

Investment Management Positions: Pay Philosophy Discussion and Recommendations

February 2019

Methodology Overview



Methodology

- GT provided compensation design recommendations for investment positions based on outcomes from the December meeting
- Proposed compensation levels are intended to position CalPERS near the comparator Total Cash 50th percentile (*approved philosophy*):
 - Option A has significantly higher salaries and lower annual incentives
 - Option C has slightly higher salaries, annual incentives similar to current levels, and introduces a new long-term incentive
 - Both options still represent discount from industry/market levels

Methodology (continued)

| Option | Goal: establish compensation levels at the comparator total cash 50th percentile with incentives aligned with mission |
|----------------|--|
| A ¹ | <ul style="list-style-type: none">• Increase salary midpoints to market 90th percentile (or above, depending on position)• Decrease annual incentive ranges• No long-term incentives |
| C ¹ | <ul style="list-style-type: none">• Increase salary midpoints to market 50th to 75th percentile (depending on position)• Maintain or slightly increase annual incentive ranges (depending on position)• Introduce long-term incentives with values equal to annual incentive range targets |

¹ Source data for both options is from the comparator group compensation survey conducted by McLagan and presented to the Board in 2015; conservative adjustments to the data were made to more closely represent today's market.

Long Term Incentive – Design and High Level Overview

- Option C introduces a long-term incentive ("LTI") as a part of total compensation
- LTI levels, expressed as a percent of salary, are equal to annual incentive range targets and vary by position classification
 - E.g., 0–60% annual incentive range (40% target) would have an LTI of 40%
- Comparable annual and LTI opportunities provide an appropriate balance of incentivizing short-term performance, longer-term stewardship, and promote retention

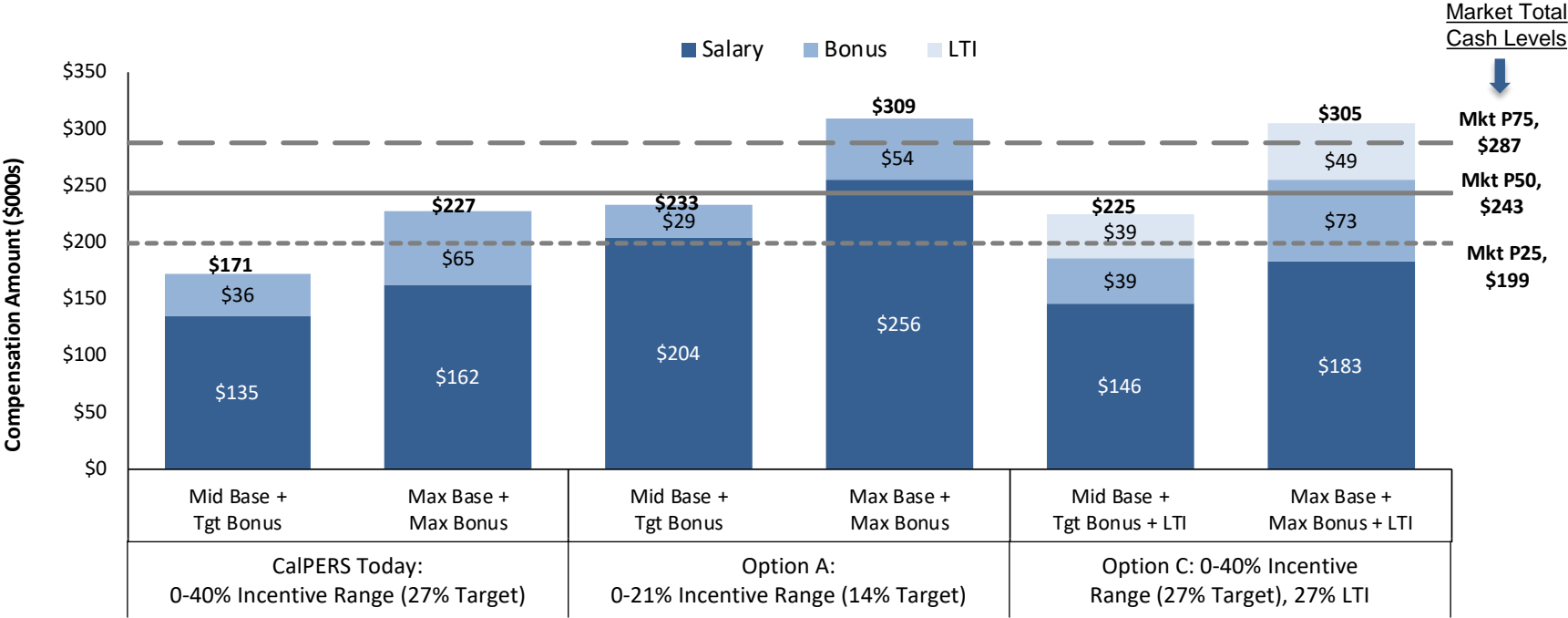
Long Term Incentive – Design and High Level Overview (continued)

