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

WEDNESDAY, FEBRUARY 20, 2019

11:03 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:

Ms. Theresa Taylor, Chairperson

Ms. Dana Hollinger, Vice Chairperson

Mr. Rob Feckner

Ms. Adria Jenkins-Jones

Ms. Fiona Ma, represented by Mr. Frank Ruffino

Ms. Mona Pasquil Rogers

Mr. Bill Slaton

BOARD MEMBERS:

Ms. Margaret Brown

Mr. Henry Jones, President

Mr. David Miller

Mr. Ramon Rubalcava

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. Eric Gonzaga, Grant Thornton

Mr. Andrew Junkin, Wilshire Associates

Mr. Eric Myszka, Grant Thornton

I N D E X

		PAGE
1.	Call to Order and Roll Call	1
2.	Election of the Performance, Compensation & Talent Management Committee Chair and Vice Chair	2
3.	Call to Order and Roll Call	5
4.	Approval of the February 20, 2019 Performance, Compensation & Talent Management Committee Timed Agenda	6
5.	Executive Report - Doug Hoffner	7
6.	Action Consent Items - Doug Hoffner	8
	a. Approval of the December 18, 2018 Performance, Compensation & Talent Management Committee Meeting Minutes	
	b. Review of the Performance, Compensation & Talent Management Committee Delegation - Tina Campbell	
7.	Information Consent Items - Doug Hoffner	8
	a. Annual Calendar Review	
	b. Draft Agenda for the April 16, 2019 Performance, Compensation & Talent Management Committee Meeting	
8.	Action Agenda Items	
	a. Semiannual Status Report on Incentive Plan of the Chief Executive Officer - Tina Campbell	8
	b. Salary and Incentive Options for Investment Management Positions - Tina Campbell; Eric Gonzaga and Eric Myszka of Grant Thornton LLP	11
9.	Information Agenda Items	
	a. Summary of Committee Direction - Doug Hoffner	62
	b. Public Comment	63
Adjournment		63
Reporter's Certificate		64

P R O C E E D I N G S

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

The first order of business is roll call.

COMMITTEE SECRETARY QUERAL: Bill Slaton?

CHAIRPERSON SLATON: Here.

COMMITTEE SECRETARY QUERAL: Rob Feckner?

COMMITTEE MEMBER FECKNER: Good morning.

COMMITTEE SECRETARY QUERAL: Dana Hollinger?

COMMITTEE MEMBER HOLLINGER: Here.

COMMITTEE SECRETARY QUERAL: Adria Jenkins-Jones?

COMMITTEE MEMBER JENKINS-JONES: Here.

COMMITTEE SECRETARY QUERAL: Frank Ruffino for Fiona Ma?

Mona Pasquil Rogers?

COMMITTEE MEMBER PASQUIL ROGERS: Here.

COMMITTEE SECRETARY QUERAL: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

CHAIRPERSON SLATON: All right. Next order of business is the election of -- pardon me?

Oh, Ms. Brown is -- pardon me?

COMMITTEE MEMBER HOLLINGER: Frank just came in.

CHAIRPERSON SLATON: Okay. Frank is here. Thank you.

All right. I have to listen. And so are all of your as well, Ms. Paquin, Mr. Miller, Mr. Rubalcava, Mr. Jones, and Ms. Brown. Thank you.

All right. Election for President. For that, I will call on -- for nominations, I'll call on Ms. Hollinger.

COMMITTEE MEMBER HOLLINGER: Yes. I'm proud to announce my fellow Board member to Theresa Taylor to Chair Perf and Comp.

CHAIRPERSON SLATON: All right. Ms. Taylor has been nominated.

Are there any further nominations?

Any further nominations?

Last time, any further nominations?

Nominations are closed.

I'll entertain a motion to appoint Ms. Taylor as Chair of Performance, Compensation and Talent Management Committee by acclamation. Do I hear a motion.

BOARD MEMBER FECKNER: So moved.

COMMITTEE MEMBER HOLLINGER: Second.

CHAIRPERSON SLATON: Motion by Feckner, second by Hollinger.

All those in favor say aye?

(Ayes.)

CHAIRPERSON SLATON: Opposed?

Motion carries. Congratulations.
(Applause.)
CHAIRPERSON TAYLOR: Thank you.
COMMITTEE MEMBER SLATON: Why don't you go ahead and conduct it first.
CHAIRPERSON TAYLOR: Well, go ahead and turn on my mic.
COMMITTEE MEMBER SLATON: Oh, that's right.
(Laughter.)
COMMITTEE MEMBER SLATON: Can't you do it from there?
(Laughter.)
CHAIRPERSON TAYLOR: No, I can't.
COMMITTEE MEMBER SLATON: There you go.
CHAIRPERSON TAYLOR: I don't have the little mouse thingy.
So our next order of business is the election of Vice President.
COMMITTEE MEMBER SLATON: Vice Chair.
CHAIRPERSON TAYLOR: The Committee is open to -- Vice Chair -- pardon me. The Committee is open to nominations.
And I will call on Mr. Slaton.
COMMITTEE MEMBER SLATON: Thank you. I'd like to nominate Ms. Hollinger for Vice Chair of the Committee.

CHAIRPERSON TAYLOR: Okay. Ms. Hollinger has been nominated for Vice Chair of the Committee.

Are there any other nominations?

Any other nominations?

Any other nominations?

Hearing no other nominations, I'd lied to entertain a motion for Dana Hollinger to be Vice Chair of the Perf and Comp Committee.

COMMITTEE MEMBER SLATON: Move.

