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, AUGUST 14, 2018

11:20 A.M.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
LICENSE NUMBER 10063

A P P E A R A N C E S

COMMITTEE MEMBERS:

Mr. Bill Slaton, Chairperson

Mr. Richard Costigan, Vice Chairperson

Mr. Richard Gillihan

Ms. Dana Hollinger

Mr. Henry Jones

Ms. Priya Mathur

Mr. Ramon Rubalcava

BOARD MEMBERS:

Ms. Margaret Brown

Mr. John Chiang, represented by Mr. Steve Juarez

Mr. Rob Feckner, Vice President

Mr. David Miller

Ms. Theresa Taylor

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Ms. Marcie Frost, Chief Executive Officer

Mr. Doug Hoffner, Deputy Executive Officer

Mr. Matthew Jacobs, General Counsel

Ms. Tina Campbell, Chief, Human Resources Division

Ms. Jerrolyn Queral, 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. Al Darby, Retired Public Employees Association

Mr. Eric Gonzaga, Grant Thornton, LLP

Mr. J.J. Jelincic

Mr. Andrew Junkin, Wilshire Associates

I N D E X

		PAGE
1.	Call to Order and Roll Call	1
2.	Approval of the August 14, 2018 Performance, Compensation & Talent Management Committee Timed Agenda	1
3.	Executive Report	2
4.	Action Consent Items	3
	a. Approval of the June 19, 2018 Performance, Compensation & Talent Management Committee Meeting Minutes	
5.	Information Consent Items	3
	a. Annual Calendar Review	
	b. Draft Agenda for the September 25, 2018 Performance, Compensation & Talent Management Committee Meeting	
6.	Action Agenda Items	
	a. 2018-19 Incentive Metric Recommendations	3
	b. 2018-19 Incentive Plan for the Chief Executive Officer	25
7.	Information Agenda Items	
	a. Summary of Committee Direction	30
	b. Public Comment	31
Adjournment		31
Reporter's Certificate		32

P R O C E E D I N G S

CHAIRPERSON SLATON: I'd like to call to order the Performance, Compensation and Talent Management Committee.

The first order of business is roll call.

COMMITTEE SECRETARY QUERAL: Bill Slaton?

CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY QUERAL: Richard Costigan?

VICE CHAIRPERSON COSTIGAN: Here.

COMMITTEE SECRETARY QUERAL: Richard Gillihan?

COMMITTEE MEMBER GILLIHAN: Here.

COMMITTEE SECRETARY QUERAL: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY QUERAL: Henry Jones?

COMMITTEE MEMBER JONES: Here.

COMMITTEE SECRETARY QUERAL: Priya Mathur?

COMMITTEE MEMBER MATHUR: Here.

COMMITTEE SECRETARY QUERAL: Ramon Rubalcava?

COMMITTEE MEMBER RUBALCAVA: Here.

CHAIRPERSON SLATON: Also note for the record that Mr. Feckner, Ms. Taylor, Mr. Miller, Mr. Juarez for John Chiang, and Ms. Brown are here as well.

All right. We'll move to approval of the August 14th timed agenda. Do I hear a motion?

VICE CHAIRPERSON COSTIGAN: I'll move the timed agenda.

CHAIRPERSON SLATON: Moved by Costigan.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: Second by Hollinger.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

Mr. Hoffner, our executive report.

DEPUTY EXECUTIVE OFFICER HOFFNER: Good morning. Doug Hoffner, CalPERS team member. Before the Committee today are two items. One approval of the incentive metrics for the '18-'19 fiscal year. And the other is to approve the incentive plan for the Chief Executive Officer for the '18-'19 fiscal year.

That concludes my report. And Tina Campbell and Eric Gonzaga will introduce the next two items, unless there's other questions.

CHAIRPERSON SLATON: Okay. Before you start, I'd just like to make a comment as the Chair. We've had questions raised in the public about our hiring processes. And both the Vice Chair, Mr. Costigan, and I have talked at some length with our CEO about these processes, and some recent enhancements that have been put in place to ensure that we get the very best talent here at CalPERS.

And we're both satisfied with those enhancements that are in place, and that our hiring processes are strong, solid, and secure.

So I just wanted to make that comment as the Chair of this Committee.

So we'll move to Item number 4, the action consent. 4a, approval of the June 19th minutes. Do I hear a motion.

