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, JUNE 19, 2018

11:00 A.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. Rob Feckner, Vice President

Mr. David Miller

Ms. Betty Yee, represented by Mr. Alan Lofaso

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. Annie Manoff, Committee Secretary

A P P E A R A N C E S C O N T I N U E D

ALSO PRESENT:

Mr. Eric Gonzaga, Grant Thornton, LLP

Mr. J.J. Jelincic

Mr. Andrew Junkin, Wilshire Associates

I N D E X

P R O C E E D I N G S

CHAIRPERSON SLATON: Good morning. I'll call to order the Performance, Compensation & Talent Management Committee.

And first order of business is roll call.

COMMITTEE SECRETARY MANOFF: Bill Slaton?

CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY MANOFF: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY MANOFF: Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: Here.

COMMITTEE SECRETARY MANOFF: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY MANOFF: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY MANOFF: Priya Mathur?

COMMITTEE MEMBER MATHUR: Here.

COMMITTEE SECRETARY MANOFF: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

CHAIRPERSON SLATON: Okay. Thank you very much. It's good to have everybody in attendance.

Now I'll move to Approval of the Timed Agenda. And this is again a new process that we're doing. It shows a total of 2 hours and 40 minutes. I plan to beat that by a lot --

(Laughter.)

CHAIRPERSON SLATON: -- if we can. But it's a good process to allow us to do a little bit of time management.

So with that, I'll look for a motion.

COMMITTEE MEMBER HOLLINGER: Motion to approve.

CHAIRPERSON SLATON: Moved by Hollinger.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON SLATON: Seconded by Mathur.

All those in favor say aye.

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion cases carries.

CHAIRPERSON SLATON: All right. Mr. Hoffner, the Executive Report.

DEPUTY EXECUTIVE OFFICER HOFFNER: Good morning, Mr. Chair and members of the Committee. Doug Hoffner, CalPERS team member.

Before the Committee today are two items. The first is an action item, Agenda Item 6, to address some immediate needs under covered positions by the Board's compensation policy for executive investment management positions.

As you know, we have one position that is vacant as the -- the CFO; and the other, Mr. Eliopoulos has announced he's, you know, leaving the organization. So we thought it was appropriate timing to bring these items to you while we'll be doing active recruitments to fill both positions in the coming months.

Second item is review of the incentive metrics. And this would take effect if there's any changes to these items for the '18-'19 fiscal year. That's Agenda Item 7.

And then I'd like to just momentarily discuss any questions that come up. But we've got a few items that we talked about at the last meeting where we would like to come back at a future meeting to be determined by this committee to look at other covered positions. But I think the immediate need right new is the ones that are vacant and/or to be vacant. And we would sort of defer that to a time appropriate for this committee's consideration at the moment.

With that, I will turn this over to Tina Campbell and address any questions you have, and we'd offer these two agenda items.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good morning, Mr. Chair and members of the Committee. Tina Campbell, CalPERS team member.

CHAIRPERSON SLATON: Wait a minute. I think we do have the action consent items. Correct?

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, correct.

Action --

CHAIRPERSON SLATON:

VICE PRESIDENT COSTIGAN: I'll move that.

COMMITTEE MEMBER JONES: Second

CHAIRPERSON SLATON: All right. Moved by Costigan, second by Jones.

All in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

Okay. I don't have any requests to pull the information consent items. So now we'll move to Item Number 6.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good morning, Mr. Chair and members of the Committee. Tina Campbell, CalPERS team member.

Agenda Item 6 is an action item. Eric Gonzaga of Grant Thornton, the Board's primary executive compensation consultant, is here today to present details on this item, and I'll turn it over to him momentarily.

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(Thereupon an overhead presentation was Presented as follows.)

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Given the pending departure of the Chief Investment officer and the recent vacancy of the chief financial position -- Financial Officer position, it's important that the Committee review current salary ranges and incentive opportunities to determine if adjustments should be made to support successful recruitment efforts.

Mr. Gonzaga will review comparator data and related salary and incentive options. Comparator data pertains to the comparator group adopted by the Committee in 2015, and validated by the Committee last month.

If adjustments are determined necessary for the CIO, and/or CFO position, the Committee should identify the appropriate base salary range and/or incentive opportunity for each one.

We would also like the Committee to make a decision today regarding the incentive plan design for the Chief Executive Officer position. Over the last few months, team members have worked with Mr. Gonzaga to prepare various compensation and incentive approaches for the CEO position for the Committee's review and selection. The intent is to differentiate the CEO's plan from plans for other covered positions in order to provide flexibility for the CEO to fully participate in compensation strategy discussions with the Board for those other covered positions.

Today, Mr. Gonzaga will review options previously presented and provide additional context so the Committee can decide on their preferred option.

Both options maintain a compensation package for the CEO position where a significant portion of pay remains at risk, which is in accordance with the purpose of the Board's compensation policy for executive and investment management positions.

Today's decisions for the CIO, CFO, and CEO positions will be effective July 1st, 2018. This timing puts changes in place for the CIO and CFO recruitments as well as the CEO to begin engaging in subsequent compensation strategy discussions for other covered executive and investment management positions.

Over the course of the next several Committee meetings we will bring back the remaining covered executive and investment management positions so related adjustments can be put in place by Fiscal Year 2019-20.

Today's decisions as well as those in the coming months will aid CalPERS in offering competitive compensation packages which will enable us to recruit and retain highly qualified individuals for all covered positions.

Now I'll turn it over to Mr. Gonzaga, who will lead the discussion on the CIO and CIO salary ranges and the CEO incentive plan design.

CHAIRPERSON SLATON: Just before you start - and welcome again - we also have Andrew Junkin with Wilshire here to also make -- base some comments at the appropriate time on kind of what the marketplace is looking like from his perspective as well, especially for the CIO position.