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON TAYLOR: Moved by Mr. Mr. Slaton, second by Mr. Feckner.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All right. All those opposed?

All right, motion carries.

Ms. Hollinger, congratulations.

(Applause.)

COMMITTEE MEMBER SLATON: So we're going to take a -- just a few minute break here to rearrange the microphones and seating arrangement.

Thank you.

COMMITTEE MEMBER FECKNER: We're going into closed session.

COMMITTEE MEMBER SLATON: We're going into closed session right now as the first order -- next of business. So we will go into closed session. So those who should not be in the, should not be in the room.

(Off record: 11:03 a.m.)

(Thereupon the meeting recessed into closed session.)

(Thereupon the meeting reconvened open session.)

(On record: 12:46 p.m.)

CHAIRPERSON TAYLOR: I'll call the Perf, Compensation and Talent Management Committee to order.

Oh, I'm not on.

And it's so far away.

Calling the Committee to order. I'm missing some Committee members. I hope everybody can hear me. Here we come. Okay.

So first order of business is roll call.

COMMITTEE SECRETARY QUERAL: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY QUERAL: Dana Hollinger?

VICE CHAIRPERSON HOLLINGER: Here.

COMMITTEE SECRETARY QUERAL: Rob Feckner?

COMMITTEE MEMBER FECKNER: Here.

COMMITTEE SECRETARY QUERAL: Adria Jenkins-Jones?

COMMITTEE MEMBER JENKINS-JONES: Here.

COMMITTEE SECRETARY QUERAL: Frank Ruffino for Fiona Ma?

ACTING COMMITTEE MEMBER RUFFINO: Here.

COMMITTEE SECRETARY QUERAL: Mona Pasquil Rogers?

COMMITTEE MEMBER PASQUIL ROGERS: Here.

COMMITTEE SECRETARY QUERAL: Theresa Taylor?

Oh, sorry.

CHAIRPERSON TAYLOR: You already got me.

COMMITTEE SECRETARY QUERAL: Yeah, I got her.

CHAIRPERSON TAYLOR: She does -- yeah

COMMITTEE MEMBER SLATON: I am definitely here.

COMMITTEE SECRETARY QUERAL: Sorry, Bill.

CHAIRPERSON TAYLOR: Sorry, I think she forgot that the last time. Did she? Yeah. Okay. My bad.

Next order of business is the approval of the 20 -- today's timed agenda. Do I have a motion?

VICE CHAIRPERSON HOLLINGER: Motion to approve.

CHAIRPERSON TAYLOR: All right.

COMMITTEE MEMBER SLATON: Second.

CHAIRPERSON TAYLOR: All right I have a motion to approve by Dana Hollinger. I think it was a second from Bill Slaton.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All right. All those opposed?

COMMITTEE MEMBER FECKNER: Abstain.

CHAIRPERSON TAYLOR: I got an abstain from Mr. Feckner.

All right. Next order of business Executive Report. Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: Good afternoon. Doug Hoffner, CalPERS team member. I want to congratulate both the Chair and the Vice Chair and the members of the Committee. Looking forward to working with all of you this year.

Today, we have two items before you today. First is the semiannual approval of the mid-year report for the CEO. You heard about that in closed session. That will be coming up in a second.

And the second is an item of -- in more detail related to the compensation pay structure we discussed in December, that the Committee at that time asked us to bring back greater detail on several recommendations. We're doing that today related to the Investment Management positions and pay philosophy. And that will be a follow up and more in-depth conversation. Tina Campbell, the Chair -- or Chair -- the Human Resources Director will help present that with Grant Thornton the

Board's independent Performance, and Compensation and Talent Management Committee consultants. We also have Andrew Junkin with Wilshire Consulting here to help, if there's any questions you want to ask him related to what he's seen in the marketplace as well.

With that, that concludes my report.

CHAIRPERSON TAYLOR: All right. Thank you.

All right. So then I guess we're going to move on to the action consent item, approval of the 12-18-18 open session meeting minutes and review of the Performance, Compensation and Talent Management Committee delegation. Do I have a motion for approval?

COMMITTEE MEMBER SLATON: Move.

VICE CHAIRPERSON HOLLINGER: Second.

CHAIRPERSON TAYLOR: Moved by Slaton and second by Hollinger.

All those in favor of motion for approval say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion carries.

We're moving on to Item 7, information consent items. I didn't have any requests to pull anything off.

So now we are moving on to the action agenda items. And that is the semiannual status report on the incentive plan of the CEO. And Tina, I guess you were going to introduce the item.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank you, Madam Chair. Good afternoon, members of the Committee. Tina Campbell, CalPERS team.

The delegation resolution -- oh, I'm sorry. I have the wrong one. So this one is just for open.

So as you heard earlier in closed session, we have the CEO's semiannual status report. And just for members that are new to the Board, the Board's Compensation Policy of executive and investment management positions requires the CEO to prepare semiannual status reports on her incentive plan for the Performance, Compensation and Talent Management Committee's review and approval.

These reports provide a means of informing the Committee on progress toward achieving the measures in the incentive plan presented in attachment 1, which you all should have a copy of. Provided as a handout to the Committee is a semiannual status report for the CEO covering the time period of July 1st to December 31st, 2018.

As mentioned earlier, this was also provided in closed session for your consideration and approval. And with that, I'm going to turn this over to Ms. Frost for any updates that she may want to provide you or any questions that you may have.

CHAIRPERSON TAYLOR: All right. Thank you.

Ms. Frost.

CHIEF EXECUTIVE OFFICER FROST: Thank you.

I covered my update in closed session. So I would still remain available to answer any questions that you may have.