COMMITTEE MEMBER JONES: Move it.

COMMITTEE MEMBER MATHUR: Second.

CHAIRPERSON SLATON: Let's see. Motion from Jones, second from Mathur.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

So let's see the information consent items. Don't have any questions about those.

So we'll move to Item 6a.

(Thereupon an overhead presentation was presented as follows.)

CHAIRPERSON SLATON: Okay. Ms. Campbell.

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

Agenda Item 6a is an action item, seeking the Committee's approval of incentive metrics for fiscal year; 2018-19. The Board's primary consultant, Eric Gonzaga from Grant Thornton is here to present the recommendations for your review and approval. And I will turn it over to Mr. Gonzaga for that presentation.

MR. GONZAGA: Great. Thank you. So today what we're going to cover is --

--o0o--

MR. GONZAGA: -- just a quick overview of, you know, the various metrics and suggested modifications. Now, what I'll say before we get into this presentation is that I believe that the metrics are in a very good place right now. I think we have a very good balanced score card, which is very consistent with contemporary practices, in terms of driving behaviors and alignment with what the strategies of CalPERS are.

And so with that, we're going to go over all five metrics that are currently used. A couple of them we're not recommending any tweaks, and then there's a few where there's some very modest modifications, at the same time very consistent with what was approved in 2016.

--o0o--

MR. GONZAGA: So with that, you know, just a quick re-education. You know, these metrics were put in place in 2016 after a pretty thorough process intended to enhance the annual incentive plan. And essentially what occurred is that we recommended -- worked with the Committee as well as with management in terms of identifying the strategies that are incentive worthy, and putting metrics to them as the foundation in the core of, you know, driving behaviors at CalPERS. Certainly consistent with the strategic pillars, the strategic plan of the organization.

It's a shared incentive plan with most of the executives sharing the great majority of all of the various metrics. Again, the whole point here is to ensure alignment of incentives at every level of the organization.

So with that --

--o0o--

MR. GONZAGA: -- the first couple metrics that we'll cover are total fund performance, which is how is the fund performing, and in INVO CEM. How effective are we in terms of the Investment Office generating those returns on a efficient basis.

The total fund performance metric, we're recommending no changes, same as always. You know, essentially, what it equates to is best practice kind of payout slope measured relative to an indices approved by the Investment Committee. Very consistent with contemporary practice. And the slope is appropriate in order to, you know, motivate performance relative to a very long-term strategic thinking process.

INVO CEM again, this is a -- is performed. The statistics is measured based off of a third party. Very neutral relative performance, both in terms of generated returns and how efficiently are those returns generated.

We're not recommending, you know, better -- any difference in terms of performance metrics for those two metrics. Very consistent with what we would expect. And I think they're still aligned and very much in force the intended strategic behaviors, so...

--o0o--

MR. GONZAGA: With that, we'll go into the three metrics that -- we're just -- we gave it additional consideration with some suggestions.

The first one is customer service. Again, one of your strategic pillars. Historically, what we've recommended and what we've worked on with the organization is an identification of two strategic questions. One is benefits timeliness. As a percentage basis, how high -- how often are we meeting our expected service standards in terms of benefits, payment timeliness. Very much a core operation of the organization.

Secondarily, how satisfied are our customers? And it's based on a average of the two scores, based on the outputs. And we've come up with a matrices that was essentially based on historically high scores, and measured -- you know, taking a look at average to three-year performance, and targeted performance improvement maximums at above historical levels that haven't been achieved before, and threshold levels at what would be deemed historical performance still exceeding, you know, historical lows when the questions were first put in place or the methodology was first put in place.

And so with that, we're not recommending -- I know there was some consideration of is there an opportunity for modification to these metrics. We think the questions are still appropriate, and we think the degree of challenge is still appropriate, if only just thinking through, you know, historical payouts on this metric. Some are close to target as opposed to at maximum.

--o0o--

MR. GONZAGA: And so with that, the scale that you have in front of you is -- it's an average of the two scores, and it's still consistent with the degree of challenge and the measurements that you've used for the last couple year period.

So any questions on that?

CHAIRPERSON SLATON: None from the Committee.

Okay.