All right. With that, you're on.

MR. GONZAGA: Great. And before I get going, I just want to introduce my colleague here, Eric Mishka, who assists me with all the analysis; and he may have some commentary to add in along the way as well.

And obviously, you know, what we're taking a look at today is, you know, the competitive peer group data for -- in obviously two positions for which you're going to be recruiting for, the CIO and the CFO.

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MR. GONZAGA: And, you know, as we go through this, you know, the primary issue is what's the appropriate salary range. And we have detailed analysis for, you know, both positions that we'll walk it through, in addition to some alternatives in terms of salary range positioning, in addition to just some quick discussion around what we talked about before relative to the CEO's incentive plan design.

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MR. GONZAGA: Now, just in terms of, you know, terminology, because I know that, you know, this is something easi -- that folks can get tripped up on easily, I just want to set the ground rules in terms of when we're -- definitionally, market positioning is -- essentially what we're talking about there is what it tends to be the midpoint of the market.

And spoken within the context of percentiles, which is okay, relative to specific peer group where are we positioned? Are we at the 25th percentile, which is the point at which 75 percent pay more; the 50th percentile, half pay more, half pay less; or the 75th percentile, a quarter pay more, 75 percent pay less?

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MR. GONZAGA: The next issue, just to discuss quick, would be, okay, what do these numbers mean? Because when you think about total compensation positioning, there's a lot different ways to look at it. In this instance probably the most relevant numbers outside of salary would be total cash - and total cash is salary plus annual incentive; total direct compensation, which we won't spend as much time talking about but that is something that many of the industry peers offer or all of them do, which is a combination of salary, plus annual incentive, plus long-term incentive. The midpoint, we're talking about the centrist, the middle of your targeted market positioning; and median is the same as the 50th percentile. We'll reference that quite a bit. Okay?

Any questions on the terms?

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MR. GONZAGA: Okay. Now, you know, one of the things just to point out, when we design, you know, the typical executive compensation plan, what tends to happen is that when you're setting salary ranges, you will have a midpoint - and that could be targeted at the 75th or 50th or 25th percentile of the marketplace - a range is established around that. Now, the typical range -- and it goes 20 percent above the midpoint, 20 percent less. There's no absolute rule on that but it allows plenty of positioning around that midpoint to insert folks and reward relative to performance, experience, et cetera.

So even though you may have a targeted market percentile, there tends to be a range that provides a lot of flexibility based on, you know, the incumbent or the individual that you're trying to recruit. Okay.

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MR. GONZAGA: So relative to the CIO positioning, we -- what we've done here is taken a look at, okay, what is current midpoint of, you know, the salary at CalPERS for the CIO position, the minimum and the maximum of the range, and compared those salaries on the left-hand side to the 25th median or 50th percentile and the 75th percentile.

What we've also done is compared the salary plus the maximum annual incentive at CalPERS to market total cash at the 25th, 50th and 75th percentile.

So on the left-hand side, just taking into account your existing range and the current salary positioning; on the right-hand side it's the total cash positioning based on existing salary plus target and maximum annual incentive at CalPERS relative to market total cash at the 25th, 50th, and 75th percentile.

And what you can see is relative to the peer group, the existing range at -- so let's just take that midpoint, the range midpoint at $510,000 is comparable to what you find in the peer group median at $495,000. The range maximum is competitive to the 75th percentile. And that's all evident on the left-hand side.

Now, when you move your way over to the right-hand side, what you find is that because annual incentives are much lower than what you find in the peer group, taking a look at market total cash, CalPERS -- you know, maximum total cash with median salary offers salary right at $893,000. Median market total cash is at $1.5 million.

You take a look at your maximum total cash, that is $1,071,000. If you take a look at that relative to either median or 75th percentile market total cash, it's obviously a significant lag, and it's actually closer to the 25th percentile at market total cash from a maximum standpoint.

So those are the numbers relative to, you know, positions in the specific peer group.

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MR. GONZAGA: Now, there's probably some questions along the way there. What I do want to do is just point out and move to page 7, and just discuss some of the more specifics out there just so you can see, you know, how this data really was collected. And again, we're showing a $1.5 million median total cash level. And, you know, what makes that up? Well, you can see, you know, from a maximum total cash standpoint what you have presented on page 7 is you take a look at the pay practices at CalSTRS from a maximum standpoint, UC Regents, one of the primary Canadian pension funds, and just the comparator group in general, and there you can see that, you know, relative to CalSTRS there's a lag from a maximum total cash standpoint because maximum annual incentive opportunity is different. The comparator group obviously just taking a look at general industry, you know. And that drives up the numbers quite a bit because incentives are so much higher.

UC Regents, the maximum annual incentive opportunity is quite a bit higher. So that shows maximum total cash at UC Regents at 1.7 million.

And again just to give you a flavor of what a comparably sized, actually smaller Canadian pension fund - is at 136 billion in assets - their maximum total cash is at $2.5 million.

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MR. GONZAGA: And then, you know, these numbers present themselves again when we take a look at the endowments. That's something that was requested in prior commentary.

What about the larger endowments around the country? Which you can take a look at page 8. Obviously, they present much smaller asset base than, you know, CalPERS. And in that instance even if you take a look at the largest endowments, CalPERS total cash compensation tends to be below the median.

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MR. GONZAGA: So with all of that, I mean why don't we just -- that's a lot of numbers to throw out there. I think the point is that your million maximum total cash is at the 25th percentile for the peer group. Salaries are competitive, but the lower annual incentives and the lower leverage -- significantly lower leverage than what you find in the composite peer group presents market total cash at the approximate 25th percentile.

And so when you think about recruiting, obviously there's no requirement that you pay right at the range maximum. But you're range maximum tends to be below market. So...