CHAIRPERSON TAYLOR: All right. Seeing no questions from the Committee.

I guess we will move on. So now we are on 8b.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So that was an action item for a vote.

CHAIRPERSON TAYLOR: Oh, I'm sorry. It is an action item. So I need a motion to move this --

COMMITTEE MEMBER FECKNER: Move approval.

CHAIRPERSON TAYLOR: Move approval by Rob Feckner.

COMMITTEE MEMBER PASQUIL ROGERS: Second

VICE CHAIRPERSON HOLLINGER: Second.

CHAIRPERSON TAYLOR: We have a tie for second.

(Laughter.)

CHAIRPERSON TAYLOR: And I will pick Mona.

So all those in favor of approving the action Item 8a, Semiannual Status Report on Incentive Plan of the

CEO say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Seeing -- hearing no opposed.

Motion carries.

And then we -- I'm sorry. We will move on to Action Item 8b, Salary and Incentive Options for Investment Management Positions.

And, Ms. Campbell, if you wouldn't mind introducing the team of Grant Thornton for us.

(Thereupon an overhead presentation was presented as follows.)

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Sure.

Today -- Tina Campbell, CalPERS team member. Today, we have with us Grant Thornton Eric Gonzaga and Eric Myszka. Item 8b is also an action item presenting salary and incentive data for investment management position covered by the Board's compensation setting authority under Government Code section 20098.

In December of 2018, the Board's primary compensation consultant, Eric Gonzaga of Grant Thornton, presented a pay philosophy with three options that would position combined salary plus incentive for all investment management positions around the 50th percentile of the market.

The Committee requested that Mr. Gonzaga return with data for two of the three options, which he and his colleague, Eric Myszka, are here to present today. Before I turn it over to them for the presentation, I'd like to highlight a few key points.

The main purpose of today's presentation is for the Committee to understand the structure, components, and costs associated with each option, as well as to discuss benefits and other potential considerations. Based on the Committee's review and discussion, the recommendation is for the Committee to select one of the options for implementation in fiscal year 2019-20, with the exception of any decisions on the COIO position, which are recommended to be come effective immediately for recruitment purposes as that position is vacant.

This decision to align investment management salaries with the market median will support CalPERS ability to recruit and retain highly qualified investment talent, in order to gain the best returns for our members.

Competitive compensation levels for these positions have been discussed by the Committee over the last few years, beginning with a comparator group salary survey that was conducted by McLagan and presented to the Board in 2015. The data being presented today is derived from that survey with some conservative adjustments made to more closely reflect today's market.

In 2016, the Board engaged Grant Thornton to conduct a comprehensive review of CalPERS compensation programs. Grant Thornton concluded total cash compensation levels were positioned well below the competitive market and proposed recommendations to address lagging compensation levels.

I'd like to emphasize that decisions today are not intended to provide for immediate compensation increases for current incumbents in these position. Once a decision is made, CalPERS team members and Grant Thornton will work on a detailed implementation plan which will include an approach and timeline to appropriately place current incumbents into the revised salary ranges, and their current salary falls below the new minimum selected today.

The CalPERS team and Grant Thornton will return at a future meeting to discuss the implementation plan and provide all relevant details including the impacts to the Board's Compensation Policy for executive and investment management positions.

With that, I'll turn it over to Mr. Gonzaga and Mr. Myszka for the presentation and discussion.

CHAIRPERSON TAYLOR: All right. Thank you.

MR. GONZAGA: Thanks. And, you know, certainly happy to be back here to bring you some more detail.

What we're going to go over in, you know, the presentation is, you know, fairly straightforward, in that what we're really focused in on here is how do we get to a competitive level of pay for the Investment Office positions. And it's based on the custom peers historically relied upon over the last several years.

--o0o--

MR. GONZAGA: And, you know, what we'll cover today is, you know, a couple things. First is a reminder of, you know, the strategies that we decided upon pursuing, you know, at the last Board meeting -- the last Committee meeting in terms of option A and option C, little more color on what that would look like, and ultimately, also taking a look at the numbers and the data position by position.

So, you know, first and foremost, you know, you take a look at, you know, the presentation, what we wanted -- you know, first of all, what we're starting out at is a philosophy. What are we targeting? How to get to competitive total cash compensation. So that's 50th percentile total cash compensation in the peer group. And we came up with two different strategies. One was higher salaries and lower annual incentives. Secondarily, it was a combination of, you know, moderate increases to the salary structure, annual incentives similar to a little bit lower than current levels. And as opposed to increasing salaries significantly, what we would do is adopt a long-term incentive that would reward based on performance of the fund overall.

Those were the two options discussed. And, you know, what I should say just, you know, before we get to the data is that these still represent, you know, discount relative to the competitive market, because we're targeting something that we believe is fair, which is 50th percentile total cash compensation, but it's not 50th percentile total direct compensation, because again a reminder, that many of the peers offer things such as supplemental deferred compensation or long-term incentives.

This is again focused on moving the overall pay program for CalPERS professionals to average middle of the market positioning for total cash only, which is still a moderate discount from market practices.

--o0o--

MR. GONZAGA: Now, in terms of background for option A and option C, what we're trying to do here again is get to 50th percentile total cash compensation. We're still trying to strike a balance however between, you know, the mission of this very unique organization, alignment in terms of pay with performance, considerations of risk management, as well as, you know, recruitment and retention in terms of the candidates that we're trying to bring in, you know, going forward.