--o0o--

MR. GONZAGA: Now, the next component, and it's outcome oriented, but it's still, you know, very statistically based, yet qualitative, is stakeholder engagement. Obviously a very important issue considering the constituents that you serve in terms of how well is the CalPERS brand perceived by members, et cetera.

And historically what we've done is rely upon, you know, three different questions or criteria.

The first couple are questions related to is CalPERS sensitive to the needs of stakeholders? Does CalPERS do a good job keeping stakeholders informed? And the final question is on a scale of one to ten, how effective is CalPERS in engaging with stakeholders?

The incentive score is driven essentially by an average of the three with a large sample size, and that has driven the award. Historically, it's been based on how have we achieved, relative to these metrics historically, and, you know, measured performance above that, again taking into account to three-year performance history, and, you know, measuring is this appropriate considering where we were?

In the -- when we first went down this path in the historical scale, as you'll see on this next slide --

--o0o--

MR. GONZAGA: -- again, just like with the other metrics trying to push forward, trying to measure increased performance improvement, and achieving above historical levels.

The primary -- and we have two options in front of you. And let me just go back for a second here. We have two options in front of you. One is continuing to rely on these three specific questions as indicative of stakeholder engagement using the same metrics, but increasing the performance standards specifically based on historical performance and performance improvement over the last couple years.

The second is moving to -- not a different methodology, still a continued use of three questions, but focused on key performance indicators that were just adopted by the organization in recent months.

So those are really the two options.

The primary difference though, even if we're using the old questions, is that we're increasing the performance standards by a significant degree, in part based on the fact that the organization has improved in all of these categories. And we're taking a look at just a different scale that enhances the performance challenge of the goals.

--o0o--

MR. GONZAGA: So on slide eight, you see the same three questions used, how would that look?

Well, it would be based on the aspirations and the expected performance of the organization. So moving from 71 to 73 percent at target to 78 to 80 percent at target. At threshold, moving from 67 to 69 -- from 67 to 69 up to 74 to 76, even above the historical targets.

And so that's the primary difference here, expanding, extending, challenging performance improvement. Okay.

--o0o--

MR. GONZAGA: The new metric, if you were to adopt the KPIs, would move to these four KPI-related questions. Does CalPERS do a good job keeping its members informed? Does CalPERS do a good job keeping it's stakeholders informed? Does CalPERS do a job keep -- good job keeping its employers informed, and overall perception is positive.

Very related questions. And certainly, you know, our perspective is if you start thinking about adopting incentive goals in stakeholder engagement, always our preference is if it's a KPI, that should trump performance metrics that have been used to historically.

The only issue here, of course, is that these are new questions, and do we have enough track record to figure out, you know, what the baseline should be from a performance standpoint.

--o0o--

MR. GONZAGA: So with that in mind, the scoring scale is still exactly the same. The targeted performance is still the exact same. You know, our preference is just simply to wait for a year relative to these KPIs until you can get that baseline established for the new questions. As related as they are, it's still just a matter of do we have the baseline with which to set the metrics, so -- okay?

CHAIRPERSON SLATON: So we do have a couple of -- well, let me first. Ms. Mathur, wishes to speak. I just wanted to mention I have -- we have two speakers from the public who want to speak on these. So I'm suggesting we go through this one and -- go through both of them first before we decide which alternative, so the public can address either one of them.

But, Ms. Mathur, you wish to speak.

COMMITTEE MEMBER MATHUR: Sure. Thank you, Mr. Chair. I generally agree with you about aligning the incentives to the KPIs, and the strategic plan. But in this case, I -- question two of the existing three questions is a combination of the first three of the recommendation. So it's basically a weighted average I think of those three in one measure, is that correct?

MR. GONZAGA: That's right.

COMMITTEE MEMBER MATHUR: Yeah. And I think the other questions -- existing questions, particularly the last one on a scale of 1 to 10 how would you rate CalPERS being effective in engaging and communicating with members -- with stakeholders? It's not just about keeping people informed, it's about actually engaging them in a dialogue so that we can achieve the best recommendation, have all the information necessary to make decisions, et cetera, and have our stakeholders, our members, our member organizations, et cetera feel like they are involved in the decision making in a substantive way.

And I think that does a better job of getting at that than just you view CalPERS as positive? Do you have a positive impression of CalPERS and do you feel like you're being kept informed?

So I would be reluctant to change the questions. And so I guess my recommendation would be to stay with option A.

