

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, DECEMBER 18, 2018

10:18 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
Ms. Dana Hollinger
Ms. Adria Jenkins-Jones
Mr. Henry Jones
Ms. Priya Mathur
Mr. Ramon Rubalcava

BOARD MEMBERS:

Mr. Rob Feckner, Vice President
Mr. John Chiang, represented by Mr. Matthew Saha
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
Mr. Robert Carlin, Senior Attorney

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

STAFF:

Ms. Sharon Louie, Assistant Chief, Human Resources
Division

Ms. Jerrolyn Queral, Committee Secretary

ALSO PRESENT:

Mr. Eric Gonzaga, Grant Thornton

Mr. Eric Myszka, Grant Thornton

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1 P R O C E E D I N G S

2 CHAIRPERSON SLATON: Sorry for the delay. We'll
3 call to order the Performance, Compensation and Talent
4 Management Committee. First order of business is approval
5 of the timed --

6 VICE CHAIRPERSON COSTIGAN: Roll call

7 CHAIRPERSON SLATON: Oh, roll call. Let's do
8 that first.

9 (Laughter.)

10 COMMITTEE SECRETARY QUERAL: Bill Slaton?

11 CHAIRPERSON SLATON: Here.

12 COMMITTEE SECRETARY QUERAL: Richard Costigan?

13 VICE CHAIRPERSON COSTIGAN: Here.

14 COMMITTEE SECRETARY QUERAL: Dana Hollinger?

15 COMMITTEE MEMBER HOLLINGER: Here.

16 COMMITTEE SECRETARY QUERAL: Adria Jenkins-Jones?

17 COMMITTEE MEMBER JENKINS-JONES: Here.

18 COMMITTEE SECRETARY QUERAL: Henry Jones?

19 COMMITTEE MEMBER JONES: Here.

20 COMMITTEE SECRETARY QUERAL: Priya Mathur?

21 COMMITTEE MEMBER MATHUR: Here.

22 COMMITTEE SECRETARY QUERAL: Ramon Rubalcava?

23 COMMITTEE MEMBER RUBALCAVA: Here.

24 CHAIRPERSON SLATON: It's always good to have
25 help, isn't it?

1 Okay. Approval of the timed agenda. Do I have a
2 motion?

3 COMMITTEE MEMBER JONES: Move it.

4 COMMITTEE MEMBER HOLLINGER: Second.

5 CHAIRPERSON SLATON: A motion from Jones, second
6 from Hollinger.

7 All in favor say aye?

8 (Ayes.)

9 CHAIRPERSON SLATON: Opposed?

10 Motion carries.

11 All right. The -- Mr. Hoffner, the executive
12 report.

13 DEPUTY EXECUTIVE OFFICER HOFFNER: Good morning.
14 Doug Hoffner, CalPERS team member. We have two agenda
15 items this morning, both for action. Eric Gonzaga, the
16 Board's investment -- or incentive compensation consultant
17 will be leading that discussion, along with Sharon Louie,
18 Assistant Division Chief in the Human Resources Division.

19 Before I conclude the report, I wanted to thank
20 you Priya Mathur for her leadership. I think she's been
21 on this Committee nearly the six years that I've been at
22 CalPERS and I just want to thank her for her tenure and
23 leadership here.

24 That concludes my report.

25 CHAIRPERSON SLATON: All right. Thank you very

1 much.

2 Next item, 4, is approval of the September 25th
3 minute -- minutes. Do I hear a motion?

4 VICE CHAIRPERSON COSTIGAN: I'll move it.

5 COMMITTEE MEMBER HOLLINGER: Second.

6 CHAIRPERSON SLATON: Motion from Costigan, second
7 from Hollinger.

8 All those in favor say aye?

9 (Ayes.)

10 CHAIRPERSON SLATON: Opposed?

11 Motion carries.

12 I've had no requests to pull any of the
13 information consent items, so we'll move to Item 6a,
14 Salary Incentive Ranges for the Chief Operating Officer
15 Position. And the Sharon Louie is here to help us with
16 that.

17 HUMAN RESOURCES ASSISTANT DIVISION CHIEF LOUIE:

18 Good morning, members of the Committee. Sharon
19 Louie, CalPERS team member. Today, we have Mr. Eric
20 Gonzaga of Grant Thornton with us to present a
21 recommendation for the Committee's consideration in
22 setting the compensation for the newly established Chief
23 Operating Officer position.

24 Before I had it over to Eric, I'd like to do a
25 quick recap. In November 2017, the Board approved the new

1 Chief Operating Officer and Chief Health Director
2 positions, and directed CalPERS team members to pursue an
3 amendment to Government Code section 20098 and establish
4 these two civil service classifications.

5 On September 29th, 2018, the Governor signed AB
6 2415 amending Government Code section 20098 to include the
7 COO and CHD positions. This new legislation becomes
8 effective on January 1st, 2019, and grants authority to
9 the CalPERS Board of Administration to set the
10 compensation for these new positions.

11 The purpose of today's agenda item is to provide
12 the Committee with relevant compensation data to adopt
13 base salary and incentive ranges for the COO position.
14 Team members, in collaboration with the Board's primary
15 executive compensation consultant, conducted research to
16 identify a variety of comparable compensation data points,
17 including the agencies identified in attachment 1. Team
18 members will bring forward a similar item for the CHD
19 position, once the class specification is approved by
20 CalHR and the State Personnel Board.

21 With that, I'll turn it over to Mr. Gonzaga to
22 present the salary and incentive range recommendation for
23 the Committee's consideration.

24 Thank you.

25 MR. GONZAGA: Thanks, Sharon.

1 You know, so what we did is, you know, we took a
2 look at this job, and, you know, obviously reviewed the
3 complexity of the job, and it's a very broad job. You
4 know, this Chief Operating Officer job with its
5 responsibility for technology, human resources, strategic
6 planning and development, and various other, you know,
7 positions, it is a very broad job.

8 And when we took a look at the data, what we're
9 coming back at, you know, taking a look at organizations,
10 some comparable, certainly as comparable as we can find,
11 we're recommending a range mid-point of \$250,000 Now, in
12 addition to incentives, consistent with the other, you
13 know, senior executives at the organization, with a
14 maximum incentive of 40 percent of salary.

15 You know, we feel that it's fair. You know, you
16 can even argue conservative, considering, you know, the
17 breadth of the proposed job, and the proposed job
18 description. Certainly, you know, one of the, you know,
19 largest jobs at CalPERS. And, you know, relative to the
20 market data, we just think that \$250,000 is an appropriate
21 market mid-point.

22 CHAIRPERSON SLATON: Okay. Do we have comments,
23 questions from Committee members.

24 Ms. Jenkins-Jones.

25 COMMITTEE MEMBER JENKINS-JONES: Yes. There's

1 just some concerns that were raised that the staff
2 proposal as it appears that the proposed compensation
3 package for the CEO may be inconsistent with AB 2415,
4 depending on who gets hired into the position. We're
5 recommending that the Board may want to consider a legal
6 review prior to approving the proposal.