CHAIRPERSON SLATON: So I just wanted to interject. I forget to make sure to get on the record the other Board members that are here. Alan Lofaso for Controller Yee, David Miller, Rob Feckner, Theresa Taylor, and Margaret Brown. So let the record reflect that.

So do you want to go through -- I don't have any questions yet. So do we want to go through this -- the alternative spreads, because --

MR. GONZAGA: Absolutely.

CHAIRPERSON SLATON: -- right now we don't have questions yet from -- from -- oh, wait a minute. We do.

Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah. I also think it's important in emphasizing when we're at the lower percentage point that we are the largest asset owner in the largest capital market. So the magnitude of the job is -- is significantly more complicated, more to administer and oversee. So it's not just -- you know, it's not just a pay issue; it's also scale.

MR. GONZAGA: Yeah. And I'll emphasize that as well. I mean -- and that is part of -- you take a look at some of these endowments up here just to emphasize. You know, there's no doubt, CalPERS is one of the biggest players in the capital markets. And it's, you know, 350 billion in assets. The impact it has on economics in general, it can be quite massive; good or bad, right?

And, you know, so all of that being said, you know, we'll go through the ranges. Our recommendation is -- we don't expect you to pay competitively to general industry on a one-on-one basis. But taking a look at the total cash, there is a significant delta when we're talking about one of the largest organizations in the world.

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MR. GONZAGA: So as we go through -- you know, so there are potential spreads in part -- and we identify some alternatives. One is just with the traditional 50 percent spread where you build it. You pick the market percentile, and there's a range that's 20 percent above, 20 percent below whatever market percentile you target. And that's presented on page 9.

Page 10, it's just a little bit broader spread to provide you more flexibility.

You know, going up from the bottom, the 25th percentile range all the way up to the 75th percentile range, if you chose the specific midpoint at the 25th, 50th, or 75th percentile, that's what those ranges provide in the second column resulting salary range.

And so again, if you take a look at the 25th percentile range, that midpoint at $475,000, that's the 25th percentile of the market.

The 50th percentile of the market is right at $495,000. That's where the midpoint's set there.

And then 75th percentile, that is at $566,000; and the midpoint in it is set accordingly at that point up or down by 20 percent.

Now, what you can see is all the way over, you know, in terms of potential total cash, with your existing maximum 75 percent annual incentive opportunity, that potential total cash with that respective midpoint is demonstrated at from a maximum standpoint at -- anywhere from $987,000 up to $1.188 million. And you can see how that would look relative to the market total cash compensation.

And so if you were to adopt any of those ranges, even adopting a 75th percentile salary range, the maximum total cash compensation with your existing salary range would be at 1.188 million. And that's above the 25th percentile total cash. It's below the 50th percentile total cash of 948 to 1.5 million.

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MR. GONZAGA: So in our primary -- and, you know, if we go to salary range at page 10, similar concept. It just broadens up the range a little bit. If you have a broader range obviously and you adopt a 75th percentile midpoint, you can pay up to 1.238 million with 75 percent maximum annual incentive.

And so I think the other -- the thing that we need to point out here is that certainly you should have a midpoint positioned, you know, tends to be positioned anywhere from that median to 75th percentile. But there may be some other things to consider in terms of getting up to median total cash, which is again 1.509 million, you know, because of the lower annual incentive for the CIO in a position specifically. Current annual incentive -- maximum incentives of 75 percent with 50th or 75th percentile are not sufficient to get you up to 50th percentile total cash in the peer group. So...

But that's what -- you know, that's what we're demonstrating there. And, you know, I'm sure there probably are some questions along the way here. So...

CHAIRPERSON SLATON: Okay. I'm going call on Mr. Costigan. And then I'd like Mr. Junkin to weigh in on this from his perspective in the market after Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: All right. Thank you, Mr. Chair.

So excellent report. Just some observations sort of to level set.

When we look at our peer groups, whether it's CalSTRS, UC, you know, and then you start rolling in OMERS and others, I mean, I think it's as Mr. Monk said -- and I don't know if you heard Dr. Monk on Monday. One of the arguments he was making is the easiest -- or where billionaires are mostly minted today are the area of private equity, not in the founding of companies or in sports. It's really in the management of money. And we have to be competitive in a global marketplace. I mean, we sit here - as we saw in Investment Committee yesterday - and we talk about being a leader in ESG, focusing on board diversity. We talked about the California Report, the California Initiative. And I know on one hand when folks look at these numbers, they see them as considerable. They look at them in the context of a state employee. And I will say, when you actually look at it -- and I know we asked you on the peer group. The peer grouping studies are fine. But we're not even looking at some of our outliers. And again, this was --

you did exactly what was asked. But when we look at -- and it's hard to do an apples-to-apples comparison with Ontario and OMERS and others. But you look at what their CIO and their chief executives -- and I think the New Zealand fund, as I was explaining to someone from New Zealand the other day, you're the size of an asset class at CalPERS, yet their CEO makes considerably -- significantly more than what our folks make.

And so, I think as we look at sending the message, and both to our current employees and the quality of talent we want to attract for the future, as Dr. Monk and Mr. Eliopoulos were talking about, I think there's a great start. I would certainly hope as the rest of the Committee would look at the ranges and the spread that we're talking about, sometimes it's hard to compare us to UC - and I'm not picking on UC. But as I've told you, my history with them -- and in our last Board meeting, these salaries are still lower than what some of the presidents of the hospitals make. It's not even with -- our CEO pay would be comparable what one of the chancellors makes. And not to say the University of California's not an amazing system. They're not a global investor.