- GT recommends measuring absolute fund performance over a multi-year (i.e. 3-5 years) period, with payouts occurring at the end of the performance period
 - Note: relative fund performance is measured in the annual incentive plan
- If Option C is selected, GT and CalPERS will work to finalize implementation recommendations ahead of the next Committee meeting

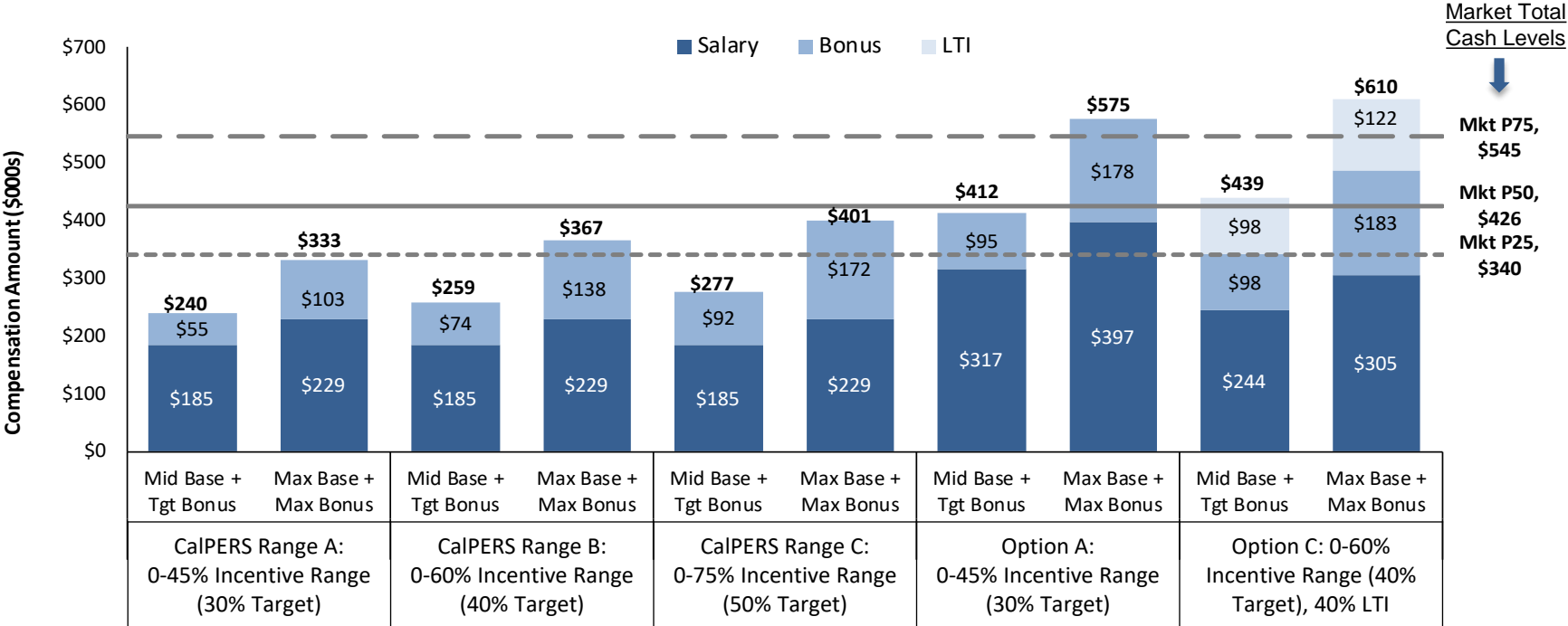
Recommended Compensation Levels and Ranges