7 CHAIRPERSON SLATON: So could I have counsel to
8 opine on this subject?

9 SENIOR ATTORNEY CARLIN: Good morning, Committee
10 members. Robert Carlin, CalPERS team member from the
11 Legal Office.

12 We've reviewed the proposal and we think it is
13 consistent with the legislation, but we'd also be happy to
14 take a look at it, since we haven't yet put this out on
15 the street to make sure everything is in compliance again.
16 And happy to address any other questions.

17 CHAIRPERSON SLATON: So -- yeah, Mr. Costigan.

18 VICE CHAIRPERSON COSTIGAN: Can I ask CalHR, the
19 Director, what was the concern?

20 CHAIRPERSON SLATON: You need to press your mic.

21 COMMITTEE MEMBER JENKINS-JONES: Finance's
22 concern is that the Board may want to consider a legal
23 review prior to approving this proposal that AB 2415
24 limits the increase and annual salary that can be paid to
25 a person who serves as the CEO on January 1, 2018, and who

1 does not separate from State service in the position prior
2 to the date on which the increase is applied, which would
3 be January 1st 2019 to a ten percent for the 2018/2019, or
4 five percent for any subsequent fiscal year.

5 VICE CHAIRPERSON COSTIGAN: All right. Actually,
6 thank you. I was having a -- we were talking about our
7 next meeting, so I didn't quite here it.

8 Actually, that was one of the issue that I had
9 with the bill. And I understand that that provision was
10 put in there in order to get it out of the legislature and
11 get it downstairs.

12 The concern I have with it, and I think it's
13 excellent to raise is if you've got -- you're penalizing
14 current State employees with a limitation, but if you
15 bring someone in from the outside, they're not subject to
16 the limitation, is that correct?

17 SENIOR ATTORNEY CARLIN: That would be correct.
18 It only applies to somebody who's acting in the position
19 presently.

20 VICE CHAIRPERSON COSTIGAN: Okay. So the legal
21 review, and I'm so tempted to look at the former Director
22 of Finance, but I will not call Mr. Cohen up here.

23 (Laughter.)

24 VICE CHAIRPERSON COSTIGAN: In the process of
25 legislative review, we're not aware that legislative

1 counsel issued any letter, opinion during the enrolled
2 bill report time.

3 SENIOR ATTORNEY CARLIN: No.

4 VICE CHAIRPERSON COSTIGAN: And so CalPERS staff
5 is comfortable with the legislative interpretation. So I
6 understand what Finance is raising, and going back in
7 looking at it. What I don't know, Mr. Chair, is is the
8 resolution, the legal review, to remove the provision so
9 that our current employees are not penalized by the ten
10 percent, or is it that there's going to be a limit? So
11 which -- I'm trying to figure you which one it is.

12 SENIOR ATTORNEY CARLIN: Maybe this is the best
13 way to thread that needle, Mr. Costigan. We recognize
14 that there's a theoretical possibility that in some
15 potential world this restriction would apply, and would
16 make this inconsistent with the legislation. As a matter
17 of fact though, there's nobody serving in the role today
18 who would contravene the legislation. In other words, the
19 person who arguably might be serving in that role right
20 now, their salary would not be over. Depending -- in
21 other words, given that there's a range of where this
22 person could be placed, it's not impossible to place the
23 current person who would be an incumbent in that position
24 should that be the decision of CalPERS.

25 VICE CHAIRPERSON COSTIGAN: But they'd still be

1 limited to the ten percent increase above their current
2 salary?

3 SENIOR ATTORNEY CARLIN: Yes. In theory, that's
4 correct.

5 VICE CHAIRPERSON COSTIGAN: Okay. Thank you.

6 CHAIRPERSON SLATON: Okay. Ms. Mathur.

7 COMMITTEE MEMBER MATHUR: Thank you.

8 I just want to understand does -- there's nobody
9 serving in the COO role today, correct?

10 SENIOR ATTORNEY CARLIN: Not nominally no, that's
11 correct, Ms. Mathur.

12 COMMITTEE MEMBER MATHUR: So -- I mean, so would
13 anybody on our team be subject to that restriction?

14 SENIOR ATTORNEY CARLIN: Arguably not.

15 COMMITTEE MEMBER MATHUR: Okay. That's my
16 reading of it, that's it really in the future if someone
17 is acting in that position, that they wouldn't, in advance
18 of applying for the role.

19 SENIOR ATTORNEY CARLIN: Correct. I mean, it's
20 almost like a clause intended to grandfather a situation
21 where somebody was serving in that role.

22 COMMITTEE MEMBER MATHUR: Right.

23 SENIOR ATTORNEY CARLIN: I was merely
24 entertaining the hypothetical that were someone to be
25 serving in that role --

1 COMMITTEE MEMBER MATHUR: Yes.

2 SENIOR ATTORNEY CARLIN: -- even if we're to
3 enter -- given that fact --

4 COMMITTEE MEMBER MATHUR: Yes.

5 SENIOR ATTORNEY CARLIN: -- it still wouldn't be
6 a problem, given the current proposal.

7 COMMITTEE MEMBER MATHUR: Okay. But currently,
8 we don't have anyone filling -- sitting in that role --

9 SENIOR ATTORNEY CARLIN: There's no Chief
10 Operating Officer at the present --

11 COMMITTEE MEMBER MATHUR: -- because there -- we
12 didn't have that role until very recent -- or until -- we
13 won't have it until January.

14 SENIOR ATTORNEY CARLIN: That's correct.

15 COMMITTEE MEMBER MATHUR: So, okay. And we don't
16 expect as -- to put somebody into that role until we've
17 done a full recruitment, and then have hired somebody.

18 SENIOR ATTORNEY CARLIN: That's exactly right.

19 COMMITTEE MEMBER MATHUR: Okay. So to me, it
20 seems pretty clear that there is no conflict with AB 2415
21 and its language, and --

22 SENIOR ATTORNEY CARLIN: That was our analysis as
23 well.

24 COMMITTEE MEMBER MATHUR: And I think the
25 proposal that's included in the analysis and the

1 recommendation is very prudent, given the scope of the job
2 that we're contemplating, and significance of it, and the
3 importance of recruiting somebody who really can manage,
4 from an operating standpoint, such a complex organization
5 as CalPERS. CalPERS is not -- we're not just managing an
6 investment office, although that is a significant effort
7 unto itself. It's a very complex organization with lots
8 of moving parts.

9 And so I would move staff's recommendation on
10 this.

11 CHAIRPERSON SLATON: All right. We have a motion
12 on the floor.

13 Is there a second?

14 COMMITTEE MEMBER HOLLINGER: Second.

15 CHAIRPERSON SLATON: Second from Hollinger,
16 motion made by Ms. Mathur.

17 Further discussion?

18 All right. Mr. Jones.

19 COMMITTEE MEMBER JONES: Yeah. Thank you, Mr.
20 Chair. How long would it take to respond to the request
21 that was made to review it?

