about university endowments and we're talking about the University of California Investment Office, that we're adding in?

CHAIRPERSON SLATON: Yeah, it's -- restate it.

VICE CHAIRPERSON COSTIGAN: I just want to make sure it's UC.

CHAIRPERSON SLATON: Restate it to make sure.

Have you got your button? I don't see you on here.

Oh, there we go. All right.

COMMITTEE MEMBER MATHUR: Yeah. So what I'm adding in is the UC office of the SIO, the BCIMC, which is the British Columbia Investment Management Corporation, which manages assets on behalf of several pension funds, as well as other university endowment offices of the CIO. So their investment offices.

VICE CHAIRPERSON COSTIGAN: You said the chief investment officer of the regents.

And then I'm just curious, since we're adding a few. Why was like L.A. County Fire employees left out? Why didn't we use some of the -- I mean we have U.S. pension funds, but why didn't we use some of our local government pension peers, L.A., San Diego, Contra Costa.

COMMITTEE MEMBER GILLIHAN: They're going to drag your average down.

VICE CHAIRPERSON COSTIGAN: They're going to drag it down?

COMMITTEE MEMBER MATHUR: A lot of them are fully outsourced externally managed, not internally managed -- don't have an internal managed capabilities.

VICE CHAIRPERSON COSTIGAN: I want to make sure, because typically --

COMMITTEE MEMBER GILLIHAN: I'm all for adding them.

VICE CHAIRPERSON COSTIGAN: -- they do it the other way. Typically, locals drag our salaries up, so -- all right. Thank you.

CHAIRPERSON SLATON: Ms. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: I just want to ask one question. So Andrew I know has provided -- I've seen some data related to endowments. As you make modifications and we want to bring the information back in the near future like June, that we're able to get more up-to-date -- I think he referenced 2014 endowment data. So I don't know if it's through Andrew or others that we'd be able to give you that information, so we can take an appropriate action.

So I'm not like opposed to any of this, but I just want to make sure we can actually collect that information that's more current as well. So I don't know

Andrew if he's got a comment about that or he has the ability to get that data?

CHAIRPERSON SLATON: Andrew?

MR. JUNKIN: This is a report from Charles Skorina, which runs a recruiting firm in the Bay Area, and it's on their -- it's on their website. I presume there is more current data. It's not something that I have at hand --

DEPUTY EXECUTIVE OFFICER HOFFNER: Okay.

MR. JUNKIN: -- but I suspect it's out there. And perhaps Mr. Skorina could provide an updated version.

CHAIRPERSON SLATON: Well, you're going to use your best efforts to get this out.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, so -- I just want to makes sure that's -- so we'll do --

CHAIRPERSON SLATON: We understand --

DEPUTY EXECUTIVE OFFICER HOFFNER: -- what we can to gather the information --

CHAIRPERSON SLATON: We understand it may not all happen.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- and bring that back to you at the appropriate time.

CHAIRPERSON SLATON: We'll try.

Okay. So we haven't -- did we vote on this?

We haven't voted yet. Okay. All right. Motion is on the table.

No further discussion.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

All right. We're on to the target percentile discussion.

MR. GONZAGA: Yeah. And ultimately this is probably you know the grayest issue for you as an organization, you know, in terms of you think about where your current incumbents are positioned. You know, from a CEO standpoint, I mean, historically, I think, you know, total cash compensation, total compensation lagged the 25th percentile.

For other executives, it tended to lie between the 25th and 50th percentile all in. And then for investment management salaries, looked competitive on average, but total cash compensation, you know, lagged because incentive opportunities are just so different, you know, when you look at industry. And so with all of that, again, you know, our recommendation would be to -- like most organizations, the best practice is to target compensation at the 50th percentile. And all that means it's that middle of the market. It's what's deemed fair.

Again, I think there would probably need to be a transition over time to move to that, as well as an assessment of, you know, when are folks appropriately positioned at the 50th percentile. Because again, a 50th percentile philosophy means if you take a good -- a very well qualified performer who's been around for five six years, and has done quite well over those years, that individual tends to be positioned at the 50th percentile.

If they're knew, they tend to be positioned somewhere probably 20 percent below the 50th percentile. And if they've been a great performer for 10, 12 years, maybe they're up towards the maximum.