And so in the context, Mr. Chair, I think this is a great discussion, great lead, I certainly hope as we go forward, the 75th percentile is a discussion point, it's not an ending point for these discussions. But I would like to know more down the road potentially at a future meeting sort of where OMERS is. I understand there's where the UK fund is, where New Zealand, and again I believe yesterday they named their new CEO. So we could look at their pay compensation. And essentially just -- Mr. Junkin, you know some of this -- but talk about that at a future Board meeting.

So thank you.

CHAIRPERSON SLATON: All right. Before Mr. Junkin weighs in, I'd like to make sure to get on the record that this discussion and anything we approve today does not apply to our current CIO, Mr. Eliopoulos. So I think that just -- we want to make sure that's on the record. But this is for the next position, not for the current holder of the office.

All right. Andrew.

MR. JUNKIN: Good morning. So I -- after my comments last month, spent some time sort of gathering additional data looking over the Grant Thornton information. And I have a few comments, and I'm not sure that they're in any particular sensible order. So I'm just going to kind of go through them.

This job is a really, really hard job. And I think people underestimate it. And I think people mischaracterize what being the CIO for CalPERS means. So having worked with you all for 13 years, I've worked with four different CIOs. I caught the tail end of Mark Anson and then the three that followed.

You know, it's important to get the right person. And if someone comes in and thinks they're going to be the next Peter Lynch or the next Warren Buffett, or even the next David Swensen, this is not the right job.

And what you all don't want to have happen is what just happened in Connecticut where a new state CIO was appointed and made it 10 days and resigned.

That's not going to be a good thing for CalPERS.

So just as -- as the process moves forward, I just wanted to set that out that -- and I know that you know it, right? There are 13 very strong board members here who all have well formed opinions that they can support, and it's -- this is not a CIO job where someone's going to come in and lead you all. It really needs to be sort of collaborative.

Right now, this is probably pretty bad timing in terms of looking for a CIO in the market place, because three of the top five public fund jobs are open right now. New York City is open, New York State is open, CalPERS is open.

Competition is going to be fierce. You've got two East Coast jobs, one West Coast job. We've seen people talk about - and maybe even Grant Thornton has used this phrase - the green, the gray, and the ground it is you're trying to grow a public fund staff.

You don't want a green CIO. So we can take that one off the table.

Grounded. You know, is there somebody that's sort of locked into Sacramento already or close to Sacramento? Maybe, but I suspect you'd probably already know them. They'd probably already be on your radar. They might already be on your staff.

So that may leave gray, which would be someone that, to use Mr. Costigan's example, maybe they've been in the private equity business. Maybe they've already sort of established what they need to do financially and they're looking for a way to give back.

But they still are going to look at these comp ranges, and it's not going to be fully philanthropic to take this job.

So, you know, not to nitpick on Grant Thornton. I think this is a great page here. The footnote is important: 3 percent adjustment since 2018. I would say that's massively underestimating what's gone on in the investment business since then.

We have just kind of mid-level people that have been out of school five years, maybe have MBAs, and we just kind of had -- recently had a rash where I think based on the unemployment level and the general economy and how things are going in the financial services world, we're losing people to 40 percent increases in comp. And they've been, you know, we think, well paid for what they've done. People just have decided they're going to pick them off. I'm not saying you need to increase the CIO position by 40 percent; but just to give you some background to why I think that 3 percent increase may be a little bit on the conservative side.

One other point. Some of the information in looking at what drives performance for CIOs, there's a Mercer study out. It's again focused on foundations and endowments, but again I think you're competing there, the comp ranges, the comp structure. They're probably all sort of converging. A hundred percent of endowment and foundation CIOs in that particular study, which was like 80 organizations, had incentive compensation. So I know there's been some discussion about should there be incentive compensation, should there not be? I think generally in the market it is expected.

And what drives compensation? Is it performance or is it the size of the organization? It's the size of the organization.

So as the largest public pension fund in the U.S., that probably indicates you're going to need to be near the top end of the range to get the top talent. It's not so much driven by performance.

So I think I covered everything, hopefully in a reasonably sensible way. And I'm happy to take questions. I'm not going to try to pin a particular number on the position. I think they're much more equipped to do that than I am. But I think to Mr. Costigan's point, that 75th percentile range, if you believe as I do, that 3 percent number is pretty conservative. I think that's kind of where you need to be thinking.

CHAIRPERSON SLATON: Okay. Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yeah. Do we know -- Andrew, you mentioned New York State, New York City. Do we know what they're paying?

MR. JUNKIN: New York City massively underpays people. I think the outgoing CIO -- there was an article a couple of years ago that talked about how he fought to increase comp throughout the organization.

COMMITTEE MEMBER HOLLINGER: Uh-huh.

MR. JUNKIN: He had left -- he'd retired from a large asset management firm, and I think his comp was kind of 250, 300 after the --

COMMITTEE MEMBER HOLLINGER: Oh, okay.

MR. JUNKIN: So they're going to have some challenges in my view. That CIO job may be one of the few that is harder than this one because they have five different boards that all report into one bureau of asset management. So it's -- it's maybe not five unique portfolios, but it's not one either.

COMMITTEE MEMBER HOLLINGER: So I agree with you that we need to be on the top of the pay scale just because of the size of our asset class and the complexity here, and at least be competitive. Like when you look at the UC Regents, as Mr. Costigan says, and the size of the pool here is much larger. So...

And even to attract people from the private sector to come here. So I agree.

Thank you.

CHAIRPERSON SLATON: So, I've got a question. It's for Eric, but I think, Andrew, you may be able to weigh in on this too.

So there's two issues as we go into the recruitment process, and obviously the kind of absolute where the numbers would fall. But we also have the issue or how much breadth should be in those numbers.

And, Eric, you've served up to us kind of where we are today, and then options for broader ranges both in the base side as well as in the variable compensation side of this equation.

So how important is it to have a broader range going into this process rather than a narrower range?