22 CHAIRPERSON SLATON: Well, I think what we've
23 concluded is that our legal counsel is indicating that we
24 don't have a problem. I think that if 2415, if there's
25 some -- something that turns out to be subject to it, then

1 I think -- and it would not work within the range that is
2 proposed in the motion, then staff would have to bring
3 that back to us, and we would resolve it at that time.
4 But it doesn't seem like it's an issue at this point in
5 time.

6 SENIOR ATTORNEY CARLIN: That's correct. Yeah, I
7 don't -- I don't -- we don't believe it's an issue under
8 any set of facts at present.

9 COMMITTEE MEMBER JONES: Okay.

10 CHAIRPERSON SLATON: All right. Seeing no
11 further discussion.

12 All those in favor of the motion signify by
13 saying aye?

14 (Ayes.)

15 CHAIRPERSON SLATON: Opposed?

16 (No.)

17 CHAIRPERSON SLATON: Motion -- show CalHR as a no
18 vote on the motion.

19 All right. Thank you very much.

20 By the way, I forgot to indicate that Ms. Taylor,
21 Mr. Miller, Mr. Saha for Treasurer Chiang, and Ms. Paquin
22 for Controller Yee, and Mr. Feckner are also present at
23 the meeting, so -- and they were here from the start.

24 (Laughter.)

25 CHAIRPERSON SLATON: All right. We'll move to

1 item 6b Pay Philosophy Discussion for Investment
2 Management Positions.

3 And, Ms. Campbell, you're in charge.

4 (Thereupon an overhead presentation was
5 presented as follows.)

6 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank
7 you, Mr. Chair.

8 Good morning, members of the Committee. Tina
9 Campbell, CalPERS team member. This item continues work
10 the Committee did in June when you selected a salary and
11 incentive range for the CIO position. Today, we have Mr.
12 Eric Gonzaga here from Grant Thornton, the Board's primary
13 executive compensation consultant.

14 Eric will review the work you did in May for the
15 CIO position, and will lead a discussion so you can
16 determine a pay philosophy and select a compensation
17 setting approach for the remaining investment management
18 positions. We'll return at a future date, currently
19 planned for February, with data, so you can approve salary
20 and incentive ranges based on the pay philosophy and
21 compensation setting approach you choose today.

22 Then, at a subsequent meeting, we'll review any
23 associated policy revisions and a detailed implementation
24 plan, so we can have a revised salary and incentive
25 ranges, if selected, in place by July 1st, 2019.

1 mimicking here for the Chief Investment Officer.

2 --o0o--

3 MR. GONZAGA: So the presentation today, what
4 we'll cover is -- is a review specifically of your
5 rationale, what's the policy, and what is the purpose?

6 We'll revisit, you know, what you decided for the
7 CIO. And what we really have is a few options for you to
8 consider, not to, you know, be overly aggressive, not to
9 be overly conservative. What we're talking about is
10 competitive pay, you know, recognizing the peer group that
11 we're talking about.

12 Once we have your perspective in terms of the
13 approach you would like to take, we will come back with a
14 model with the numbers, the specific compensation numbers,
15 and the specific strategy to follow going forward.

16 Okay.

17 --o0o--

18 MR. GONZAGA: Now, just to review the policy, you
19 know, so what is -- what's the purpose of the policy for
20 executive in investment management? It's to optimize
21 recruitment and retention of those critical professionals
22 for the success -- the long-term success, specifically of
23 CalPERS.

24 And so the policy statement reads specifically,
25 it represents the strategic decision that pay must be high

1 enough to encourage highly qualified professionals to join
2 the organization.

3 Highly was modified and adapted -- adopted
4 earlier this year to recognize that CalPERS has a
5 difficult mission, and a lot of complexity to it. So
6 you're looking for highly qualified individuals.

7 Recognizing that compensation systems must be
8 competitive enough, but not so high that folks are coming
9 specifically for money. So there's a recognition that,
10 you know, you're recruiting from industry. At the same
11 time, we don't need to pay as high as industry. And in a
12 recognition that you need a substantial portion of
13 compensation at risk to recognize high performers, high
14 performance in any given year, high individual
15 performance, and there's a risk reward. Poor performance
16 pay gets lower on any given year.

17 --o0o--

18 MR. GONZAGA: The peer group is essentially
19 consolidation, you know, equally weighted amongst the
20 large -- and, of course, CalPERS is a very large
21 organization. So we're taking a look at comparable
22 industry organizations, comparable asset managers in that
23 150 to 300 billion range. So some smaller, some right at
24 the size of CalPERS, in addition, to taking a look at
25 university endowment funds, insurance companies, banks, as

1 well as, you know, the comparably-sized pension funds.

2 So it's a representative blended approach that
3 recognizes that you pull from industry. At the same time
4 it's balanced with the public organizations that would
5 include tax exempts, university endowments, in addition to
6 other large funds. And there is a listing of the peers in
7 appendices, but it's a consistent peer group that you've
8 use for a number of years now.

9 --o0o--

10 MR. GONZAGA: Earlier this year, what you adopted
11 is, you know, a very good philosophy, to optimize
12 recruitment, retention for, you know, a talented CIO. You
13 took a look at all the market array based on, you know,
14 the peer groups listed, and you set a salary with a
15 mid-point right at the 75th percentile and incentives that
16 are sufficient position pay at the 50th percentile total
17 cash compensation level.

18 And a couple things to point out there. Total
19 cash is the sum of salary plus annual incentive. Salary
20 looks high at the 75th percentile, but with the incentive
21 opportunity allotted, what we're looking at is essentially
22 average pay for a CIO from a total cash compensation
23 standpoint.

24 It doesn't include what industry offers, which is
25 long-term incentives. We're talking about 50th percentile

1 total cash compensation. Okay. Any questions on that?

2 Okay.

3 --o0o--

4 MR. GONZAGA: Now, our approach is to
5 recognize -- what we're recommending is a philosophy that
6 targets 50th percentile total cash compensation. Now, why
7 50th percentile? It's average pay, relative to that peer
8 group, if we're taking a look at total cash compensation.
9 Again, we're not including total direct, which includes
10 long-term incentives. So this is, in some respects, a
11 conservative philosophy, but, you know, we also recognize
12 that there's other benefits that come along with being at
13 CalPERS, culture, et cetera working for a -- one of the
14 most prominent organizations in the world.

15 So what we're recommending is three approaches
16 that would get you to the 50th percentile total cash
17 level.

18 And it really is a conservative philosophy. And
19 there's a lot of flexibility. When we say 50th
20 percentile, we know the great majority of your
21 organization is not at the 50th percentile. We're
22 probably looking at average ratios anywhere from the 25th
23 to 35th percentile, so well below market.