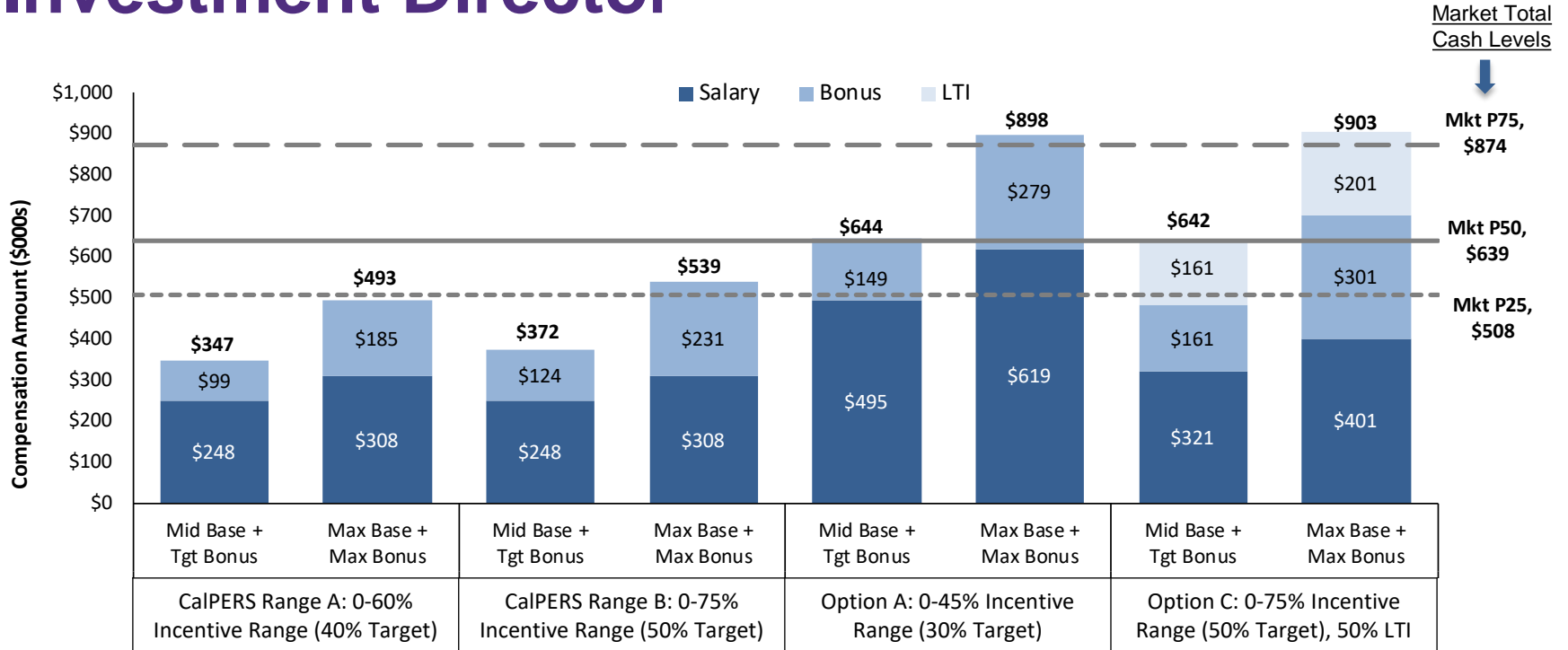
Associate Investment Manager



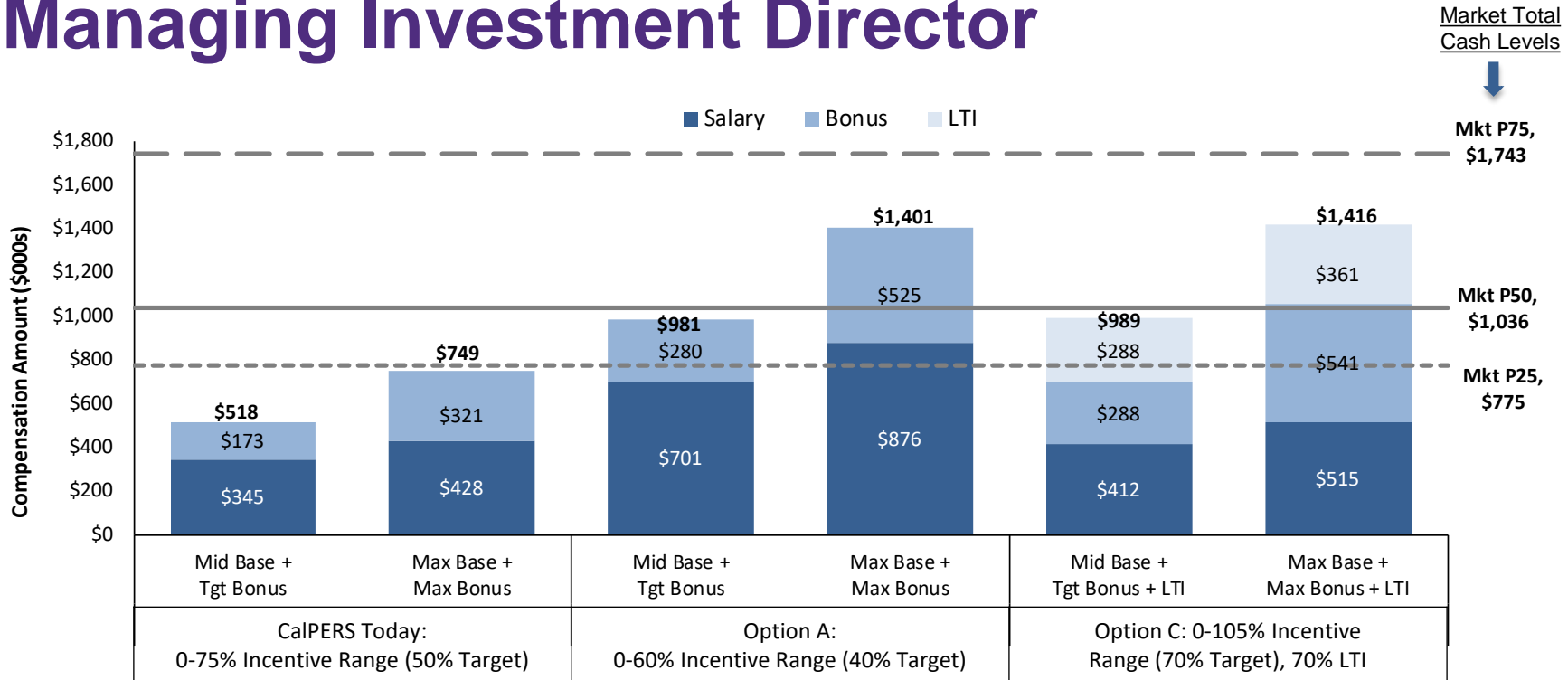
Investment Manager



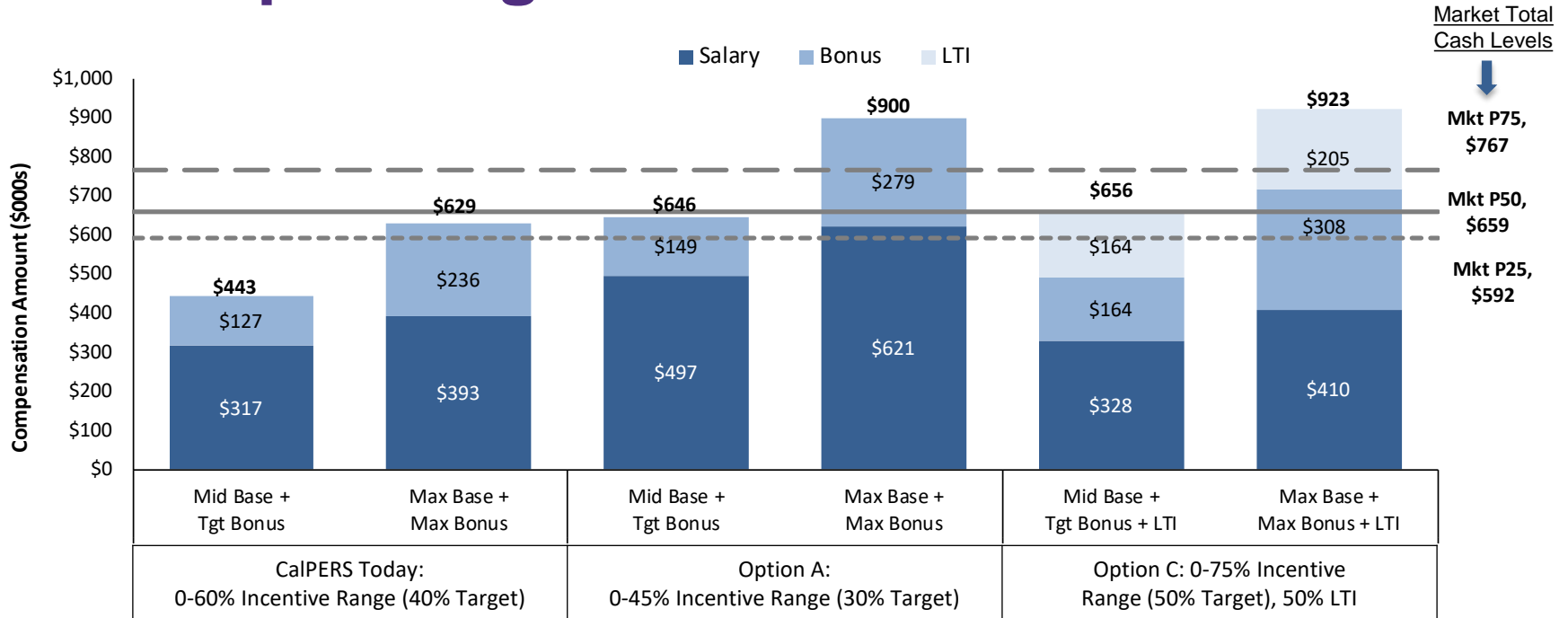
Investment Director



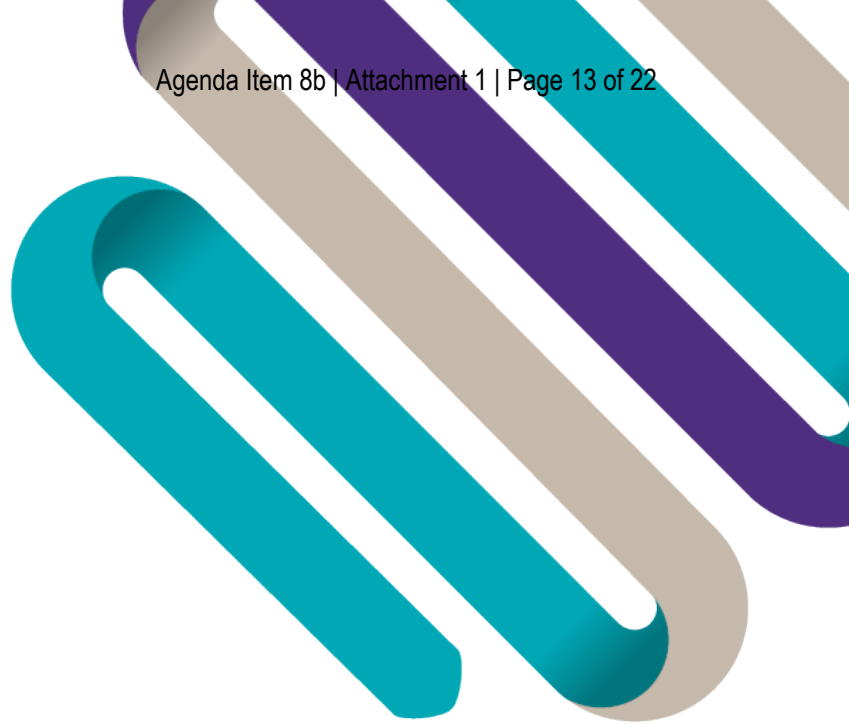
Managing Investment Director



Chief Operating Investment Officer



Cost Comparisons



Cost Comparisons