MR. GONZAGA: Oh, I think you need as much flexibility, you know, as you possibly are allowed to have, which would say to me that the broader the range, the better.

Now, I will say that, you know, my primary thought here is that I do believe that this job, you know, just doing what we do for a living, you know, picking apart job content, et cetera, this is a very, very difficult job; and managing a lot of assets, managing most of it internally, and dealing with performance expectations. What I would say is that I don't know how in good faith, if you want to make sure that you have access to -- because you want flexibility in terms of what type of talent you can attract -- that you would want at least the flexibility to pay at or a little bit above the 75th percentile, you know; certainly not at -- I mean, you take a look at where the position is at right now, and there's a lot of different reasons for it, but it's targeted where the maximum total compensation is just a little bit above the 25th percentile for jobs that are very much like -- or very much talent pools for, you know, comparable positions.

So, again, I would never put a stake in the ground, but I would say that from a targeting standpoint you certainly need to be, you know, somewhere in the neighborhood of the 50th to somewhere a little bit above the 75th percentile on occasion.

CHAIRPERSON SLATON: Okay. We do have a speaker, Mr. Jelincic.

Mr. Jelincic, was it just on this particular item or this and the CFO?

MR. JELINCIC: It includes both.

CHAIRPERSON SLATON: Includes both.

MR. JELINCIC: I can take it now if you want.

CHAIRPERSON SLATON: Yeah, why don't you come now. And you've asked me to request for five minutes. So we will grant that request. And -- because I think that from a procedure standpoint, we need to kind of wrestle this one to the ground and then go to the CFO position is the way I'd plan on doing it. So we're happy to hear your comments now for both.

MR. JELINCIC: Hi. I'm J.J. Jelincic. I'm speaking for myself.

This agenda item has a number of embedded questions. One of them is the peer group. And, you know, so the question is, is this the right peer group? And, quite frankly, I don't know. It's reasonable. It's clearly -- it's clearly not wrong. But is it really the right one?

You know, Rich raised a couple of issues -- or a couple of organizations that aren't included. Should they be? But as I said, it's not -- it's clearly not wrong. It may not be the right one.

On the issue of compensation, one of the things you need to grapple with is what do you want? When the Board hired Joe Dear, it made a positive decision that at that point it was more interested in management skills than investment skills.

I got censored when I expressed my opinion on when the Board hired Ted Eliopoulos, so I won't repeat my comments. But I haven't seen anything that's changed my opinion.

If you want management skills, pay for management skills, not investment skills. If you want investment skills, recognize that that's what you need to pay for.

I am and have argued that I want my Chief Investment Officer - he emphasized "Investment" for the benefit of the transcript - to be an investment person. If that is not what you want, then you quite frankly surveyed the wrong group. You should be surveying management groups within that peer organization rather than investment.

The rest of these really apply to across the whole board. And, that is, pay for the job you want. If you want top level skills, you need to pay for it. You do not need to pay the full freight, because, you know, you offer certain things that are not generally available. You offer the ability to provide public service, which people actually value. You offer a defined benefit plan, although quite frankly with PEPRA it's not as good as it used to be for new hires, but it still is an attractive plan.

You get to sleep in your own bed most nights, which in the investment business is a luxury.

And you don't have to raise money, which is something that a lot of investment people just flat out don't like.

So you don't have to pay the full freight, but you can't be at the bottom quartile. If you want bottom quartile skills, then you can pay less. But you really need to think about what you want.

On incentives, incentives should not be paid for doing your job. Your pay check and not getting fired is what you get paid for doing your job -- or demoted. The current practice of paying bonuses for almost doing your job, quite frankly, is nuts. Bonuses should be paid for going beyond, for truly superior performance. And it's also important to think about what it is you're incentivizing. Be careful; you will get what you provide incentives for. Is that really what you want? If you get what you have created the incentives for, would you look at yourself and say we were successful? That's what you need to think about.

And you have the power and the authority to do this. I encourage you to use that authority, protect the interests of the fund.

And if I may, just a brief comment on PE from yesterday. There's a lot of dry powder out there in the general -- in the GP world, including your dry powder with the people you have funded. Part of the reason is their -- is GPs can't find good investment opportunities in this market. If you want more PE, you can get it by paying up, but I certainly wouldn't recommend it, and it would tend to drive down lower returns.

So I thank you.

CHAIRPERSON SLATON: Thank you, Mr. Jelincic.

Ms. Costigan.

VICE CHAIRPERSON COSTIGAN: Any questions?

CHAIRPERSON SLATON: I don't see any other questions right now.

VICE CHAIRPERSON COSTIGAN: Sorry, Mr. Chair, since I got -- I want to thank Grant Thornton for the excellent presentation and also to our HR staff and then Mr. Hoffner for their work.

With that, I would like to make the following motion. And if the Board members would look at; it's going to be on slide 9.

CHAIRPERSON SLATON: 10.

VICE CHAIRPERSON COSTIGAN: It's 10. I'm sorry. Slide 10. And that we would adopt, which is the column, the 75th max, which is a salary range of 424,500 to $707,500, with a potential total compensation of the second column of up to a 150 percent incentive. So we would have the max salary, the salary ranges listed in that 75th percentile, with up to 150 percent.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: Okay. The motion's made by Mr. Costigan, seconded by Ms. Hollinger.

I had a hunch the next person who was going to press the button would be Mr. Gillihan.

COMMITTEE MEMBER GILLIHAN: Substitute motion.

CHAIRPERSON SLATON: Why am I not surprised.

COMMITTEE MEMBER GILLIHAN: Thank you, Mr. Chair.

I just want to say again for the record that we're making adjustments to salary ranges when we have zero evidence that we're going to have any issues recruiting or retaining qualified individuals for this position. And for that I'm going to be a no vote.