24 And when we recommend this philosophy, we're not
25 saying that everybody absolutely has to move to the 50th

1 percentile right away. What we're recommending is a
2 philosophy to get you there, and it gives you the
3 flexibility to position the right folks at that 50th
4 percentile. Some will be above, some will be below. And
5 you'll probably take a couple years to phase into that
6 50th percentile, you know, total cash philosophy.

7 Now, our three approaches that we're
8 recommending, and, you know, we certainly have our biases
9 in terms of what we would think is best. There's a
10 pragmatic approach. There's a philosophical approach, but
11 we'll go through them.

12 And remember, one of the things that we've been
13 talking about the last three years is that because CalPERS
14 has a 100-year mission, what we want to do is, you know,
15 come up with a plan that aligns with that 100-year
16 mission. And there's a lot of good elements in place, a
17 good annual incentive plan. You know, a good
18 retention-based benefits plan.

19 But what we're talking about here is option A is
20 to increase salaries at above market levels, consistent
21 with what we proposed for the CIO. Reducing the annual
22 incentive ranges, you know, maybe by a third by a half,
23 somewhere in that neighborhood, and that would get you to
24 the 50th percentile total cash.

25 Now, what would help?

1 Well, salaries would go up significantly. You
2 know, they'd target in the upper percentiles.

3 Now, why would that be?

4 Well, the point of this is when we talk about
5 risk management balanced with the ability to recruit, and
6 retain highly qualified individuals, what we're talking
7 about is a feature program, which is that high salary.
8 And it's still enough incentive to provide focus for this
9 organization for the committee and executive teams to
10 focus in on what are the right behaviors we're trying to
11 accomplish.

12 It still gets you the 50th percentile total cash,
13 but it also takes out the risk associated with having too
14 high of leverage. And there's always a knock if the
15 incentives get too high, then we're encouraging some
16 risky -- risk taking, based on annual performance. You
17 move the salaries up, optimizes recruitment retention.
18 You can always move salaries up for sustained long-term
19 performance. You still have plenty of incentive based on
20 the annual incentive component, that these are still
21 meaningful dollars. That will get you to the 50th
22 percentile total cash compensation.

23 Alternative B, which is comparable, but all we're
24 talking about here is moving salaries up moderately -- to
25 moderately above market levels. So above the 50th

1 percentile, not necessarily at the top end of the market,
2 and maintain your annual incentives. It still helps you
3 from a recruitment/retention standpoint. There's more,
4 you know, fixed pay associated with salaries. It
5 maintains your existing level of annual incentives.

6 And the primary downside of that again is what
7 we're looking at is the balanced incentive that aligns
8 with your mission, and we're talking about maintaining the
9 existing high leverage at the organization. So that is
10 alternative B.

11 Alternative 3 is still requires some movement to
12 salaries, because on average salaries are below the middle
13 of the market. But what we're proposing is a balance
14 between movement to moderately -- to middle of the market
15 salaries, maintain your annual incentives, and add a
16 long-term incentive component. And we've talked about how
17 that could look. It may be a three- to five-year
18 performance horizon.

19 What does that do?

20 Well, it results in a balanced incentive
21 portfolio, where there's sufficient fixed pay, sufficient
22 annual incentive to reward for outstanding annual
23 contributions, in addition to sustained long-term
24 performance contributions from a variable standpoint.

25 It helps you align where you're coming up with

1 both balanced annual and long-term objectives. And that
2 gets you to that 50th percentile total cash compensation
3 level.

4 So those are the three documented approaches.
5 Moving to the 50th percentile total cash, which again we
6 do believe is conservative, recognizing what occurs out in
7 industry, et cetera, but we think it's sufficient to
8 provide you with market-competitive pay, different
9 philosophies, all three different ways to get there.

10 So any questions?

11 CHAIRPERSON SLATON: Okay. Questions or comments
12 from Committee members or others?

13 Ms. Taylor.

14 COMMITTEE MEMBER TAYLOR: Thank you.

15 So I just want to make sure, as I was following
16 along here, option A establishes above-market salary
17 ranges above the 50th percentile, correct?

18 MR. GONZAGA: Above.

19 COMMITTEE MEMBER TAYLOR: Okay. And then option
20 B moderately above?

21 MR. GONZAGA: Yep.

22 COMMITTEE MEMBER TAYLOR: And then C is aligned
23 with the 50th percentile?

24 MR. GONZAGA: Right.

25 COMMITTEE MEMBER TAYLOR: Where -- and we're

1 talking -- I'm having a brain freeze for a moment --
2 Managing Directors, right?

3 MR. GONZAGA: Investment office, in general.

4 COMMITTEE MEMBER TAYLOR: Except for.

5 CHAIRPERSON SLATON: CIO.

6 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So it
7 would be the Associate Investment Manager and above up to
8 the COIO.

9 COMMITTEE MEMBER TAYLOR: Okay. That's what I
10 thought, up to the COIO.

11 So this falls under our authority to do so. And
12 currently -- so say we take an Associate Investment
13 Manager, what is -- where are we percentilewise with those
14 salaries? So I'd imagine that would be the biggest jump,
15 because they're our lowest range, is that correct?

16 MR. GONZAGA: No, I think that -- actually, I
17 think that the AIMS would actually be closer to market.
18 They're still below market than some of the other
19 positions. But, I mean, it's pretty consistent that when
20 you take a look 50th percentile total cash, that you're
21 trending in that 25th to 35th percentile on average.

22 COMMITTEE MEMBER TAYLOR: Are we there any way in
23 our pay? That's what I was asking. How far are we away
24 from this -- what we're reaching here either with A, B, or
25 C in our current pay? Does anybody have an idea?

1 MR. GONZAGA: Yeah. And it depends. But on
2 average, you're at the 25th to 35th percentile.

3 COMMITTEE MEMBER TAYLOR: So we're at the 25th --
4 I'm sorry. I did not understand that. My apologies.

5 MR. GONZAGA: Yes.

6 COMMITTEE MEMBER TAYLOR: So we're currently at
7 25th to 35th percentile. And how many employees are we
8 talking about?

9 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: One
10 hundred and twenty-six.

11 COMMITTEE MEMBER TAYLOR: Okay, 126 employees
12 that may get from between a 25 to -- or 15 to 25 percent
13 pay increase, is that -- or --

14 CHAIRPERSON SLATON: No, I don't.

15 MR. GONZAGA: Percent, no. And I think what I
16 would say is that I think there is a meaningful
17 difference, and there's no question about it, from the
18 50th percentile total cash level. What we're proposing is
19 a philosophy. And I would not expect you to get there
20 overnight. What I would expect is a couple things would
21 have to happen. One is that we need to figure out who
22 those folks are that should be positioned closer to the
23 50th percentile. Not everybody is going to move there.

24 And the second is that it's a goalpost to move
25 you there, to optimize recruitment and retention. And it

1 really is just -- our recommendation is based on the fact
2 that these are complicated jobs, like a lot of jobs are
3 complicated. And most -- for the most part, most
4 organizations tend to target that 50th percentile.