So option A is really one that we've talked about before. And what that would do is position salaries towards the top end of the market. Okay. That would also result in a decrease in annual incentive opportunities for some and no long-term incentives. So again, we'd talk about higher calories. Folks would move into appropriate positioning and be rewarded from a pay-for-performance standpoint, both from a salary increase standpoint and in addition to, you know, modest annual incentive payouts.

This strategy it has the advantage of, you know, what we always talk about is when you think about investment management and investment incentives. Certainly, competitive pay gets you to about that 50th percentile total cash level. But there's not as much leverage on it from an only annual incentive standpoint, which, of course, you always worry about risk management, are we making short-term decisions, et cetera.

So it balances those two things. And, you know, certainly the salary becomes kind of that staple feature with which you recruit, you retain from, because it's a very highly competitive salary, albeit, again talking about average positioning for total cash, not total direct, again competitive enough.

Option C is same levels of competitiveness in terms of total cash compensation, average total cash positioning, same cost associated with it. It would require increasing salary range mid-points to anywhere from the 50th to the 75th percentile, similar to some decisions that have been made in the past; maintain or slightly increase the current annual incentives; and ultimately provide a long-term incentive strategy and a long-term incentive plan that rewards and pays out based on three- to five-year performance. But the long-term incentive opportunities would be comparable to the annual incentives.

And the whole point of that is just to make sure if we're going to recognize pay for per formance. It incentivizes making decisions, both in terms of maximizing return on an annual basis or performance on an annual basis without sacrificing decisions for the long term. And ultimately, long-term investment decisions, long-term performance would be rewarded for say anywhere from a three- to five-year performance period. So it's a nice balanced portfolio.

Option A is just higher fixed pay, lower annual incentives. Option C is a more balanced portfolio. It still gets you to the same number, but it optimizes return and maximizes incentive based on long-term performance. Both have, you know, comparable recruitment and retention value, and gets you closer to market for the industry peers which you selected.

Any questions on that?

CHAIRPERSON TAYLOR: It doesn't look like it so far.

--o0o--

MR. GONZAGA: Okay. Now, on the long-term incentive plan side, because certainly this isn't a finished product, but how does a long-term incentive plan work?

If you were to choose option C, which is the one that has the long-term incentive plan, you'd have opportunities that are comparable in terms of annual incentives, and long-term incentives. For example, if you have a 40 percent opportunity on the annual incentive plan side, you would have a 40 percent of salary opportunity on the long-term incentive plan side. Again, the whole point of that is to make sure that we're making and the incentive structure is such that there's a balanced portfolio in terms of what are we focused in on? We don't want to maximize short-term returns at -- to the detriment of long-term performance. It also optimizes retention, because you're delaying payouts for a period of years, and you have to earn that performance over a period of years.

--o0o--

MR. GONZAGA: And, you know, our thought being, and again an idea that we floated with you before, is that the long-term incentive plan would align with total fund performance on an absolute return basis. It provides alignment with, you know, preservation and increasing the value of the fund, such that it ensures focus on maximizing, you know, the value of the pensions in place. So strong alignment with, you know, the pension holders so to speak.

So if you select option C, certainly there's some other things to, you know, flesh out along the plan. A very basic structure, focused on total fund performance. There's always other criteria you can throw in there. But it also provides an appropriate balance with what's incentivized through the annual incentive plan.

So any questions before we turn it over to the numbers?

CHAIRPERSON TAYLOR: Yes. I have one question from the Committee so far.

Lynn. Oh, there you are.

ACTING BOARD MEMBER PAQUIN: Thank you. So I had a question when you were discussing the absolute fund performance. So can you talk a little bit more about that? Are you suggesting that there would be some kind of a return target? So regardless of what the benchmark returns were, it would be based on that one -- hitting that one number.

MR. GONZAGA: Yes, as part of the fund, because -- you know, as part of the annual incentive fund, relative return is included in terms of, you know, annual incentives -- the annual incentive plan. And there would be a linkage between the annual incentive plan and the long-term incentive plan, in that, you know, whatever is paid out from a long-term incentive plan standpoint would go up or down based on overall return. So it's just a nice counterbalance between absolute return and relative returns.

You know, so it's more of that balanced incentive portfolio, where there's alignment with both. In addition, it says that, you know what, we're going to pay out, to the extent that -- essentially, what it comes down to is, does the funding of the pension plan increase, so to speak, so...

ACTING BOARD MEMBER PAQUIN: So are you suggesting it would be based on funded status or on returns?

MR. GONZAGA: Returns.

ACTING BOARD MEMBER PAQUIN: Okay.

MR. GONZAGA: Returns.

ACTING BOARD MEMBER PAQUIN: All right. Thank you.

CHAIRPERSON TAYLOR: I just have a follow-up on that. Are you -- so are you -- you don't really -- I wasn't clear that you answered -- are you benchmarking that? Like, we have to hit our benchmark and then a long-term incentive or -- kicks in, or how -- how is -- how are you envisioning that -- envisioning that?

MR. GONZAGA: Well, it really comes down to what -- you know, just like with the annual incentive plan, you benchmark yourself against relative returns. You pick a point and you pay out the threshold target, outstanding dollar amounts. The same thing with the absolute return, where you'd pick a -- and there's some details that would have to be, you know, fleshed out.

But certainly, you know, the amount would go up or down based on how you achieve certain absolute return targets, so...

CHAIRPERSON TAYLOR: Okay. So -- so you are hashing it out. And it may be a benchmark, but it will have different components to it.

MR. GONZAGA: That's right. You know, just -- just no different than any other -- the annual incentive plan goals. Typically, you define performance levels in terms of pay. For modest award, we have to reach X benchmark. For a target award, we reach Y benchmark. For a maximum award, we achieve Z benchmark. The same thing with, you know, the absolute return mechanism.