CHAIRPERSON SLATON: All right. Mr. Lofaso for Controller Yee.

ACTING BOARD MEMBER LOFASO: Thank you, Mr. Chair.

Sorry. I'm subbing for Ms. Paquin. Sorry for my catch-up.

Can you explain the difference between the 75 percent salary and the 150 percent incentive? I didn't understand the distinction between those two.

MR. GONZAGA: Yeah. Currently the maximum incentive is 75 percent of salary. And so the difference between the two, just to show you alternatives in terms of how to make up the delta relative to market is we're showing a 75 percent maximum annual incentive payout. The column over is 150 percent payout -- 150 percent of salary payout. So...

ACTING BOARD MEMBER LOFASO: Okay. Perhaps I should ask Mr. Costigan. You said 75 percent of salary, 150 percent of compensation. I don't understand.

CHAIRPERSON SLATON: Just a minute. Can you press your button.

Yeah, I think what we're talking about is -- what the motion is is the top line on page 10, 75th percentile, and the column dealing with the incentive being set at a range of up to 150 percent of salary -- max salary.

ACTING BOARD MEMBER LOFASO: I'm sorry. My apology. I conflated percentile with incentive. My apologies.

CHAIRPERSON SLATON: Okay.

ACTING BOARD MEMBER LOFASO: I did want to reiterate a comment that Ms. Paquin made on behalf of the controller last month expressing greater comfort with the 75 percent incentive. That's the current position of the controller's office.

Thank you.

CHAIRPERSON SLATON: Okay. Ms. Mathur.

COMMITTEE MEMBER MATHUR: Yes. I do think -- based on conversations I've had out in the marketplace, I do think we need to significantly increase the compensation structure for the CIO. However, I would just want to say that if we do approve 150 percent of salary incentive, then I agree with some of the comments that Mr. Jelincic made that that really does -- to achieve that level of compensation really does require extraordinary performance. And so we will need to make sure -- or the CEO will need to make sure that to achieve that is a very high bar. So I'm comfortable with setting that as the max total, but, you know, obviously the devil's going to be in the details.

CHAIRPERSON SLATON: Yeah, I just want to comment that I agree with particularly Mr. Jelincic's comment that you don't pay incentive for doing the job, that that incentive has to be tied very closely to performance. And I think what I see in this motion is giving the ability in the search process to create as much flexibility as possible. It doesn't mean you're going to pay that. That's a function of who gets interviewed and what their skill sets are and how good a match they are and our assessment of the CEO's assessment of their ability to do the job and advance the mission of CalPERS.

Mr. Jones.

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

Yeah, I could support the motion because as has been indicated, this is going to be very competitive, not only from a compensation but also a location -- I mean people like to go to work in New York. They like to go work in San Francisco. So we have to have also in our minds about location in terms of attracting candidates.

And the nature that was -- Andrew mentioned about the vacancies in New York and other places is going to be a very competitive landscape. So -- and that's not to mention that -- I understand that there are some sovereign wealth funds that have vacancies, they're going to also --

and they may be willing to travel outside the country. And so we are also going to be competing in that marketplace also. So I certainly could support the recommendation

CHAIRPERSON SLATON: Yes, Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: I just want to make one comment.

Under current policy, we have a 50 percent target. And so I wanted to see it -- the discussion right now has been about a 0 to 150. It doesn't reference a target within that policy or that proposal. So I just wanted to bring that to the Committee's attention effectively, that the positions that are in play in discussion with the current policy are all set at sort of a two-thirds of what are the -- the target is -- or whatever the max is. So I just wanted to bring that to your attention, if that's something you would want to address or not. I noticed some of the comparators do not include that.

CHAIRPERSON SLATON: Ms. Mathur.

COMMITTEE MEMBER MATHUR: I guess I would suggest that that would be something that's maybe more appropriate for the CEO to determine what she thinks the appropriate target is; and that we'll just set the range and leave the target unspecified. That would be my suggestion.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Just currently the policy calls for the Board to make that decision. So that's a change we would have to make in the policy, or agree upon or -- you know, I suppose you could delegate that to the CEO.

VICE CHAIRPERSON COSTIGAN: Actually -- we were just having a side bar.

So that's what I just want to clarify. If we don't take action on what Mr. Hoffner just raised, that 50 percent - that target - is the current policy, would stay as the policy to the new numbers. And what Ms. Mathur, and I agree with what Ms. Mathur is saying, is that we should move that authority to the CEO and let the CEO make that determination.

So I guess the question, Ms. Campbell, is this an item that we should take up and log at our next meeting, or do you need a decision today on the targets?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So we will be putting this into effect for July or whatever --

CHAIRPERSON SLATON: Move your mike over please.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So this would come into effect July, or whenever a CIO is in place. Putting it out later I don't think harms us, because we'd be looking at that through our recruitment. But I think it goes back to what the policy says about the

Board setting it. And maybe what you are suggesting, Mr. Costigan, in August can we make a decision to have the CEO make -- to update the policy so have the CEO make that decision. Is that what you're asking?

CHAIRPERSON SLATON: Yeah.

VICE CHAIRPERSON COSTIGAN: Well, what I'm asking -- because we -- we don't have this item on the agenda.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Right.

VICE CHAIRPERSON COSTIGAN: And I would at least want to have a discussion on it as to what our Board President raised. And from that standpoint, unless we're comfortable making a motion -- I understand exactly why it's needed. But I think the preference would be waiting until -- you need an opinion. You guys are sitting there -- do you need a side bar for a moment?

Okay. Why don't we give them a side bar.

(Thereupon a discussion occurred off the record.)

CHAIRPERSON SLATON: Just a minute. Just a minute.

Mr. Jones.

COMMITTEE MEMBER JONES: Yeah, thank you.