MR. GONZAGA: And, Ms. Mathur, I actually would agree with you. You know, so the broader question -- of course, that's a great point. But if nothing else, it's just waiting to establish the baseline with which to measure performance. And that's my biggest belief here, that I would prefer that you stick with the original questions, so...

COMMITTEE MEMBER MATHUR: Thank you.

CHAIRPERSON SLATON: Okay. Let's go to the second item, and then we'll wrestle with both of those to reach a conclusion.

--o0o--

MR. GONZAGA: Now, on operational effectiveness, so we spent a lot of time debating this back in 2016. Unlike the Investment Office, which has the CEM methodology, the overall organization, or the non-Investment Office side of the house, didn't necessarily have a specific metric related to cost effectiveness, and -- or operational effectiveness. And so we recommended a metric, worked with your CFO and the Finance team to come up with a metric that we thought was a good metric. I mean no metric is ever perfect and that's the one thing we'll always say.

But this was intended to focus in on just making sure that we're being as efficient as we possibly can. And so we came up with a metric called OOC, to total overhead operating costs as a percent of total operating costs. The definition is there in front of you, and it's essentially admin costs that aren't mapped to product, service, and delivery.

And, you know, the methodology was adopted to define performance improvement relative to three-year average performance in this metric in prior years. And it was the metric that you continued use of last year.

Now, there was, you know, some debate in terms of, okay, was this the right degree of challenge, was this a good metric, et cetera? And I will say I think it's a great metric. It was just one that, you know, as we're going through the process, a couple things. I mean is this something folks can control, number one. And number two, was it clearly understood how folks could impact this broad metric?

And, you know, would I'd say is that I do believe that. I think that there's always to improve the metric. And so what we came up with were a couple different alternatives.

You know, first, is option A, which is maintain the metric, but exclude the costs that are outside the control of management. And that would be third-party administration costs and Board costs.

Second would be to measure the percentage of the discretionary budget spent by the organization. And, you know, what we -- we can talk through a couple of those. My preference is to, you know, stick to option A, just because I think it's the broader metric, and it focuses in on the executive team coming together to really kind of manage throughout the year what the overall spend should be in certain departments and -- as opposed to option B, which you can certainly do the same thing. But it's just these are a little bit more focused on discretionary costs. Those outside the realm of the typical budget.

And I could just see -- I like broader metrics, when we're talking about an executive team to manage towards, just because it forces -- if we have to give in one area, maybe we can take a little bit away here, or, you know, just -- or you can include the discretionary budget as that additional amount. So it's an overall holistic approach that I just think is a good concept with the CalPERS full integrated executive team, which is what we're trying to go after.

--o0o--

MR. GONZAGA: And so you take a look at this. The scoring scale is still recommend to be the same. Again, how are we performing relative to three year averages? Appropriate degree of spread between -- from threshold all the way up to the maximum pay out. Evaluating it relative to three-year performance, but again excluding those elements outside the control of management. So hopefully that enhances management's ability to see that line of sight, in terms of what can they control, and how can we make sure that we're spending judiciously.

Now, you take a look at those metrics. We're not talking about anything that is -- that talks about cutting things by 5, 10, 15, 20 percentage points. It's managing to a degree of reasonableness. We're not encouraging. This is intended to manage efficiency of operations, not to do any, you know, harmful, you know, reduction in administrative spending, just exercising, you know, judicious decision making when it comes to spend.

--o0o--

MR. GONZAGA: So first option is excluding the Board and third-party administrative costs. Second is thinking through those additional discretionary spending options. And that would include operating expenses, and equipment, temporary help, overtime, how much of that discretionary budget are we spending, and it measures all the way up to 100 percent down to 95 percent in terms of threshold to maximum. Again, good metric. And it's something that if this was specifically where we thought the primary spend was, we should address it, we should focus in on it.

But in this instance, I mean, I think this is a good metric to monitor. My preference is always for, particularly for executive teams, is a little bit more holistic metrics. And that's why I think sticking with the first metric, just exclusion of the Board and the third-party administrative costs would be my preferred option, so...

CHAIRPERSON SLATON: Ms. Mathur

COMMITTEE MEMBER MATHUR: Thank you.

Well, I agree with you. As I recall, we considered something similar to option B when we were thinking about these metrics back in 2016. And one of the concerns with respect to option B is that you could always, through the budgeting process, put a little room in the budget, and then it would be pretty easy to beat the -- beat the budgeted number.