Now, so all of that being said, that's what we would think is the typical philosophy. There's cost associated with it. There's optical issues associated with it. But I would just recommend, because what we're doing is we're taking a look at a blend of government, tax exempts, for-profit organizations. And we're only taking a look at total cash compensation. You know, our recommendation would be what's fair? Well, we'd say the middle of the market when you take into account all of those various, you know, market segments, and move to it over a couple year period of time, you know, as you see fit, and adopt ranges that reflect that.

So with all of that, I mean, what is the

Committee's perspective in terms of what is that right targeted percentile?

CHAIRPERSON SLATON: Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair. Well, this conversation certainly woke me up. I would ask the question why do we even need percentiles? Why do we need them? If we have a range, top to bottom, that could span a half million dollars or more, I don't know, it could be even deeper than that, and we're trying to get the talent we want, I mean, why -- why would we put a sort of an artificial boundary on ourselves, when we're going to have a range? And this Board has full authority to move anybody within that range based on what it costs to get them here, how they're performing, what it's going to cost to keep them here, what's the point of a percentile?

CHAIRPERSON SLATON: Well, my view of it is that it's in our mind of what we think we're going to need to -- where we're going to need to be.

So the idea is to do this without the numbers, because the question is how are we going to position ourselves in the Marketplace. So we're still at the theoretical level. We're not actually at the range level. But unless we say where do we think we should be compensating people in order to get the proper talent?

And we should be willing to have a general --

it's just like our purpose statement, you know, it's where we think we should be. Where we end up is a different story. Then we get into the practical realities of where people are now. It seems too much. Sacramento is a nice place to live. You know, you've got a lot of considerations that come into play.

But if you're in a competitive marketplace, I think we at least need to determine what -- where generally should we be in these competitive positions? That's the reason.

COMMITTEE MEMBER GILLIHAN: And I guess I would just counter that when we create sort of this artificial marker in the middle of a salary range, we now have to speak to it when we exceed it or when we go below it. But if we're operating within a range, we plug them in wherever they are.

CHAIRPERSON SLATON: How do you set the range though?

COMMITTEE MEMBER GILLIHAN: They're going to do it with the comparator groups. We're going to have a range that's top to bottom. Why would we put ourselves -- if we're saying we're CalPERS. We're the preeminent pension organization in the United States, perhaps in the world, and we want the best talent, why would we say, but we're only going to pay you at the middle of the market?

MR. GONZAGA: So, Mr. Gillihan, I think that what I would point out is that what we're trying to do is establish the range mid-point at the competitive market rate, and just build a range up or down above and below that mid-point, so you can go up 20, 30 percent, above or below that range. Based on. Experience that's typically how salary ranges are set, is where it's driven by what's the market. It could be the 50th. It could be the 75th percentile. We tend to recommend the 50th. And then the range is just built around that, so...

COMMITTEE MEMBER GILLIHAN: I can appreciate it. I guess what I'm saying is why are we -- why are we doing it the same way everybody else does it? And why don't we just take whatever that range is drop, the 20 percent off the top and 20 percent off the bottom and call it a day?

I'm done.

CHAIRPERSON SLATON: I think part of the problem is -- I think part of the problem is in some cases that is -- the dispersion of these is going to be so significant, it's going to be hard to set that range without setting some target to work from. We may decide that even though we want to be at 50th percentile, for this particular job, we're going to have to be at -- you know, the range is going to be 70 to 20. You know, it may not fit exactly, but the question is what's our target?

It's just a target. We're not tied to it. That's my view.

But let's see what other people say.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: So I do agree with Mr. Gillihan just from the standpoint that -- I guess there are two ways to look at it. I understand exactly what he's talking about as it relates to the target. The difference is, I think, we're sort of seeing is I'm more interested in setting a ceiling and letting folks negotiate inside of that, whether we call that a target or not, I mean, the issue is we all seem to agree that we need to change salaries and move it. And I would respectfully disagree, I think, Mr. Slaton, one is it's not the -- the Board has setting authority for salaries. We don't have authority to negotiate what someone is going be paid. That's up to HR and the only exempt that we have, our CEO

The other concern I have, and I was just thinking about this while I see Mr. Jacobs in the way back, while we suddenly start talking about salaries and targets, it's my understanding with the passage of new legislation enacted by the Governor, you can't ask people's salaries.