(Laughter.)

COMMITTEE MEMBER JONES: Yeah, just looking at the presentation, we are dealing with targets here, so why couldn't we make a motion about targets? I mean it's right before us.

Yeah, to delegate it.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, so we conferred and talked to Legal, and they said we could -- you guys could do that today. And that would be a part of motion.

COMMITTEE MEMBER JONES: Glad I'm agreeing.

(Laughter.)

CHAIRPERSON SLATON: Let me ask if the maker of the motion would accept that as a friendly amendment to the motion, the delegation.

VICE CHAIRPERSON COSTIGAN: Yes, I'd be happy to make the amended motion as well.

CHAIRPERSON SLATON: All right. Ms. Hollinger?

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: Yeah, are you okay with that as an amendment?

COMMITTEE MEMBER HOLLINGER: Yes, yes.

CHAIRPERSON SLATON: Okay. So we'll just accept that as part of the motion, that delegation of that aspect of the compensation.

Is that okay, Mr. Hoffner? Does that work for you?

DEPUTY EXECUTIVE OFFICER HOFFNER: So you're delegating that to the CEO is what I heard, right?

CHAIRPERSON SLATON: To the CEO, right, correct.

Okay. I see no further requests to speak. Does everybody understand, or do we need to repeat the motion?

I don't see anybody raising their hands, so I think everybody understands the motion.

All right. All those in favor say aye.

(Ayes.)

CHAIRPERSON SLATON: Opposed?

(No.)

CHAIRPERSON SLATON: Note Mr. Gillihan as a no.

Motion passes.

All right. Now we'll move to the CFO portion.

CHAIRPERSON SLATON: And, Eric, you're on again.

(Thereupon an overhead presentation was Presented as follows.)

MR. GONZAGA: Great.

So, you know, using the same, you know, comparator -- comparisons made prior, you know, we compare CalPERS CFO's salary relative to the market on the left-hand side, and then total cash compensation on the right-hand side.

Now, you know, as discussed previously, I mean salary is -- certainly it's in the ballpark, you know, in terms of median relative to the midpoint, and just a tad lower. But then on the total cash side of the house, certainly because not every CFO, you know, particularly when you start talking about the government agencies and, you know, some of the, you know, pension funds don't offer incentives to certain individuals, and so market total cash with existing salary and maximum bonus potential is in the ballpark. Certainly it's well below the 75th percentile from a maximum standpoint, but it's closer than some of the other positions.

--o0o--

MR. GONZAGA: Now, what we have in front of you on page 12 and 13 is essentially the, you know, same set and in terms of if you were to target median versus 25th percents tile versus 75th percentile, with the maximum annual incentive. And, you know, as you can see, if you were to take the midpoint and move it to the median of 290,000, with the maximum annual incentive, you know, you would have just moderately above the 50th percentile total cash compensation.

However, you know, at the 75th percentile level you'd still below just because of course, you know, those individuals that provide incentives to their CFO tend to be pretty aggressive and more aggressive than the 40 percent maximum that you have in front of you.

--o0o--

MR. GONZAGA: Page 13, you know, the exact same, you know, situation, where the little bit broader range doesn't make much difference with respect to, you know, targeted -- to targeted market compensation just provides you more flexibility.

So I think the overall synopsis here is that, you know, the salary lags market by a little bit. The current annual incentive or maximum annual incentive is, you know, competitive for about half of the peer group. The other half, you know, they may be organizations that don't provide annual incentives, which tends to leave probably target cash right now closer to the 50th percentile but -- or a little bit below the 50th percentile, but maximum total cash a little bit above the 50th percentile. So...

--o0o--

MR. GONZAGA: And so in terms of our recommendation -- you know, again, I mean just keeping consistent with, you know, prior practice, you know, I think that the decisions you make here may help create a roadmap on decisions to be made going forward. You know, just because you're targeting the market or, you know, a little bit above doesn't necessarily need -- mean that you have to go there. It's just more a matter of providing flexibility with respect to the search that you have ongoing. So...

CHAIRPERSON SLATON: Okay. What's the pleasure of the Committee?

VICE CHAIRPERSON COSTIGAN: Do you want another motion?

CHAIRPERSON SLATON: You certainly may.

Just a second.

Mr. Costigan.

VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Chair.

At this time I would move on slide 13 that we would adopt the comparator group 50th percentile, which would be a resulting salary range of $217,500 to 362,500, with a maximum 40 percent incentive package.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: Okay. A motion from Costigan and a second from Hollinger.

Any further discussion on the motion?

Seeing none.

All those in favor say aye.

(Ayes.)

CHAIRPERSON SLATON: Opposed?

(No.)

CHAIRPERSON SLATON: Note Mr. Gillihan as a no.

Motion carries.

All right. Now we'll move to -- still with this item. The CEO position revised incentive plan design.

(Thereupon an overhead presentation was Presented as follows.)

MR. GONZAGA: Sure. And this goes back to conversations we've had at the last couple of meetings now. And what we wanted to cover is obviously just the recognition that any good incentive plan of course relies upon the CEO as one of the individuals, you know, to drive the strategic objectives in its best practice to get input from that CEO and recognizing the limitations. What we're recommending is you can still have a very powerful executive or just an overall incentive compensation plan, you know, if we -- and which allows for CEO input if we do something just a little bit different for the CEO.

In prior, you know, conversations we had two recommendations. One is, you know, come up with that maintain the architecture of the existing incentive plan that we put into play a couple years ago now, just come up with some different metrics - and it's still outcome oriented and -- you know, for the CEO.

The alternative was to come up with a more discretionary approach, whereby you're taking into account the CEO's overall performance evaluation on a more qualitative basis as opposed to the traditional outcomes that are used for the executive incentive plan.