And so -- and not to imply that anybody here would do anything untoward, but that that was sort of an easy number to -- easier number to game, and -- but I agree with you that option A -- we spent a lot of time thinking about how to measure operational effectiveness. It's not an easy thing to measure. And it might not be perfect as it is, but I do think it's a pretty good measure. And I would support option A as well.

CHAIRPERSON SLATON: Okay. Before we proceed with public comment, I want to mention that Ms. Paquin for Controller Yee is here as well. I forgot to include you. I looked this way and not to my left.

So we have two speakers on option -- I mean, on Item 6a, Mr. Jelincic and Mr. Darby. And if you'll come forward, you'll each have three minutes.

MR. JELINCIC: J.J. Jelincic, member of the System.

My comments will sound familiar to what I said last month. But as trustees, you have an obligation to act as a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of like character and with like aims.

I believe you should hire the skill sets you need, and you should pay them appropriately. A paycheck is the compensation you get for doing your job. A bonus is for going beyond expectations. I do not believe it is the act of a prudent person to say I will pay you a bonus for doing your job. It strikes me as even imprudent to say I will pay you a bonus for almost doing your job.

I urge you to reject the bonuses for doing or almost doing your job. It should not require a publicly embarrassing failure to put your bonus at risk.

Additionally, the financial crisis showed that the damage from misaligned incentives can be tremendous.

I again encourage you to set the investment expectations on a risk-adjusted basis. If you take more risk, you should produce more returns before you collect a bonus.

I know the fiscal year has started. However, I would encourage you to either raise the standards now or have staff and the consultant come back with a new plan.

Thank you.

And on 6b, I will -- which I didn't ask to speak on, the same comments apply. And in many ways, 6b falls out of 6a. So what you decide on 6a will obviously have a clear impact on what you decide with 6b.

Thank you.

MR. DARBY: Committee members, Chair of the Committee. Al Darby, RPEA, Retired Public Employees Association.

We share Mr. Jelincic's concern about incentive pay for under the benchmark performance. You'd never find that in private industry.

Secondly, there's an issue of how to adjust for anomalies in the system. In customer service, if there's some disruptive event that produces a lot of extra calls into the system, this is going to impact the measurements of the system, unless there's some system whereby you can adjusts for, or in one way or another, find a way to determine how to adjust for that in the bonus system.

Such examples would be changes in coverage. We have situations in midstream -- in a midstream of a fiscal year where medical coverage in a certain area has changed or some issue has come up. This would generate a lot of extra calls to customer service, as well as sometimes there's changes in the drug formulary, which will create some changes and extra calls to customer service.

So there would be a real problem in determining how to adjust the whole system incentive-wise when you take into consideration these kinds of problems.

I would make the same comments for 6b if they're appropriate, but the same sentiment is there for 6b.

Thank you.

CHAIRPERSON SLATON: Thank you.

Mr. Jones.

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

I would like the consultant to respond to the issue of paying bonuses before -- below the targeted level. What's the rationale for that, and what's the industry perspective on that issue?

MR. GONZAGA: Yeah. What I would say is that it is pretty common practice to -- you know, there's target, which tends to equate to budget or expected performance. And there certainly is typically an award for acceptable performance progress towards that target for the year. That's paid out at threshold.

The plan that you have in front of CalPERS is very consistent with the typical industry methodologies. And the rationale is just simply that, you know, a couple things, one -- and I think it was Mr. Darby had discussed unexpected situations, disruptive situations. And the whole point is simply to recognize that there's a degree of performance, which we deem acceptable, and it's progress relative to goal, in addition to progress above goal.

And the whole reason for adopting an array of performance metrics is to take the risk out of it to an extent, which is to say that, you know, there's always unexpected circumstances. And we can never pigeonhole specifically where we're expecting. And it's a matter of, you know, risk-adjusted risk thinking in terms of making sure behaviors are aligned with the potential for bonus payment.

So there's a whole slough of -- there's a whole slough of reasons. It's not just industry practice. It's just that we always want there to be incentive to encourage -- you know, pay it to consider performance improvement, whether it's a little bit above or a little bit below the targeted goal.