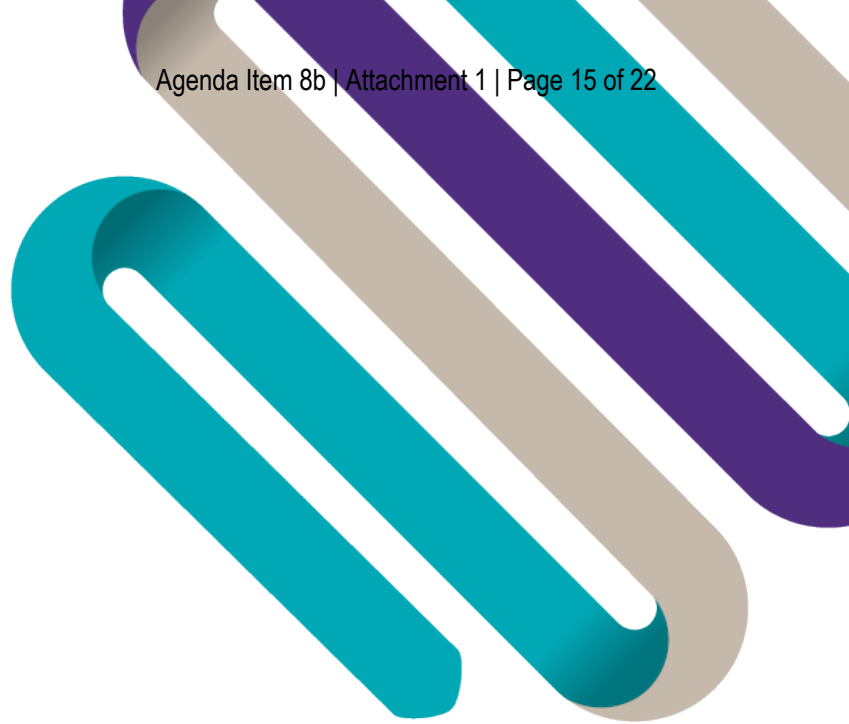
The table below details estimated total compensation costs as a % of AUM (assuming an average salary at new range midpoint)

| Option | Salary | Tgt Incentive | LTI | Total | % of CalPERS AUM ¹ |
|---------|-----------|---------------|-----------|-----------|-------------------------------|
| Current | • \$24.8M | • \$9.7M | • n/a | • \$34.5M | 0.010% |
| A | • \$44.4M | • \$13.0M | • n/a | • \$57.4M | 0.016% |
| C | • \$31.1M | • \$13.9M | • \$13.9M | • \$58.9M | 0.017% |

¹ Assumes CalPERS has \$350B in Assets Under Management ("AUM")

- Projected costs assume mid salary ranges and target annual incentives
- Movement of CalPERS to the new salary range for either Option A or C will be determined as a part of implementation

Appendix



Incentive Range Revisions

- GT recommends a single annual incentive range for the Investment Manager and Investment Director positions
- A policy provision would allow caps to be set within the single range based on variables such as role, function, and placement within the organization