CHAIRPERSON TAYLOR: Okay. All right. Thank you. I think you can go on.

COMMITTEE MEMBER SLATON: Excuse me.

CHAIRPERSON TAYLOR: Oh, Bill, I'm sere. You know what --

COMMITTEE MEMBER SLATON: Yeah, something is wrong with the system.

CHAIRPERSON TAYLOR: -- you're not appearing on screen.

COMMITTEE MEMBER SLATON: Well, I'd want to.

CHAIRPERSON TAYLOR: I mean, you are, but you're turned on and I didn't touch it.

COMMITTEE MEMBER SLATON: Okay. So let me just -- let's go over this one more time just before you get to the numbers to make sure that we all are on the same page.

So right now we have an annual incentive that is tied to performance against benchmarks.

MR. GONZAGA: That's right.

COMMITTEE MEMBER SLATON: So therefore, someone can receive additional compensation, even if the fund is negative, correct?

MR. GONZAGA: That's right.

COMMITTEE MEMBER SLATON: Right. Okay. So what this does, the long-term incentive being tied to absolute returns balances against that one that's done against the benchmark that says at the end of the day, on a long-term basis, we're trying to grow this fund. So that creates, in my mind, correct me if -- see if you feel the same way, that it corrects -- it creates another tranche of alignment that aligns with what we're all trying to do, which is have the fund grow to accommodate the payouts that have to occur, is that --

MR. GONZAGA: Absolutely.

COMMITTEE MEMBER SLATON: Okay.

MR. GONZAGA: And it is intended to be kind of that final piece that matches up the compensation program with the mission of the organization, which is to say that you will receive these awards to the extent that --

COMMITTEE MEMBER SLATON: That we all benefit?

MR. GONZAGA: Yep. There's more money to pay the pensions is another simple way to put it.

COMMITTEE MEMBER SLATON: Gotcha. Okay. Thank you very much.

CHAIRPERSON TAYLOR: Okay. Go ahead.

--o0o--

MR. MYSZKA: All right. Moving on to the recommended pay levels. We'll have a slide for each kind of position in the Investment Office. And so I want to walk through kind of what -- what's shown on this page, and then we'll go through it. So if there's any questions on this, you know, let us know now, because every page after this will look very similar to this one.

But we've got a bar graph here showing on the left-hand side CalPERS today. So you can see the mid-point of the CalPERS range, plus target incentive bonus on the far left-hand side, totaling up to about $171,000. Next to that is, if you look at the highest level of the salary range, plus the highest bonus target -- or maximum bonus opportunity that somebody in that role can earn, totaling up to $227,000. That range -- incentive range today is 0 to 40 percent with a 27 percent target.

And now what we're going to be showing is option A and option C that Eric just went through, in terms of kind of moving these pay levels to the market median of total cash. And those -- the market data is going to be shown on the lines, so you've got a dotted line showing 25th percentile, a solid line showing the market median 50th percentile, and then the top dotted line showing the market's 75th percentile.

As we discussed before, option A and option C in terms of total dollars are very similar. Our goal is to move the Associate Investment Manager salary range to a mid-point of $204,000 with a $29,000 incentive opportunity under option A, totaling $233,000, with a maximum total cash payout potential of $309,000, under option A.

Similar concept, Similar dollars in option C. It's just that we're now a little bit less in salary. And that additional amount then would be placed in the long-term incentive pool.

Any questions on this graph?

CHAIRPERSON TAYLOR: So I just had a question. And I noticed this as I was going through this the other day. It appears that option A doesn't always, but sometimes, ends up higher than option C, where we're giving that extra bonus structure, because they start a little higher, I guess, for their range -- or for their -- their base salary.

MR. MYSZKA: Right.

CHAIRPERSON TAYLOR: Correct?

MR. MYSZKA: Correct, yeah.

CHAIRPERSON TAYLOR: So I find that interesting, because that's not the case with all of these. So I don't know how that's figured differently.

MR. MYSZKA: Yeah, what we're -- what we're trying to show is kind of move the salaries to a level that is, you know, with the market. So in option A it was getting the salaries to be at the higher end of the market, and then kind of piecing on the incentive piece on top of that, and some of these into positions -- some of the data, and the way the bonus opportunities are for it to make, you know, sense from a, you know, implementation standpoint. You know, there numbers are going to be slightly different, depending on, you know, bonus opportunity and the salary range to be competitive. We didn't back into the number, let's say, but we -- instead, we tried to come up with a competitive salary and then add on the incentive piece. So that's why you might see some slight differences between option A and C and -- as we go through the different positions.

CHAIRPERSON TAYLOR: Okay. All right. Thank you. Go ahead. I don't think -- oh, I'm sorry. Mr. Jones.

PRESIDENT JONES: Yeah. Thank you, Madam Chair. Yeah. Looking at the maximum on both A and C option, they both almost get to the same point. My question is, which of these options -- and it's relative to the others that we're going to review too. It's the same type of question. Which one of these options do you believe attract and retain the employees to the greatest degree?

MR. GONZAGA: So -- and it is going to depend on, you know, the type of, you know, candidate you're recruiting and how many would prefer higher base salary over more leverage. Now, I do think that, you know, option A, if I were to think about it, I think that certain individuals certainly would be more attracted to, you know, higher salary, because you're really talking about fixed pay at say the 90th percentile. Even though the dollars are the same, you know, there is an advantage in terms of recruiting folks with higher fixed pay.