If the metrics are right, it should work as expected. And there's always a couple safeguards. One is that this Committee always has discretion. If performance is so far below expectations, then you can use that discretion to take away work. You can also exercise discretion to modify awards upwards as well.

The system it is intended to be outcome oriented. At the same time it's intended to provide this Committee with the safeguards with which it can, you know, manage this judiciously, so...

COMMITTEE MEMBER JONES: But if you are making adjustments after the fact, then where is the consistency over time? I mean, because sure, we have the discretion of making changes. But if we're making changes after the fact, the volatility could be going up and down on a regular basis? So how do you reconcile that?

MR. GONZAGA: Yeah, that's right. And it really is just to say if you're going to exercise discretion, because it tends to be based on unexpected circumstances that weren't contemplated at the beginning of the year. And so that's really where discretion comes into play.

COMMITTEE MEMBER JONES: Okay.

CHAIRPERSON SLATON: I just note -- just to build on Mr. Jones' question. When you look at the total fund payout ratios and variance, this is on chart 4, you'll see that although there is a payout for meeting the benchmark. If you drop below, it is skewed pretty radically. You go from 0.76 down to 0.05, and then right to zero.

So it is skewed for the positive performance, rather than skewed to compensate for negative performance.

But I think it does represent, and I tend to agree, the variability of the marketplace, you could have a sudden movement that can change things pretty radically in a relatively short period of time in the whole measurement scheme that we're looking at, so...

I'm comfortable with these measurements the way they are. I think we're going to have a new CIO coming in. I think you're going to probably see some modifications in our investment plan, I would hope, from a new CIO with new ideas, new thoughts. So I think we have to pay attention to this, and see where it takes us after this initial period.

So let's talk about the two items for potential modification, which is the stakeholder engagement. Let's take that one first. What's the sense of the Committee? We have two options, option A and option B.

Ms. Mathur.

COMMITTEE MEMBER MATHUR: Is it appropriate to make a motion at this time?

CHAIRPERSON SLATON: Sure.

COMMITTEE MEMBER MATHUR: I would move option A to retain the existing questions and align the scores with the KPI average.

COMMITTEE MEMBER HOLLINGER: I'll second.

CHAIRPERSON SLATON: Okay. Motion from Mathur. Second from Hollinger.

Any further discussion on that particular item?

Seeing none.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

So let's move to -- so that is option A on the stakeholder engagement.

All right. Everybody clear on that?

Okay. So now we'll move to the second one, which is operational effectiveness. And we have option A and B. What's the pleasure of the Committee?

COMMITTEE MEMBER MATHUR: I would also move on operational effectiveness, option A to maintain the metric, but exclude the Board and third-party administrator costs.

CHAIRPERSON SLATON: All right. Motion for option A. Is there a second on the motion?

COMMITTEE MEMBER GILLIHAN: Second.

CHAIRPERSON SLATON: Second from Gillihan.
Any further discussion on the motion?
Seeing none. All those in favor say aye?
(Ayes.)
CHAIRPERSON SLATON: Opposed?
Motion carries.
All right. We'll now move to 6b.
(Thereupon an overhead presentation was presented as follows.)
HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good morning, Mr. Chair and members of the Committee. Tina Campbell, CalPERS team.
Agenda Item 6b is also an action item seeking approval of an incentive plan for the CEO for fiscal year 2018-19. Your decision today will satisfy related annual approval provision and the Board's compensation policy for executive and investment management positions. The Board's primary executive compensation consultant, Eric Gonzaga from Grant Thornton is here to present the recommendations for your review and approval.
And I'll now turn it over to Mr. Gonzaga.
MR. GONZAGA: Great. Thanks, Ms. Campbell.
What we have in front of you - and you all should have this - we provide two options in terms of CEO incentives for the upcoming year. And I'm not so sure we

need to go in heavy detail into either one, because they're actually -- they're options that I think you probably have some familiarity with, even the second option. The first one obviously you do, which is to keep things as is.

And really what that means is consistent with historical practice, 25 percent of the annual incentive award would relate to, you know, qualitative assessment of the leadership priorities that you've set forth for the CEO historically. And they are Board support, open and transparent communication, efficient organization, supportive leadership, customer satisfaction driven, and team member engagement.

All of these areas historically, the Committee, has reviewed the CEO's performance on a qualitative basis, and a score just like -- kind of like the incentives. But on a qualitative basis how do you score 0 to 1.5. And it impacts the incentive award accordingly. So that is 25 percent of the weight of the annual incentive plan currently.