So, we're in -- so I'm just kind of curious now is if I can't ask Doug how much he used to make, and I now know what the range is, we're all kind of operating blindly a little bit on the negotiating, as opposed to if we're just setting the ceiling, we're now giving you the ability for you to go out and negotiate on it.

Because I'm just trying to reconcile the two is if I don't know what the base -- so we set a target, we're saying to someone, hey, here's the range we're going to pay, now you come in. But I don't know whether you're in that range or not. I've to look at your record, because I can't ask about your past salary now.

Is it better, as to Mr. Gillihan's point, to just say here's the dollar amount, set a ceiling. Are they sort of the -- are targets and ceilings the same thing kind of in this discussion or not?

MR. GONZAGA: I would say, yes, because --

VICE CHAIRPERSON COSTIGAN: I want our HR to agree too.

MR. GONZAGA: Oh, I'm sorry.

VICE CHAIRPERSON COSTIGAN: No, no, I want -- no, no, I want you all -- but I sort of see nodding behind.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Behind me?

VICE CHAIRPERSON COSTIGAN: Yes.

No.

Okay. All right. Go ahead. Sorry. Keep going.

Sorry

(Laughter.)

MR. GONZAGA: Well, not I was just --

(Laughter.)

VICE CHAIRPERSON COSTIGAN: People don't move.

(Laughter.)

MR. GONZAGA: You know, I think -- you know, part of the reason -- part of the reason for constructing a range around typical market practice is because we know that's what other organizations do. And they will develop their ranges around a 50th percentile mid-point. And so therefore, we also know that from a maximum standpoint, they'd set their maximum 20 percent above the 50th percent style.

So it's intended to do a couple things. One, give you the array of what's reasonable out there in the marketplace. And the second piece is give you plenty of flexibility, you know, to recruit/retain the right people. And give you plenty of latitude to reward for performance as well, so...

VICE CHAIRPERSON COSTIGAN: Okay. Maybe our folks

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah, maybe I'll just speak to you a little bit about the opportunity that the Governor gave us with not asking salary. And we've actually had to already think about things a little bit differently. We do post what the salary is.

We do post what the salary is, and we can offer what we think is a fair salary. And they can actually come back and say, well, I actually make more money than that. I'm going to counter that.

VICE CHAIRPERSON COSTIGAN: They can volunteer that.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah. So there is still some flexibility in us doing that. I'm just addressing specifically that legislation, and how we're looking at that.

VICE CHAIRPERSON COSTIGAN: That assumption is they make more than what we're offering, as opposed to the fact we don't know that they made less.

SUPERVISING PENSION ACTUARY CAMPBELL: Right.

VICE CHAIRPERSON COSTIGAN: And you can't ask.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Right.

VICE CHAIRPERSON COSTIGAN: So I can still come back and say I made more, and we -- but that's what I'm just trying to get at is I'd rather give the discretion, and have here is the universe, go forth and find the best people.

I think when we start micromanaging ranges -- and again, this is not -- I've had the evolution over the past few years from standard State civil service where we have classifications and ranges and all that, is I think we have to look at this group of folks slightly different because of what they do and who we actually compete with, and then who we're losing people to.

I mean, the last thing I want -- and I think we've talked a little bit about this in the health area, is you don't want to become the brain train. We do all the training, and you churn and burn, and out they go

And we need to -- I think Mr. Gillihan said this earlier today, and maybe it was in Finance and Admin, it's a -- things are changing. We need to really be focused on the long game, long term here at our organization. That means retaining people. And compensation has been an issue in retention.

We've had turnover. At the end of the day, I agree with Mr. Slaton, Sacramento is a great place to live. It only compensates for so much. And then when you take in again the federal tax policy, some of the other compensation issues, we need do this.

So thank you, Mr. Slaton.

CHAIRPERSON SLATON: Okay. Ms. Mathur.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah, and just -- just another just fine point on that.

CHAIRPERSON SLATON: Sure.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Once they disclose their salary, we can have that conversation. We just can't ask for it up front.

CHAIRPERSON SLATON: Right. Exactly.

Ms. Mathur.

COMMITTEE MEMBER MATHUR: So are we looking to -- the staff recommendation does not include making a motion on this, but are you looking for this range today?