Investment Manager current ranges:

- 0% – 45% (30% target)
- 0% – 60% (40% target)
- 0% – 75% (50% target)

GT recommends:

- Option A: 0% – 45% (30% target)
- Option C: 0% – 60% (40% target)

Investment Director current ranges:

- 0% – 60% (40% target)
- 0% – 75% (50% target)

GT recommends:

- Option A: 0% – 45% (30% target)
- Option C: 0% – 75% (50% target)

Associate Investment Manager: Recommended Base Salary and Incentive

| | Base Salary Ranges | | | Annual Incentive (% of Salary) | | LTI (% of Sal) | Total Cash (+ LTI for Option C) | |
|----------------------------------|--------------------|-----------|-----------|-----------------------------------|-----|-------------------|---------------------------------|--------------------------|
| | Min/P25 | Mid/P50 | Max/P75 | Target | Max | | Mid Base + | Max Base + |
| | | | | | | | Tgt Bonus vs. Mkt P50 | Max Bonus vs. Mkt P75 |
| Current CalPERS: | \$108,000 | \$135,000 | \$162,000 | 27% | 40% | - | \$171,450 | \$226,800 |
| Comparator Data: | \$126,000 | \$146,000 | \$169,000 | - | - | - | \$243,000 | \$287,000 |
| <i>Option A Proposed Comp:</i> | \$153,368 | \$204,490 | \$255,613 | 14% | 21% | - | \$233,119 | \$309,291 |
| <i>Variance from Comparator:</i> | +22% | +40% | +51% | - | - | - | -4% | +8% |
| <i>Option C Proposed Comp:</i> | \$109,500 | \$146,000 | \$182,500 | 27% | 40% | 27% | \$224,840 | \$304,775 |
| <i>Variance from Comparator:</i> | -13% | 0% | +8% | - | - | - | -7% | +6% |

Investment Manager: Recommended Base Salary and Incentive

| | Base Salary Ranges | | | Annual Incentive (% of Salary) | | LTI (% of Sal) | Total Cash (+ LTI for Option C) | |
|----------------------------------|--------------------|-----------|-----------|-----------------------------------|-----|-------------------|---------------------------------|--------------------------|
| | Min/P25 | Mid/P50 | Max/P75 | Target | Max | | Mid Base + | Max Base + |
| | | | | | | | Tgt Bonus vs. Mkt P50 | Max Bonus vs. Mkt P75 |
| Current CalPERS (Range A): | \$140,000 | \$184,660 | \$229,320 | 30% | 45% | - | \$240,058 | \$332,514 |
| Current CalPERS (Range B): | \$140,000 | \$184,660 | \$229,320 | 40% | 60% | - | \$258,524 | \$366,912 |
| Current CalPERS (Range C): | \$140,000 | \$184,660 | \$229,320 | 50% | 75% | - | \$276,990 | \$401,310 |
| Comparator Data: | \$182,000 | \$212,000 | \$244,000 | - | - | - | \$426,000 | \$545,000 |
| <i>Option A Proposed Comp:</i> | \$237,900 | \$317,200 | \$396,500 | 30% | 45% | - | \$412,360 | \$574,925 |
| <i>Variance from Comparator:</i> | +31% | +50% | +63% | - | - | - | -3% | +5% |
| <i>Option C Proposed Comp:</i> | \$183,000 | \$244,000 | \$305,000 | 40% | 60% | 40% | \$439,200 | \$610,000 |
| <i>Variance from Comparator:</i> | +1% | +15% | +25% | - | - | - | +3% | +12% |