So from a recruitment standpoint, I think, you know, option A has a slight advantage. Now, ultimately, you know, it could come out -- it comes out as a wash in the numbers. I think that if somebody is purely -- you know, depending on the type of candidate, option C may be more attractive to certain individuals, in that there's different ways to kind of increase that pay-for-performance alignment. You could add more long-term incentive upside, et cetera.

So I do think -- I would say from a recruitment standpoint, option A may have a little bit more advantage in terms of recruitment. But at the same time, we're talking about the same dollars. And ultimately, what I would say is that what we want to do -- what my preference would be is to come up with a balanced portfolio, and align pay with the performance of the organization.

And so even though option A, from my perspective, may have a little bit more advantage in terms of recruitment, option C aligns a little bit better with -- aligns better with the mission, because of the long-term pay-for-performance component.

PRESIDENT JONES: Okay.

MR. MYSZKA: And if you're recruiting individuals from the private industry, they're going to be familiar with and have this long-term incentive portfolio as well. So there won't be a new -- it won't be new to them. It will be familiar.

PRESIDENT JONES: Would you say that again? I didn't quite understand you.

MR. MYSZKA: If you're -- if you're recruiting folks from private industry, they're going to be familiar with the long-term incentive concepts. It's not going to be new to them.

PRESIDENT JONES: Thank you.

CHAIRPERSON TAYLOR: Go a head, Bill.

COMMITTEE MEMBER SLATON: Yeah. I think the issue, it's both recruitment and alignment. And the problem I have with A is that it tends to exacerbate the misalignment with -- because you're not considering the absolute performance. And absolute performances drives the funding level, all sorts of things get driven by that at this organization. And yet, A, kind of ignores that piece of it in a certain sense.

What I'd like to make sure that we do -- I don't know whether this is the appropriate time to have Andrew Junkin kind of chime in on this from the standpoint of these two different designs and what his opinion is seeing it from a different perspective as well, so...

CHAIRPERSON TAYLOR: Mr. Hoffner, go ahead.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah, I just want maybe refresh the Committee's memory related to our general purpose -- overall statement in the Board's Incentive Comp Policy, which really talks about this very issue. And we did make some modifications a couple months ago, I think at the end of last this, which basically talks about really the purpose of that Compensation Policy was this kind of structure is to encourage highly qualified individuals to accept and remain in positions, but not so high as to attract candidates solely for the compensation.

And I think to Mr. Slaton's point, you only get -- you get that. We're trying to get there. I mean, we're still saying this is median is kind of the target, which is what you asked for data from December, but it's that alignment of interests. Really, what -- how are we going to grow the total fund and how do the individuals who participate, at least on the investment side, as it translate in the long-term incentive, as we're a long-term investor.

So I think it's an alignment of interests as well. Happy to have Andrew come up and give his perspective as well, but it is something called out in our overall policy as well.

CHAIRPERSON TAYLOR: Right. And I remember we did talk about that. Did you still want to have Andrew come up?

COMMITTEE MEMBER SLATON: Well, I think --

CHAIRPERSON TAYLOR: He's more than welcome.

COMMITTEE MEMBER SLATON: I would -- I'd like to hear from him if he's willing to --

CHAIRPERSON TAYLOR: Sure.

COMMITTEE MEMBER SLATON: -- make some comments on this subject.

MR. JUNKIN: Good afternoon. Andrew Junkin, Wilshire Consulting.

I think your question is do I have a preference for A over C? I have -- you've seen me typing away. I've been putting my comments into some form here.

COMMITTEE MEMBER SLATON: Yeah.

MR. JUNKIN: Our view is that the long-term incentive plan is comparable to equity ownership, which, as you'll recall from our annual reviews of the Global Equity Program, the Global Fixed Income Program is a place where we sort of ding CalPERS in that scoring process every year. So it would be inconsistent of us I think to say that we support A over C. --

CHAIRPERSON TAYLOR: After saying that.

MR. JUNKIN: -- after saying that. So, no surprise, we support C over A. But the devil is in the details. I know we haven't gotten fully to all of the details yet. But some of this discussion about long-term incentive, if I may, I'd just like to make a few additional comments on.

CHAIRPERSON TAYLOR: Sure.

MR. JUNKIN: Being based on absolute return only may have some unintended consequence, right? And that's really what we're trying to manage, anytime you design an incentive program, is what are we actually rewarding and what's -- what are the unintended consequences.

So as we talked about yesterday during the performance review, 83 percent of CalPERS portfolio risk is driven by the stock market, right? And so the market is down meaningfully in one year, you could wipe out long-term incentive for five years, right?

COMMITTEE MEMBER SLATON: Um-hmm.

MR. JUNKIN: Because it's going to be baked into a five-year number for five years. And so that -- that would be a challenge. So does that then disincentivize people? Does that create turnover, which is what you're seeking to avoid? There is a -- and does it sort of concentrate the turnover?

There is an example. A competitor of ours had a equity ownership plan with look back on pricing. And so there were a number of senior people at the firm that had large equity ownership positions through like June of 2009. They could look back to the July of 2008 stock price and when they left, they could get that stock price. Well, think of what happened to asset management firm's revenues and profits. There was a mass exodus at the senior level. And suddenly this firm is -- I mean, it created lots of opportunities for people to move up, but they had significant turnover at the senior level.

I think overall what you really -- what I would like to see of any incentive plan, and this is something that we've -- I've just revised the incentive plan within Wilshire Consulting, so it's kind of fresh on my mind, is the ability to distinguish between top performers and middle performers and bottom performers.