The remaining 75 percent of the award is distributed amongst those outcomes that we defined earlier, in terms of total fund performance, enterprise effectiveness or operations, customer satisfaction, stakeholder engagement, et cetera.

And so recommendation 1 is to keep things as is.

Now, if you wanted to do something differently, a recommendation would be just to strip off that 75 percent, and equate the award relative to those leadership priorities that we discussed earlier, where it's essentially scoring the CEO on a qualitative basis across all of those specific categories.

The primary reason for that recommendation is two-fold. One, it does give you an opportunity to review the CEO on a qualitative basis, which is very important. And it places more emphasis on that qualitative assessment.

The second component is that it's something that you're used to doing, and could fit in well with your processes. And so that's really why we have that other option. You could come up -- you could do something like come up with different outcomes for the CEO, things of that nature. But I'd prefer to stay away from that, just because we have the executive team fully aligned with what we believe are the right performance measure categories, so why create a second set of outcomes for the CEO, when the CEO is responsible for running the full organization.

So those are the two options. One is keep as is. The other is discretionary assessment consistent with what you've done historically, but expanding the weights.

My preference has always been just to keep the CEO on the same plan as everybody else, primarily because I think that it's important to ensure alignment at the upper levels of the organization, and keep incentives aligned fully. And there's shared risk reward all the way through, so...

CHAIRPERSON SLATON: As usual the first person to the microphone is Ms. Mathur.

(Laughter.)

COMMITTEE MEMBER MATHUR: Thank you, Mr. Chair, and thank you, Mr. Gonzaga. You know, I think it's been worthwhile that we've had this conversation over the past several months about what is the appropriate way to incentivize the CEO, and should it be different in any way from our -- the rest of the team?

I just keep coming back to the fact that having the right alignment between the CEO all the way down through the organization is really the best practice. And that obviously she is leading the organization, she is ultimately responsible for the performance of all the people underneath her. And so it is important that she be accountable in the same way.

And so I -- I've come down to the conclusion that keeping the current course, the existing metrics, are -- is the appropriate way to proceed. And so with that, I don't know we need a motion to retain the existing structure, or -- so if I would so move that we --

CHAIRPERSON SLATON: I'd entertain a motion, yeah.

COMMITTEE MEMBER MATHUR: I would move that we retain the existing structure -- incentive structure.

COMMITTEE MEMBER HOLLINGER: I would second that.

CHAIRPERSON SLATON: All right. So we have a motion from Mathur, second from Hollinger. I don't have any other buttons pushed.

Mr. Darby, you addressed 6b. Do you wish to speak or you're done.

Okay. You've made your comments. Thank you very much.

All right. You know, I tend to agree with this. You know, you can come up with a thousand different compensation plans. But in reality, having one that drives down through the organization starting at the top at the CEO I think makes sense. I think it is best practice, and so it seems to be a right way to go.

We could play with this forever. And I assume in future meetings -- future years, we will make adjustments to this as we see how well it works. I like the idea of holding the entire management team accountable for results. And that's why the quantitative part is there.

But that qualitative part is so important because of the job we have to do here at CalPERS, and all the people we have to represent and take into account as we make our decisions. So I think it's a good balance between throws two things.

So I see no further speakers on it. We have a motion on the floor -- is that it?

Nobody else pressed their button.

Motion on the floor. All those in favor of the motion signify by saying aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries.

All right. We move to Item number 7, summary of Committee direction.

Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: I didn't hear any.

CHAIRPERSON SLATON: You didn't hear any.

(Laughter.)

VICE CHAIRPERSON COSTIGAN: You want some?

CHAIRPERSON SLATON: We can come up with something for you.

DEPUTY EXECUTIVE OFFICER HOFFNER: That's okay.

(Laughter.)

CHAIRPERSON SLATON: Okay. All right.

(Laughter.)

CHAIRPERSON SLATON: Before I adjourn the meeting, the next meeting is governance.

COMMITTEE MEMBER MATHUR: At 1:00 o'clock.

CHAIRPERSON SLATON: Governance -- we're going to break for lunch. Governance will be at 1:00 o'clock.

Meeting adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 12:00 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 18th day of August, 2018.

James F. Peters

JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063