Investment Director: Recommended Base Salary and Incentive

| | Base Salary Ranges | | | Annual Incentive (% of Salary) | | LTI (% of Sal) | Total Cash (+ LTI for Option C) | |
|----------------------------------|--------------------|-----------|-----------|-----------------------------------|-----|-------------------|---------------------------------|-----------------------|
| | Min/P25 | Mid/P50 | Max/P75 | Target | Max | | Mid Base + | Max Base + |
| | | | | | | | Tgt Bonus vs. Mkt P50 | Max Bonus vs. Mkt P75 |
| Current CalPERS (Range A): | \$188,000 | \$247,972 | \$307,944 | 40% | 60% | - | \$347,161 | \$492,710 |
| Current CalPERS (Range B): | \$188,000 | \$247,972 | \$307,944 | 50% | 75% | - | \$371,958 | \$538,902 |
| Comparator Data: | \$229,000 | \$260,000 | \$321,000 | - | - | - | \$639,000 | \$874,000 |
| <i>Option A Proposed Comp:</i> | \$371,542 | \$495,389 | \$619,237 | 30% | 45% | - | \$644,006 | \$897,893 |
| <i>Variance from Comparator:</i> | +62% | +91% | +93% | - | - | - | +1% | +3% |
| <i>Option C Proposed Comp:</i> | \$240,750 | \$321,000 | \$401,250 | 50% | 75% | 50% | \$642,000 | \$902,813 |
| <i>Variance from Comparator:</i> | +5% | +23% | +25% | - | - | - | +0% | +3% |

Managing Investment Director: Recommended Base Salary and Incentive

| | Base Salary Ranges | | | Annual Incentive | | LTI | Total Cash (+ LTI for Option C) | |
|----------------------------------|--------------------|-----------|-----------|------------------|------|------------|---------------------------------|-----------------------|
| | | | | (% of Salary) | | | Mid Base + | Max Base + |
| | Min/P25 | Mid/P50 | Max/P75 | Target | Max | (% of Sal) | Tgt Bonus vs. Mkt P50 | Max Bonus vs. Mkt P75 |
| Current CalPERS: | \$262,000 | \$345,032 | \$428,064 | 50% | 75% | - | \$517,548 | \$749,112 |
| Comparator Data: | \$273,000 | \$315,000 | \$412,000 | - | - | - | \$1,036,000 | \$1,743,000 |
| <i>Option A Proposed Comp:</i> | \$525,398 | \$700,531 | \$875,663 | 40% | 60% | - | \$980,743 | \$1,401,062 |
| <i>Variance from Comparator:</i> | +92% | +122% | +113% | - | - | - | -5% | -20% |
| <i>Option C Proposed Comp:</i> | \$309,000 | \$412,000 | \$515,000 | 70% | 105% | 70% | \$988,800 | \$1,416,250 |
| <i>Variance from Comparator:</i> | +13% | +31% | +25% | - | - | - | -5% | -19% |

Chief Operating Investment Officer: Recommended Base Salary and Incentive

| | Base Salary Ranges | | | Annual Incentive (% of Salary) | | LTI (% of Sal) | Total Cash (+ LTI for Option C) | |
|----------------------------------|--------------------|-----------|-----------|-----------------------------------|-----|-------------------|---------------------------------|--------------------------|
| | Min/P25 | Mid/P50 | Max/P75 | Target | Max | | Mid Base + | Max Base + |
| | | | | | | | Tgt Bonus vs. Mkt P50 | Max Bonus vs. Mkt P75 |
| Current CalPERS: | \$240,000 | \$316,560 | \$393,120 | 40% | 60% | - | \$443,184 | \$628,992 |
| Comparator Data: | \$273,000 | \$328,000 | \$382,000 | - | - | - | \$659,000 | \$767,000 |
| <i>Option A Proposed Comp:</i> | \$372,450 | \$496,600 | \$620,750 | 30% | 45% | - | \$645,580 | \$900,088 |
| <i>Variance from Comparator:</i> | +36% | +51% | +63% | - | - | - | -2% | +17% |
| <i>Option C Proposed Comp:</i> | \$246,000 | \$328,000 | \$410,000 | 50% | 75% | 50% | \$656,000 | \$922,500 |
| <i>Variance from Comparator:</i> | -10% | 0% | +7% | - | - | - | -0% | +20% |