And if everybody is tied to the same metric, that becomes somewhat challenging. I mean, you've got components where people are going to make fair wages certainly. But the way that we did that, I sort of de-linked some things that were explicitly just tied to a common factor for everybody which happened to be revenue, and created some discretionary -- more discretion in the system, so that I could actually differentiate between top, middle, bottom performers.

In terms of -- and I'm sorry, I'm kind of bouncing around. In terms of what do we see in the market, incentive compensation is overwhelmingly the common strategy in the asset management business. It would be strange to have either a small amount or nothing at risk. It's not uncommon to see, you know, at a -- at an expected comp level 50/50, maybe even more towards the bonus. That's not at all uncommon.

But the risk is that no matter what you do, people feel entitled to the target number that you throw out there. And so if -- you know, even if there's a bad year, every business has them. Every, you know, investor would have them. They still feel like they should get that target number, so that's tough to manage.

I'll stop there. I've jotted a few more notes down, by I'll stop there.

COMMITTEE MEMBER SLATON: Okay. Well, I think you've raised some very key points. You know, I come out of an industry that was 20 percent base comp, 80 percent variable comp --

MR. JUNKIN: Wow.

COMMITTEE MEMBER SLATON: -- based on performance. So I get that and I think the industry does. It may not be as radical as the industry I came from, but it's on that genre. And so I think that -- I would suggest, and we need to go through the rest of the numbers, that we separate the issue of long term from plan design, because you've raised some issues. I think that our tendency is to take the simple over the effective. And if we just say it's nothing but absolute return, and that's it, and that's the parameter, I'm not sure we're getting the most creativity into plan design by restricting it to that.

I think that we have people who are very creative here and who can figure out a plan design and bring it back to us that has -- that's fleshed out and that again avoids the unintended consequences, but yet creates a fair system that gets us on the same page moving to the same objective.

So I would suggest that the first decision is the A versus C. Do we want a long-term incentive? And then I would encourage some further plan design work on the long-term portion of it, so that we come up with the best design

MR. GONZAGA: Yeah, and I'd just -- I'd voice that that's certainly what -- that's consistent with our thoughts. I mean, there is no perfect plan design. Ultimately, a long-term incentive plan, it's a management system. It's a management process.

You know, certainly, you know, absolute and fund performance can be a part of it, but ultimately it needs to be customized, so...

CHAIRPERSON TAYLOR: All right. Ms. Hollinger. Hold on. I didn't get you.

There you go.

VICE CHAIRPERSON HOLLINGER: Thank you.

Coming from an industry where you kind of eat what you kill. I'm the total opposite. But what I've also noticed in those kind of conditions that people -- sometimes that doesn't always drive appropriate behavior. So that's a risk in and of itself.

At this juncture, I would be interested, Ben, in hearing your input, because -- am I allowed --

CHAIRPERSON TAYLOR: I don't know that we're --

VICE CHAIRPERSON HOLLINGER: Oh, we can't.

CHAIRPERSON TAYLOR: Yeah. No.

VICE CHAIRPERSON HOLLINGER: Oh, because it's a conflict.

CHAIRPERSON TAYLOR: It's their conflict. Yeah.

VICE CHAIRPERSON HOLLINGER: Well, I'm -- I guess I'm wondering if my fellow Board members -- like if we did increase our allocation to more illiquid asset classes, that might not have valuation, I'm wondering if -- again, I think -- I'm thinking maybe more of a hybrid. And I guess why I'm thinking that is maybe we're going to be -- I always want to make sure we're compensating people for taking risk off the table when it's appropriate. So --

MR. GONZAGA: You know, I'd just say that, you know, Andrew raised a very important issue. And it's also something that we dealt with, you know, from the standpoint of the annual incentive plan. And it really is risk management is an important piece. Part of that is the structure of the goals and the structure of the plan itself. The other part is the use of discretion. And that is something that will always play a big role in any sort of asset manager plan. And certainly, it's something that we've emphasized as part of the annual incentive plan. So it would just carry forward. Risk management has to be part of it, so...

CHAIRPERSON TAYLOR: So I just wanted to -- Andrew, you had said that you don't want unintended consequences. So, for example, if a 2008 occurs, then we've got five years of baked in numbers, and there's no long-term incentive for the five-year period. But on the other hand, I think you were talking about -- I can't -- what were you saying that would be in place of that then, if -- I mean, I wrote down delineated revenues.

MR. JUNKIN: Yeah, that was -- that was -- that was the part I left out.

CHAIRPERSON TAYLOR: Okay.

(Laughter.)

MR. JUNKIN: I have some suggestions, but I don't know that they're -- I mean -- I'm sort of springing this on Eric, so I apologize for that. But, you know, could there be a bonus pool that's generated based on total fund relative performance? Total fund relative performance is already in the, for lack of a better phrase, the short-term incentive. But it's also mixed with -- currently, it's mixed with asset class performance. So maybe the long-term plan is total fund only, which really aligns everybody's interests, and -- but to the discretion point, maybe that bonus pool then is allocated. And I don't -- I'm going to say things that I have no knowledge about. So if somebody throws something at me and says that's inappropriate, then that's fine.

But, you know, maybe in a private corporation, it might be allocated then by the CIO to the heads of the asset classes to distribute within the asset classes based on individual performance.

CHAIRPERSON TAYLOR: I don't know that we have that authority.

MR. JUNKIN: So that's -- there's some discretion there. Again, I don't know if that works under the construct of California.

CHAIRPERSON TAYLOR: Right.