5 And we're also taking a portion out of what
6 industry does, which is long-term incentives. What we're
7 looking for is finding that balance between what industry
8 does, recognizing these are public sector jobs.

9 COMMITTEE MEMBER TAYLOR: Okay. So we're
10 not recog -- because I think they get incentives right
11 now. So we're saying that we would rather change that
12 philosophy a little bit into less incentives than more --
13 just

14 MR. GONZAGA: That's correct.

15 COMMITTEE MEMBER TAYLOR: -- here's your pay.

16 So -- and do the current incentives -- and I
17 can't remember. And I was on this Committee last year,
18 but I cannot remember, do the current -- current
19 incentives, if we have a downturn or if we have a bad
20 performance by an employee, they make a bad stock exchange
21 whatever, do those incentives go away if that -- those
22 types of scenarios occur.

23 MR. GONZAGA: I don't think so because, you know,
24 again it's -- we would be reducing incentives to
25 compensate for that higher salary, but it's still, you

1 know, plenty of incentive opportunity to incentivize and
2 change behaviors. There's all sorts of arguments as to
3 whether, you know, 45/50 percent incentive does that drive
4 behavior anymore than something with 100 percent
5 incentive, for example.

6 What we're proposing is that, you know, if you
7 lower annual incentives and increase out, you still have
8 plenty to incentivize folks with, but it takes the risk
9 out of folks with substantial -- that the higher the
10 annual incentive, the more what we're focused in on is the
11 argument would be that folks are focused in on short-term
12 decisions, which may encourage a little bit of undue risk
13 taking. So we're attempting to take the risk out of it,
14 while paying competitively and still having enough
15 incentive to matter.

16 COMMITTEE MEMBER TAYLOR: So -- and I appreciate
17 this philosophy change. I do. I think that one of the
18 problems I see with incentives is if we're not
19 de-incentivizing when their behavior -- you know, however
20 it works, whether it's bad behavior or bad performance, I
21 don't think that's a positive thing, if we're not
22 de-incentivizing.

23 I would love to see -- and I could be all wrong
24 here, but I would love to see some sort of cost factor on
25 this.

1 Go ahead, Brad.

2 DEPUTY EXECUTIVE OFFICER HOFFNER: So maybe I
3 could make a comment. I wanted to refer back to the
4 Board's policy on this page 16 to Ms. Taylor's point,
5 discretionary performance adjustments, basically there's
6 three bullets here that talk about upward or downward
7 adjustments. So poor performance is definitely something
8 that's taken into account.

9 COMMITTEE MEMBER TAYLOR: Okay. I could not
10 remember. I thought so.

11 DEPUTY EXECUTIVE OFFICER HOFFNER: It's
12 identified here. It could zero it out completely. So
13 there's a variety of factors that you currently have
14 within our existing policy. That address your, I think,
15 initial point. I think the second one is depending on
16 what the Committee is looking to do today, the goal with
17 it being once you seek whatever particular --

18 COMMITTEE MEMBER TAYLOR: Which one of these we
19 decide on.

20 DEPUTY EXECUTIVE OFFICER HOFFNER: -- A, B, o C
21 you're looking to engage on, in February, we bring back
22 data to talk about that further.

23 COMMITTEE MEMBER TAYLOR: Okay.

24 DEPUTY EXECUTIVE OFFICER HOFFNER: But we want to
25 kind of get you to identify what the rational is you're

1 looking to pursue, we can then pull information and bring
2 that back.

3 COMMITTEE MEMBER TAYLOR: And the Board Policy
4 would reflect in anything new that we put together with
5 this --

6 DEPUTY EXECUTIVE OFFICER HOFFNER: That probably
7 exists today.

8 COMMITTEE MEMBER TAYLOR: Okay.

9 DEPUTY EXECUTIVE OFFICER HOFFNER: And so
10 anything that we're looking to do would be July 1 going
11 forward. But these provisions about upward or downward
12 adjustments from a modification and performance
13 perspectives currently exist.

14 COMMITTEE MEMBER TAYLOR: Okay. Thank you.

15 CHAIRPERSON SLATON: Mr. Jones.

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

18 Yeah, looking at our intent, which is to recruit
19 and retain highly skilled professionals who are the
20 foundation for CalPERS's overall success, which of these
21 three options do you think best achieves this goal?

22 MR. GONZAGA: Yeah. And so I think that you know
23 ideally, you know, my preferences are either A or C. And,
24 you know, C, because, you know, it's a balanced approach.
25 And to the extent that you can agree upon long-term

1 objectives, it forces that balance between optimizing
2 annual performance, while making sure that we're not
3 optimizing annual performance to the detriment of
4 long-term performance, so that's what I like about C.

5 What I like about A is also recognizing that, you
6 know, to recruit individuals -- I mean, we're talking
7 about providing above market salaries. And does that
8 become a feature, which allows you to recruit, recognizing
9 that inevitably if we're recruiting from industry, they
10 will be giving up total compensation opportunities,
11 because there will be no long-term incentives, and the
12 higher salary provides you more flexibility with which to
13 recruit. And, of course, it's going to help from a
14 retention standpoint as well. So I could be persuaded
15 that either A or C are the right approach. I would pick
16 one of those two.

17 COMMITTEE MEMBER JONES: So focusing on the
18 recruitment component, then you're saying A better
19 addresses the recruitment side of this philosophy?

20 MR. GONZAGA: It does.

21 COMMITTEE MEMBER JONES: Okay. Okay. Well, then
22 I would -- you need a -- what is this, just a discussion
23 or is this --

24 CHAIRPERSON SLATON: Well, you could -- why don't
25 we let. There's more people that want to speak, but if

1 you want to advance a motion, I'll get back to you.

2 COMMITTEE MEMBER JONES: Yeah, I would move that
3 then we adopt item A.

4 CHAIRPERSON SLATON: All right. Well, we have
5 a -- we do have a motion on the floor.

6 So is there a second to option A?

7 COMMITTEE MEMBER HOLLINGER: I need to ask a
8 questions first.

9 CHAIRPERSON SLATON: Okay. Why don't -- why
10 don't we just hold off on the motion for a minute. We'll
11 come back to it. Ms. Hollinger.

12 COMMITTEE MEMBER HOLLINGER: Yeah, I would like
13 to get input from Ms. Frost, our CEO, because you're the
14 one in charge here, and I would like to know if one of
15 these options is more aligned with your -- with the
16 challenges you face. Is it more having the higher salary
17 the base, if you could?

18 CHIEF EXECUTIVE OFFICER FROST: Yeah. Thank you,
19 Ms. Hollinger. So, for me, there are a couple of items
20 that I would pay attention to here. The first one is the
21 pay philosophy or the pay policy. Having that be
22 consistent with what was recently adopted for the Chief
23 Investment Officer makes sense. It's created, I would
24 say, some expectations around looking at this for the
25 other investment --

1 COMMITTEE MEMBER HOLLINGER: Right.

2 CHIEF EXECUTIVE OFFICER FROST:

3 -- classifications in the Investment Office. So
4 doing this work today is really important.