You know, my preference would, you know, be the second approach primarily from the standpoint that you always want to -- you never want to, you know, come up with too many different sets of goals because that can encourage a little bit of misalignment. As opposed to your ability to evaluate on a discretionary basis, it doesn't lock you into any specific goals that, unintentionally or not, may be different than for the executive team but allows more kind of qualitative facts and circumstances evaluation while still allowing ultimately, which is the most important thing, the ability for the CEO to deliberate, engage, and help decide what those objectives should be for the rest of the executive team. So...

CHAIRPERSON SLATON: So I've been -- as Chair, I've been wrestling with this for the last couple of months, thinking about how to construct this and what's the best solution for us. I have come to the conclusion that, in my opinion, having specific metrics is the right way to go for the CEO. To hold the CEO accountable for the results we want to achieve, I look at the current metrics; it's actually a pretty good set of metrics for what we're trying to accomplish, and they've worked pretty well to date.

I think this ties with Agenda Item 7. You know, kind of tie together. And I'm going to ask, if there's not objection by the Committee, to defer Item 7 to a meeting that we would hold in August, because I think we want to talk about whether we should be delegating the metric design for the CEO's direct reports to her rather than for us to be imposing those.

So that kind of changes the -- that potentially changes the dynamics. And I think there's some legal work to do and some preparatory work to do before we're ready to have that discussion.

But I would suggest that we leave -- for the CEO leave the current metric plan in place for this next year, unless the Committee -- unless we want to modify it a little bit or tweak it -- but leave that in place and defer Item 7 to an August meeting where we can have a more in-depth discussion about the delegation aspects of this.

So the question is, does it require a motion on the first part of this, of leaving the CEO's metrics in place for the next year? Is that what you're looking for at this point?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay. Yeah, so I probably would have Mr. Gonzaga weigh in first before we answer that question. And then what he has to share, then maybe you'll still want to know the answer from us.

CHAIRPERSON SLATON: All right. Mr. Jones, do you want to hear from him first, or do you want to --

COMMITTEE MEMBER JONES: Yes, I do. I just wanted to --

CHAIRPERSON SLATON: Just a second.

Go ahead.

COMMITTEE MEMBER JONES: Yes, just the addressing the tweaking concept. I would oppose tweaking and then come back and discuss it again. And I'd just sort of defer to your first comment of waiting --

CHAIRPERSON SLATON: Just leave it --

COMMITTEE MEMBER JONES: Yes.

CHAIRPERSON SLATON: -- as it is? Okay.

Mr. Gonzaga.

MR. GONZAGA: So my perspective is just driven by this whole, you know -- and the overarching concept is alignment. It is always good to make sure a couple things: One is that the executive team is aligned in terms of, you know, what they want to achieve for the organization, because I think, as Mr. Jelincic very well put, what you measure, that's -- those are the outcomes that you're going to move towards.

So ultimately we just want to make sure that the entire executive team is aligned in terms of making strategic decisions, they're balancing the right things organizationally as opposed to divisionally.

So all of that being said, what we're looking at here for the CEO specifically is -- you know, certainly ideally what we'd say is that the goals and the organizational outcomes should be the same for the executive team versus the CEO. Now, recognizing all of that and some administrative difficulties in terms of engaging the CEO and what should the right goals be, our recommendation is really based on the fact that we know that the CEO is -- you know, can help drive -- under the construct that we propose can drive what the right strategic and organizational outcomes are.

And, whereas -- and that will keep everybody aligned.

And so our recommendation is really one based on, you know, kind of compromise, saying how can we get the CEO engaged in terms of setting these goals. And therefore, that's the recommendation at hand in terms of more qualitatively perspective.

But we do believe, however, that outcomes are good. And organizational outcomes are good for the senior leadership team. So...

CHAIRPERSON SLATON: Okay. Ms. Mathur.

COMMITTEE MEMBER MATHUR: May I suggest - and I would be interested in hearing if the team has any concerns about this - but may suggest that we would also defer this decision about the CEO's plan design to August. I don't think -- it's only, you know, 60 days past the start of the new fiscal year. And that we consider both of these two issues together. And that way we can bring back the current -- the structure of the incentive plan that we currently have in place just to review it one last time; and if we have any changes we wish to make, we can make them at that time. But perhaps just deferring both the decisions to August.

CHAIRPERSON SLATON: I think the place would still run for 45 days. I don't think it's going to -- right?

So comments?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes. So I think just the one thing to consider is that if we don't do anything, take any action today, that the CEO and her direct reports will still have the same for the 45 days, 60 days.

CHAIRPERSON SLATON: Right.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: And things could be back-dated, things could be changed. It gives everybody time to think about what your question is and how to bring that back and what -- how it could look differently; whether we adopted the metrics on hers, left them on theirs, did something differently for her. Maybe bring back some ideas around that in the future meeting sounds like August.

CHAIRPERSON SLATON: Good.

Okay. I think without objection, that's what we'll do.

All right. And then so this item plus Item 7 would come back in August.

All right. We move to Summary of Committee Direction.

Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: I think the one item other than coming back in August was the specific direction. Mr. Costigan asked for some information from several other funds. So I don't know -- I heard New Zealand, OMERS, and then others.

So was it CEO related, was it peer-comparative related? I just want to make sure I've captured that appropriately.

VICE CHAIRPERSON COSTIGAN: No, I think since we took action on it, we're fine for now. We'll revisit it next year.

DEPUTY EXECUTIVE OFFICER HOFFNER: Okay.

VICE CHAIRPERSON COSTIGAN: Thank you.

CHAIRPERSON SLATON: Good.

All right. And I have no cards for public comment. And I told someone I thought we could have this meeting done in an hour; and I'm only 3 minutes off.

So with that, meeting adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 12:03 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 June, 2018.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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