So then I would move that we adopt a range for both the executive management positions, and the investment management positions of between 25 and 75 percent of the comparator group.

Does that seam -- is that -- is that in line?

COMMITTEE MEMBER GILLIHAN: That's what I said.

COMMITTEE MEMBER MATHUR: I know that's what you said.

CHAIRPERSON SLATON: Okay. Would you repeat that one more time?

(Laughter.)

COMMITTEE MEMBER MATHUR: I would set -- I move that we set the range for the executive management positions to the -- between 25 percent and 75th percentile of the executive management comparator group, and for the investment positions between 25 percent and 75 percent of the investment management comparator group.

COMMITTEE MEMBER GILLIHAN: Second.

CHAIRPERSON SLATON: Okay. Moved by Mathur, seconded by Gillihan. So you reverse them the way you described them. There's nothing in that message, right? It's 25 to 75, right, for both of them

COMMITTEE MEMBER MATHUR: I thought I did that.

CHAIRPERSON SLATON: You did. You just reversed the orders of them. So that's okay.

COMMITTEE MEMBER MATHUR: Yeah, 25 to 75.

CHAIRPERSON SLATON: Twenty-five to 75.

MR. GONZAGA: But a 50th percentile target. I mean, because that's what you're basing your, you know, typical, competent executive or leader. You know, they tend to be positioned right at that 50th percentile. So -- I know you want a lot of flexibility, but just it's always good to have that kind of standard bearer typical employee, typical executive, so...

CHAIRPERSON SLATON: Can I -- let me just --

COMMITTEE MEMBER MATHUR: Can I just --

CHAIRPERSON SLATON: Ms. Mathur.

COMMITTEE MEMBER MATHUR: I guess I would just say that depending on the position, I think the CEO would set what the target is for that -- for an individual position. So I don't think the Board should set what that -- what that target should be at our level.

You -- I can see you disagree with me, Eric.

MR. GONZAGA: No, no, no. I don't disagree.

COMMITTEE MEMBER MATHUR: Okay.

MR. GONZAGA: I mean, I think that that's a great delegation. Consistency can be a good thing, but, you know, you think about -- but it would be important to know at the Board -- it's -- certainly, the CEO can have flexibility there, but in terms of your overall preference, you know, building a range around the 25th to 75th percentile is very easy to do.

But there's also, when you think about designing incentive plan goals and expected payouts et cetera, it's always good to know what that expected target payout is in terms of if we're going to deliver total cash at the 50th percentile, you know, that should also be reflective, okay, these are expected goals that we need to achieve to get to the 50th percentile total cash.

COMMITTEE MEMBER MATHUR: Yeah, I guess I would say again that that is I -- that that is under the CEO's purview, and perhaps not the Board's purview. Are you -- in experience, does the Board set those targets for all of -- for all of the executives?

MR. GONZAGA: Just as a general matter. And to the extent that you have a philosophy, a target for the

CEO or a couple of the other top positions, it just tends to carry all the way down through the organization, so...

COMMITTEE MEMBER MATHUR: Well, I can see how that might be something we would want to set for the CIO. But let's move forward with these two things and we can maybe talk about a target, if we want to, or even at a later date perhaps.

CHAIRPERSON SLATON: I wonder if we want to defer this to June when we have more information. I'm just -- I know it's an action item right now.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Well, and just as --

CHAIRPERSON SLATON: How do -- how do people feel?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Just as a reminder, if we're looking at going to total salary to be effective in July, we do have to make some decisions today and definitely solidify in June.

CHAIRPERSON SLATON: Gotcha.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Just as a reminder.

CHAIRPERSON SLATON: Just the calendar is not our friend in this case.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah.

CHAIRPERSON SLATON: Okay. So what action do we have to take today?

COMMITTEE MEMBER MATHUR: We have a motion on the floor.

CHAIRPERSON SLATON: I know. I'm just trying to understand from staff. I understand we have a motion on the floor. You need direction on?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah. So I would just go back to right now we're thinking about the CEO plan and going to total salary. So you would want to be prepared to develop that plan. It's -- she now or he will no longer have a plan, as far as incentive plan. So if you're looking to set salary, which I believe we are looking to set salary in June, you would have to already know what that target, so that we can come back and provide you what the range is.