5 But I think that alignment is also important. I
6 think the other consideration that we always have to be
7 thoughtful of is that these are public sector positions.

8 COMMITTEE MEMBER HOLLINGER: Right.

9 CHIEF EXECUTIVE OFFICER FROST: And so paying
10 above market, we would really have to, I think, put some
11 justification behind that. Incentives, I think there
12 should always be some at-risk compensation or pay. And
13 then in the current structure, we do not have a long-term
14 incentive opportunity. And I think that's critically
15 important for retention.

16 So it is -- it's almost this blend of A and C,
17 where you want to be able to recruit the best talent, but
18 it's also -- even though some of these candidates may be
19 giving up total comp in their private sector positions,
20 they're also coming into the public sector that has a
21 defined benefit pension plan, even though PEPPRA does cap
22 the salary that's allowed for that computation, but also
23 have a very good health care plan.

24 And so there is a total compensation piece of
25 this that I think we need to get you some data for

1 February as well.

2 You know, Ben will be here soon in January. I've
3 not had significant conversations with him about this.
4 But I do know from a philosophy standpoint, he does think
5 the 25th percentile is too low for recruitment.

6 COMMITTEE MEMBER HOLLINGER: Right.

7 CHIEF EXECUTIVE OFFICER FROST: That we also
8 believe that the long-term incentive is critically
9 important for the retention. So I think looking at the
10 benchmarking group, the benchmarking group also would need
11 to contain public -- other public pension plans, and
12 taking a look at where that might put some of these
13 classifications.

14 COMMITTEE MEMBER HOLLINGER: So when I'm hearing,
15 at least a portion of what you're saying probably the
16 optics make the most sense, because we are public sector.
17 CalHR is market aligned salary, rather than having any
18 kind of verbiage that says above. And then I guess, Mr.
19 -- I would probably hold off on the motion, because I
20 would want to get our new CIO's input.

21 COMMITTEE MEMBER TAYLOR: It is an action.

22 COMMITTEE MEMBER HOLLINGER: It's not an act --
23 is it an --

24 COMMITTEE MEMBER MATHUR: It is.

25 CHAIRPERSON SLATON: It is, but we don't have to

1 take action. It's up to us. This is for effective July 1
2 of 2019, correct.

3 COMMITTEE MEMBER HOLLINGER: Right. Yeah. So --
4 and the long-term incentive options, you know, it's
5 interesting to me, because the other question I have for
6 you, Mr. Gonzaga, is let's say we're in a down market, are
7 you still incentivized bases on the benchmark, if you
8 still -- your performance was -- pardon?

9 Oh.

10 COMMITTEE MEMBER TAYLOR: Go ahead. Sorry.

11 COMMITTEE MEMBER HOLLINGER: Oh. Or Let's say,
12 for example, the market was down five percent, and you're
13 just down one, are you in -- are you currently
14 incentivized?

15 MR. GONZAGA: Yes. I mean that would be -- you
16 know, that's a pretty come technique if you're beating the
17 market.

18 COMMITTEE MEMBER HOLLINGER: Right. No, I know
19 it is.

20 MR. GONZAGA: Yeah. And it would, but what
21 you're taking a look at is overall sustained performance.
22 And there's a lot of different ways to -- you know, that
23 would have to be something that could be vetted out. We'd
24 keep it simple. But relative performance is often a
25 component of it. And there may be some, you know, other

1 metrics that you want to use from an efficiency standpoint
2 or what have you.

3 So, you know, certainly what you want to do is
4 maintain -- beat the market. I think that you're doing it
5 as part of your annual incentive plan. If you do that
6 from a long-term incentive, or a sustained performance
7 standpoint, we think awards should be paid out as well.

8 COMMITTEE MEMBER HOLLINGER: No, I agree with
9 that, and I also agree with appropriately compensating
10 people when you take risk off the table, so -- if it's
11 merited or warranted.

12 So my sense would be we do not go above market,
13 and maybe wait for our CIO to come back to collaborate
14 with him on what he feels long-term incentives, what would
15 be appropriate.

16 MR. GONZAGA: Great. And I guess the question
17 I'd ask is that, you know, consistent with, you know,
18 other organizations, so market -- and we're defining that
19 as the 50th percentile total cash. And recognizing that's
20 discounted because there's some other things that industry
21 offers, that CalPERS can't. So 50th percentile, we're
22 saying that's market. But what about for outstanding
23 performance, would you go above market for outstanding
24 performance?

25 COMMITTEE MEMBER HOLLINGER: Yes, I would, but

1 that would be part of the incentive. I still think we
2 have to have for CalHR purposes that at least your base
3 range is within market --

4 MR. GONZAGA: Right.

5 COMMITTEE MEMBER HOLLINGER: -- you know, but
6 it --

7 MR. GONZAGA: And I would say that it's 50th
8 percentile target total cash, and above market for
9 outstanding or superior performance.

10 COMMITTEE MEMBER HOLLINGER: Correct. Correct.
11 Absolutely.

12 CHAIRPERSON SLATON: Okay. Ms. Mathur.

13 COMMITTEE MEMBER MATHUR: Thank you. Well, you
14 know, a couple of years ago, we did quite an extensive
15 compensation review. And one outcome of that was that the
16 Committee and the Board really did want to see the
17 addition of long-term incentive opportunity. We have not
18 yet implemented or executed that piece of the final
19 proposal or adopted approach. But I do think that -- that
20 C -- proposal C, here on page seven of nine is the most
21 aligned, both with the results of that compensation
22 review, aligned with sort of our public sector context,
23 and really was trying to better align our Investment
24 Office's activities with the longer term view, which, of
25 course, CalPERS is a very long-term investor.

1 So I think having some range around the 50th
2 percentile compensation -- for total cash compensation,
3 and adding a long-term incentive opportunity is the right
4 choice. And I would -- I guess I would suggest that we
5 could adopt that pay philosophy today, and then work with
6 the CIO on what is the best structure to implement that
7 when he comes.

8 So I would actually move that we adopt option C
9 and that Ben -- the Committee and the team work with the
10 CIO to develop a plan to implement that, that he thinks is
11 consistent with the market dynamics.

12 CHAIRPERSON SLATON: Okay. So we had an earlier
13 motion that was withdrawn. And are we -- let's continue
14 the conversation before we entertain a motion from him --

15 COMMITTEE MEMBER MATHUR: Sure.

16 CHAIRPERSON SLATON: -- because there's a couple
17 people -- more people that want to speak.

18 Mr. Costigan.

19 VICE CHAIRPERSON COSTIGAN: Thank you, Mr. Chair.

20 So just a few questions. And this is more
21 towards Ms. Campbell. So we've 120 folks in these --
22 there are 120 position. So what's the current vacancy
23 rate, do we know?

