



Investment Management Positions: Pay Philosophy Discussion and Compensation Structure Options

December 2018

Accomplishments to Date

- Comprehensive compensation review
- Implemented shared organizational metrics
- Discussed compensation structures, including long-term incentive options
- Affirmed compensation policy purpose and comparator group
- Selected and applied a pay philosophy to set compensation for the CIO position

Today's Objectives

- Review compensation policy purpose and comparator group
- Review pay philosophy used to set CIO compensation
- Discuss compensation structure options and pay philosophy for investment management positions
- Select option(s) to receive data at a future meeting

Purpose

- The Board's Compensation Policy for Executive and Investment Management Positions says:

“ It represents the strategic decision that pay must be high enough to encourage highly qualified individuals to accept and remain in positions; but not so high as to attract candidates solely for the compensation. Moreover, compensation systems must be carefully structured to both recognize labor market forces and reinforce maximum performance through placing a substantial portion of total annual compensation at risk.”

- Intent: recruit and retain highly skilled professionals who are the foundation for CalPERS' overall success

Comparator Group for Investment Management Positions

- *“Large and complex institutional investors, including: US public funds, Canadian public funds and US corporate plan sponsors.”*
- *“Private sector asset management organizations of comparable size (\$150B to \$350B AUM) that are key competitors for CalPERS team members, including: investment management/advisory firms, university endowment funds, insurance companies and banks.”*

Philosophy Applied for CIO Position Range

- Reviewed data based on comparator group 25th, 50th, and 75th percentiles
- Selected a base salary range positioned around the market 75th percentile (with a 67% spread between min and max)
- Revised incentive range to establish a total cash earning potential above the 50th percentile peer total cash levels for outstanding performance, and below if performance targets not achieved

Potential Alternatives – Investment Management Positions

With Goal of Moving to Average Peer Pay (Market 50 th percentile) Total Cash (salary and annual incentive)	
a	<ul style="list-style-type: none">• Establish above market salary ranges and below market annual incentive ranges (balance percentage increase and decrease)• Impact: Increased cost for guaranteed pay; reduced cost and focus on variable (incentive) pay
b	<ul style="list-style-type: none">• Establish moderately above market salary ranges and maintain existing annual incentive ranges• Impact: Increased cost (less than option A) for guaranteed pay; maintains significant annual incentive leverage and related cost
c	<ul style="list-style-type: none">• Establish market-aligned salary ranges and maintain existing annual incentive ranges• Add long-term incentive opportunity• Impact: Increased cost (less than options A or B) for guaranteed pay; balances focus on annual and long-term incentive; increases overall incentive leverage and related cost

No cost options (won't achieve goal of moving to average peer pay):
1) increase salary ranges and decrease incentive ranges (balanced); or 2) maintain status quo

Next Steps

- Based on the Committee's direction today, the team will bring back custom comparator group data to the next Committee meeting, as well as additional implementation information for action before any changes take place for the 2019-20 fiscal year
- Return to review remaining covered positions

Investment Comparator Group

US Pension Funds	Canadian Pension Funds
California State Teachers' Retirement System Teachers' Retirement System of Texas State of Wisconsin Investment Board Georgia Employees' Retirement System State Teachers' Retirement System of Ohio Virginia Retirement Systems	Canada Pension Plan Investment Board Caisse de depot et placement du Quebec Ontario Teachers' Pension Plan Board Ontario Municipal Employees' Retirement System Healthcare of Ontario Pension Plan
US Corporation Plan Sponsors	Investment Mgmt./Advisory Firms, Banks and Insurance Companies
GE Asset Management Incorporated General Motors Asset Management Lockheed Martin Investment Management Co. DuPont Capital Management	Company names protected by confidentiality agreements between the companies and the organization who conducted the 2015 salary survey.