And that median that Mr. Gonzaga spoke about, that's the industry. It's just the way that they do that.

COMMITTEE MEMBER MATHUR: Well, you could always provide us with the median, even if we haven't set it as a specific target, right?

CHAIRPERSON SLATON: That's correct.

MR. GONZAGA: That's right. That's right.

And so, I mean, I think the takeaway is that you want us to bring forth, you know, typical range based on market practices. And, you know, certainly a lot of that is going to be centered around the 50th percentile, but we'll present the presentation relative to the 25th and 75th. Those are the parameters for min and maximum, and we'll go forward from there.

CHAIRPERSON SLATON: Okay. Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah, I was agreeing a bit with Mr. Costigan that kind of like us setting -- I'm very good, and obviously I support Ms. Mathur's motions. But one of the things in these positions is, you know, we're the largest asset owner in the largest capital market in the country, so I just want to make sure that the ceiling is there, because the people that work here are ripe to be picked by our competitors who can pay significantly more. So I agree with having a ceiling.

CHAIRPERSON SLATON: Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Well, just looking forward to a vote on this item.

(Laughter.)

COMMITTEE MEMBER HOLLINGER: I agree.

COMMITTEE MEMBER MATHUR: Yeah.

CHAIRPERSON SLATON: Mr. Miller.

BOARD MEMBER MILLER: Yeah. I like the idea that Mr. Gillihan put out there about a range that kind of has a ceiling and gives you discretion.

The thing that I'm a little bit cautious about is percentile versus percentages. So, for example, if you were going to go 45 to 55 percentile, the mid-point 50 is the same as 25th to 75th, but the dispersion can be dramatically different. One or two blips on percentile can be huge amounts of variation.

And so something more like the 50th percentile plus 20 percent of that might be a more sensible way to set a range, absent having some idea about the distribution of those comparator salaries, for any given position, because a 25th percentile could be up in the $10 million range for all I know.

MR. GONZAGA: No, there is -- there can be, depending on the data set, the 75th and 25th percentile can be quite volatile, just because you're talking about a smaller sample size at that point, but, you, know understood. And we'll come back with the recommendations accordingly.

CHAIRPERSON SLATON: Okay. Well, we're going to see the data.

COMMITTEE MEMBER MATHUR: Right.

CHAIRPERSON SLATON: So we're going to see what it does.

All right. So let's call the question on the motion. All those in favor of the motion, signify by saying aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

Okay. Let's see, I think -- does that complete our work or you've got more?

MR. GONZAGA: That's it.

CHAIRPERSON SLATON: That's our decisions. Okay.

Summary of Committee direction?

Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So I took some notes here. I think the biggest one was not losing site of the -- you had this funded status conversation. So how do we take that back and sort of incorporate it, and then really providing the data. We talked about the endowments and some other areas to make sure we have the appropriate information to bring back for the next meeting. I think that was effectively it. The rest were handled through the motions that were adopted by the Committee. So I think that covers it.

CHAIRPERSON SLATON: Okay. I have no requests for public comment.

Anybody in the audience want to make a public comment?

If not --

MR. GONZAGA: Can I make one request?

CHAIRPERSON SLATON: Yes, sir.

MR. GONZAGA: You know, and I just want to be clear on this as well, because the fixed salary versus, you know, salary plus variable.

CHAIRPERSON SLATON: Oh, yes.

MR. GONZAGA: And so when we talk about coming back with options, you know, do we come back with salary only options or salary plus the variable? I mean, that's something that -- I know we've got to address in June, so...

CHAIRPERSON SLATON: Okay. I would lean toward the salary plus variable.

COMMITTEE MEMBER MATHUR: Both.

CHAIRPERSON SLATON: Well, you can bring both and we can look cook at them.

MR. GONZAGA: Okay.

CHAIRPERSON SLATON: Is that okay?

MR. GONZAGA: I just wanted to verify that.

CHAIRPERSON SLATON: That's the direction of the Chair.

MR. GONZAGA: Thank you.

CHAIRPERSON SLATON: All right. Meeting adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 5:15 p.m.)

C E R T I F I C A T E O F R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Performance, Compensation & Talent Management Committee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of May, 2018.

James F. Peters

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