24 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So
25 around five percent, and it also depends --

1 VICE CHAIRPERSON COSTIGAN: You might move the
2 microphone.

3 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Around
4 five percent, and it also depends on the actual
5 classification.

6 VICE CHAIRPERSON COSTIGAN: Okay.

7 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Because
8 there -- we have four different classifications.

9 VICE CHAIRPERSON COSTIGAN: So five percent, six
10 people.

11 DEPUTY EXECUTIVE OFFICER HOFFNER: Well, I think
12 we need to maybe bring that information back because
13 that's sort of representative of the entire Investment
14 Office.

15 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Right.

16 DEPUTY EXECUTIVE OFFICER HOFFNER: I think it's
17 actually higher than that. But are these covered
18 positions. So I think it's maybe -- we maybe clearer
19 about answering the questions.

20 VICE CHAIRPERSON COSTIGAN: Well, let's just make
21 it 10 percent for argument sake, so 12 people out of 120.

22 Can you just walk us through, because I don't
23 think everybody has the advantage or knowledge, what's the
24 recruitment process? Because on one hand we're kind of
25 leaping ahead to paying someone. They actually first have

1 to get into the system. So how does -- how do -- how does
2 one of these people that we're going to go out and
3 potentially pay above-market rate actually get into the
4 system?

5 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Sure.

6 So for private sector folks coming to the State
7 of California, there's an exam process, which is --
8 there's an exam process for everybody. But when it is
9 private sector, often we do use a search firm that works
10 with us to go out and find us the talent that we're
11 looking for. In HR, we also do that as well. And once
12 they take the exam, they're placed in a rank. And
13 depending on that rank, they would become eligible. And
14 those that become eligible and meet the criteria, the
15 screening criteria, we bring them in for an interview.

16 And then from that, there is a selection of the
17 employee. And something that's important to note also for
18 these Board-covered positions, there's a probationary
19 period. Sometimes, we don't recognize that because of the
20 level of the classification, but they are just like any
21 other State employee. So probationary period is part of
22 the selection process as well.

23 So while on probation, they're being evaluated.
24 And then at that -- you know, they're appointed,
25 evaluated, and then if they pass probation, they become --

1 gain permanent status in State government.

2 VICE CHAIRPERSON COSTIGAN: Okay. And I just
3 want to -- because we're talking so much on salaries
4 instead of on the front end.

5 And then on the -- on the range itself -- okay.
6 So we're going to -- so when we talk about A or C above
7 market, we're now talking about creating a new salary
8 range. Okay. So -- can -- what's the range on the salary
9 going to be and what are the steps inside of this class?

10 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay.
11 So I don't know that we can answer that questions as far
12 as what the range is until we have the data to show you
13 which -- it's really about picking one of these and us
14 bringing it back and showing you what that looks like. I
15 don't want to speculate again on each classification, but
16 we would be able to do that with Grant Thornton.

17 VICE CHAIRPERSON COSTIGAN: Well, I guess I'd
18 just ask you a general question.

19 DEPUTY EXECUTIVE OFFICER HOFFNER: Mr. Costigan,
20 are you referring to what the positions that exist today
21 are?

22 VICE CHAIRPERSON COSTIGAN: Well, that's I guess
23 some of the questions that Ms. Taylor raised.

24 DEPUTY EXECUTIVE OFFICER HOFFNER: Because
25 it's --

1 VICE CHAIRPERSON COSTIGAN: So when we talk about
2 establish above market salary ranges -- okay. For someone
3 involved in State service, myself and the Director of
4 CalHR, that is magical phrase for use, salary range. It
5 means that there's a range.

6 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Sure.

7 VICE CHAIRPERSON COSTIGAN: What's the low,
8 what's the high. Do we have that data right now?

9 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So I
10 can -- which -- let me start at the AIM positions. It's
11 108 to 162.

12 VICE CHAIRPERSON COSTIGAN: That's current.
13 That's current.

14 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: This is
15 current.

16 DEPUTY EXECUTIVE OFFICER HOFFNER: This is
17 current, yeah.

18 VICE CHAIRPERSON COSTIGAN: Okay. I'm sorry, 108
19 to 162.

20 DEPUTY EXECUTIVE OFFICER HOFFNER: Investment
21 Managers 140 to 229,320. Investment Directors 188 to
22 307,944. Managing Investment Directors 262 to 428,064.
23 The COIO is 240 to 393,120. And then this breaks that out
24 into quartile ranges, depending on where they come and
25 where they're placed, depending on the type of position

1 they're in. But that runs through. There's four
2 quartiles within those ranges. And that's existing today
3 for these positions.

4 VICE CHAIRPERSON COSTIGAN: And it's in our goal,
5 either adopting A or C, is we're going to move all of
6 these ranges up by some amount.

7 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: If you
8 want to get to the 50th percentile quartile.

9 VICE CHAIRPERSON COSTIGAN: Okay. I'm just --
10 and then -- as Mr. Taylor and I were just having
11 conversation, again not everybody is as familiar. How
12 negotiable are those with inside the range? So we have a
13 low and we have a high. So the person takes the test,
14 they score and rank number one, they get picked. Okay,
15 now, we're going to negotiate with that range, correct?

16 HUMAN RESOURCES DIVISION CHIEF CAMPBELL:
17 Correct.

18 VICE CHAIRPERSON COSTIGAN: Okay. So I'm just
19 trying to answer her questions here.

20 Probation on this is one year?

21 HUMAN RESOURCES DIVISION CHIEF CAMPBELL:
22 Correct.

23 VICE CHAIRPERSON COSTIGAN: Okay. And then
24 what's our current retention rate? So someone that's come
25 in through the system, passed probation, what's the -- on

1 the backside?

2 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: For --
3 I don't have that data.

4 VICE CHAIRPERSON COSTIGAN: Okay.

5 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Again,
6 it would matter on the classification, but we could bring
7 back each classification on retention rate, if you'd like.

8 SENIOR STAFF COUNSEL CASTAÑOS: And I'll just say
9 over the years, as Grant Thornton knows, I've sort of
10 evolved in this. I used to be fairly hard core about on
11 this -- on State employees have to be recognize they're
12 State employees, and deal with salary side. I've seen
13 both through my learning on how investments works and
14 trying to attract talent, because of the mission
15 objective. Just a -- there's got to be some -- a little
16 bit of tradeoffs.

17 Because the one reason I asked you to go through
18 that is if I work for Goldman Sachs after a year, and I'm
19 not performing, out the door you go. Once they've passed
20 probation here, they get the joy of showing up at my other
21 board if there's a disciplinary action.

22 And we have yet to figure out how -- and, Mr.
23 Chair, at some point, I'd like to have this
24 conversation -- how do you discipline, little d, an
25 employee who's not performing well? I've -- I will just

1 say I've never seen a case at SPB that's involved an
2 Investment Officer who didn't meet baseline. So I'm
3 saying -- so performance never seems to have been an issue
4 on a disciplinary side, that at least I've seen in my
5 years at SPB.

6 So I just think it becomes part of this larger
7 discussion overall. It's hard to get into system. Once
8 you're in the system, probation, and then it's kind of
9 hard to exit the system, unless you voluntarily want to
10 leave the system, if you actually use the concept of
11 progressive discipline, outside of some zero tolerance
12 policies on it.

13 So, I mean, I would support Ms. Mathur, should
14 she chose to make the motion, of going forward with C. I
15 would like a little more of is there a retention problem,
16 is there a recruitment problem, and then do we need to go
17 back and look at some of the recruitment to bring in some
18 of these folks? Because I still think the biggest barrier
19 is the actual recruitment. And this is the -- for
20 policymakers is it's that ranking. You may have the best
21 person, and they may not be reachable. They may be four
22 or they may be 3 and we never get to them. And that then
23 comes back to how quickly can we onboard? And I know
24 that's a bigger issue that CalHR has been working on.

25 CHAIRPERSON SLATON: Ms. Jenkins-Jones.

1 COMMITTEE MEMBER JENKINS-JONES: Yes. Thank you,
2 Mr. Costigan. I was getting ready to go there.

3 (Laughter.)

4 COMMITTEE MEMBER JENKINS-JONES: But thank you.
5 I want to get a little bit more granular, because you know
6 you guys came to me a couple of years ago when I was the
7 Chief of Selections. And we worked on these exams with
8 you in conjunction with CalSTRS.

9 So I want to know how many applications were
10 accepted, how many people were actually interviewed, how
11 many people made the list? Is this a three rank list? I
12 don't remember.

13 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: I
14 believe it is.

15 COMMITTEE MEMBER JENKINS-JONES: So that means
16 everybody is eligible. So you can hire anybody off the
17 list. So there's no lower rank that they can get to. So
18 they have a three rank list that they can hire anybody,
19 which makes everybody eligible on that examination.

20 So I'd like to have a little bit more granular
21 detail. Actually agree with Ms. Hollinger on waiting
22 until January, until we get a little more granular detail.

23 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So jus
24 a quick correction. I apologize. I know that we were
25 looking to go to rule of 3, because we had that problem in

1 the Investment Office. I don't know if we ever actually
2 made that happen --

3 COMMITTEE MEMBER JENKINS-JONES: Okay.

4 HUMAN RESOURCES DIVISION CHIEF CAMPBELL:

5 -- because we do have people below those ranks
6 that we're not able to get.

7 COMMITTEE MEMBER JENKINS-JONES: Well, I can -- I
8 can email CalHR --

9 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: But I
10 will confirm that.

11 COMMITTEE MEMBER JENKINS-JONES: -- right now and
12 find out.

13 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah.

14 COMMITTEE MEMBER JENKINS-JONES: And I'll have my
15 staff check into it --

16 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay.

17 COMMITTEE MEMBER JENKINS-JONES: -- to see how
18 many ranks these four examinations are.

19 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay.

20 COMMITTEE MEMBER JENKINS-JONES: Also, this is a
21 footnote 55, which is pursuant to Government Code section
22 20098 and 22212.5 where CalPERS and CalSTRS set the
23 compensation for these classifications. With your
24 proposal, does this put you above CalSTRS or are you doing
25 this in conjunction with CalSTRS?

1 HUMAN RESOURCES DIVISION CHIEF CAMPBELL: I don't
2 know where it puts us, because I don't know which one of
3 these we're actually going to come to, but we can
4 certainly bring that back. And as far as being in
5 conjunction with CalPERS, they take things to their board
6 and they set their salaries. Like we have targets. They
7 don't have targets. So we don't do everything in tandem
8 when we're looking at setting salaries. It's really each
9 department and each board's authority. And theirs is also
10 governed by Education Code where ours is Government Code.

11 COMMITTEE MEMBER JENKINS-JONES: Okay. So those
12 are my main concerns.

13 Thank you.

14 CHAIRPERSON SLATON: So let me ask a question of
15 staff on timing of this. Ben Meng is coming in in
16 January. We have a January retreat. First time we can
17 really talk about this. The earliest would be February.
18 We're trying to have something in place for July 1. So
19 the question is if we defer from today, we'd be deferring
20 until February. Does that really give us enough time? If
21 we don't even get to the philosophy today, are we running
22 up against a boundary where it's going to be difficult to
23 complete the job in time for all the whatever transition
24 work needs to happen to have it be effective -- both
25 effective in time and effective on July 1.

1 CHIEF EXECUTIVE OFFICER FROST: Right. So, Mr.
2 Slaton, I think you could actually -- you know, we were
3 trying to get at the pay philosophy today, but I think you
4 could do two things. You could ask us to bring back data
5 on all three, two of the three back in February. That
6 would also give the new CIO time to get on board, get up
7 to speed on this item, and be able to comment in the
8 February meeting.

9 So I don't think it would be that difficult for
10 us to bring data back on two of three, since it seems that
11 most of the dialogue has been around A and C. And that
12 way we can keep moving forward and continue to answer the
13 questions that are coming up today.

14 CHAIRPERSON SLATON: Yeah, that seems to me to
15 be -- the only thing I haven't heard is B. So I think
16 that if you -- if you bring back data for both, I think it
17 aligns with getting the new CIO on board, being able to
18 have a really robust conversation in February. I think we
19 just need to make sure we have enough time on the agenda
20 for this in February, because we're really going to have
21 to move forward, if we're going to meet a July 1st
22 deadline.

23 So is there any objection by Committee members or
24 other members here to taking that approach?

25 Okay. So directed by the Chair.

1 All right. Okay. We move to information,
2 summary of Committee direction. Mr. Hoffner.

3 DEPUTY EXECUTIVE OFFICER HOFFNER: I think as the
4 Chair, you just stated what it was.

5 (Laughter.)

6 DEPUTY EXECUTIVE OFFICER HOFFNER: So bringing
7 back information at the February meeting related to both A
8 C, in addition to the other detailed questions that came
9 up by I think three or four of the different Committee and
10 other members of the Board to provide that at the February
11 meeting

12 COMMITTEE MEMBER HOLLINGER: Regarding like
13 vacancy.

14 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, yeah.
15 So that vacancy rates. There's questions about
16 comparisons to CalSTRS. I mean, there's --

17 CHAIRPERSON SLATON: All that.

18 DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. We'll
19 go through the transcripts, but it -- I think we heard you
20 loud and clear.

21 COMMITTEE MEMBER HOLLINGER: Okay.

22 CHAIRPERSON SLATON: Great. All right.

23 I think we've completed the agenda. I have no
24 public comment, so we are adjourned.

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(Thereupon the California Public Employees'
Retirement System, Board of Administration,
Performance, Compensation, & Talent Management
Committee meeting adjourned at 11:11 a.m.)

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

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

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

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

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

16 IN WITNESS WHEREOF, I have hereunto set my hand
17 this 19th day of December, 2018.

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