MR. JUNKIN: But I think -- and then -- and then maybe you even go further, and here's a place where you can actually tie back in. The absolute return. Let's say an individual earns a $20,000 grant into this deferred pool. Over the next five years maybe that grows or shrinks based on the performance of the total fund at that point, right? So it's earned based on total fund relative, but then it changes in value.

Now, admittedly some of that is equity markets go up more often than they go down. So you're probably baking in in most cases an increase in the deferral award over a period of time, but I think that's pretty common.

CHAIRPERSON TAYLOR: Okay. So there's lots of creative ways, Eric, I think is what he's saying.

MR. GONZAGA: Yeah. And actually that last point is something that we've considered very strongly. It's actually consistent with what we outlined in 2016 when we first --

CHAIRPERSON TAYLOR: And those are kind of what our peers are doing?

MR. GONZAGA: Yeah. And it's also something that we outlined in 2016 as the general design construct. So I'm sure that Andrew and I are aligned in thinking. There's a whole array of ways to do it. And I think that the biggest issue, as Mr. Slaton indicated, is do we want a long-term incentive plan?

And again, I mean, our bias also is towards C in terms of alignment with mission. Taking out the recruitment and retention piece, it's the best balanced way to go about doing things. And so, you know, I think our primary initiative here is that we -- we feel strongly, one, that you should move to the 50th percentile - It's a fair wage - and that you should base it on alignment with mission. And again, I feel strongly that option C is probably that -- that better alignment piece, so...

CHAIRPERSON TAYLOR: So I had a couple of questions on -- because I don't have anybody else asking questions right now. So lucky you.

On the -- I'm going through the numbers again for each, you know, classification, Investment Manager, Associate Investment Manager. All of a sudden from

Investment -- Associate Investment Manager, you have CalPERS today, option A, option C. And then Investment Manager all of a sudden you have CalPERS range A, B, C, option A and C. Is that because the range -- each of the ranges are already there, and so now we're just taking away those ranges? Is that what we're doing, we're taking away ranges?

MR. MYSZKA: Yeah.

CHAIRPERSON TAYLOR: Okay.

MR. MYSZKA: So right now under CalPERS, there are three, you know, ranges within the Investment Manager role. And we're recommending collapsing that into one. So we'll have -- still have option A and option C under our proposed suggestions here, but combining the three ranges that CalPERS has currently into one range for the Investment Manager role.

CHAIRPERSON TAYLOR: Okay. So that will --

MR. MYSZKA: The difference between the three today, as I understand it, is the rate -- the difference in incentive targets.

CHAIRPERSON TAYLOR: Yeah. There's very little difference otherwise in their actual salary.

MR. MYSZKA: Right.

CHAIRPERSON TAYLOR: It's the same salary.

MR. MYSZKA: Correct.

CHAIRPERSON TAYLOR: Okay. That's where I was a little confused. And I just wanted to remind everybody, we've been talking about this long-term incentive for a while. As long as we iron out the particulars and it -- and it fits for our employees, I think it's important that we move on this. Go ahead, Doug.

DEPUTY EXECUTIVE OFFICER HOFFNER: So -- Madam Chair, so we do have within the policy a discretion in performance adjustment section. And so I just want to read a little bit of that, because I think while this doesn't envision the long-term incentive in the current policy, it does speak to what can be exercised today. And I think that might be helpful as this overall discussion goes forward.

It says basically an award can be adjusted upward by any percentage based on qualitative individual contributions. Discretionary adjustments may not exceed the maximum incentive opportunity. So to that point of going upwards. It also has the points about an award may adjusted downward by any percentage or eliminated together -- altogether based on unsatisfactory individual performance.

So it's trying to tease apart the rising of all these boats based upon one target, at the same time looking at individual. And then it -- and I think to --

to Ms. Hollinger's point, it talks about the non-adherence of CalPERS risk management, principles, policies, processes, and procedures and award can be reduced or -- by either 50 percent or eliminated entirely based on the severity of non-adherence.

So this is baked in today. I think the question is as we build out whichever direction the Board goes, we can take some of these principles and apply them to the long-term piece as well, because it doesn't -- it doesn't have a discretionary piece about how that would be built out today, but -- and this -- this aligns for these investment management positions with -- with Ben as the CIO and the way the policies with concurrence of the CEO.

So it is here, and I think it's something we just need to maybe further discuss, and as we go forward, is how that would be implemented. But these do -- these do apply today.

CHAIRPERSON TAYLOR: So let me ask a question.

DEPUTY EXECUTIVE OFFICER HOFFNER: That's how they've been managed. Yes.

CHAIRPERSON TAYLOR: We're -- we are supposed to take an action on this item. What does that mean going forward, if we're supposed to take an action? Are we saying go ahead and come back with more constructs? Is that what we're -- I'm --

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So I think --

CHAIRPERSON TAYLOR: Because we haven't finalized it, so I'm a little confused.

DEPUTY EXECUTIVE OFFICER HOFFNER: No. No. I think it -- I think based upon the request to bring sets of data back is are you comfortable with the pay philosophy should get to the median. And you basically told us in December, yes, but not -- didn't know what the data looked like, because that was consistent with the prior discussions for both the CFO and the CIO most recently changed in 2018.

I think the question is how do we get there? And you've got one under option A, which essentially takes it a higher base pay salary, which drives pensionable compensation for some and not others. There's input questions there. I don't know that it has the alignment that we've been discussing in terms as a long-term investor. And C basically kind of teases that out, and it's still something you have to earn.

So while it's getting you to the 50th percentile, there's still opportunity for it to up or down. And I think really that's the driver of alignment that we're -- that I think I've been -- we've been working on this for a couple years that we've been trying towards is how do we get that alignment so it's not how any one individual does, it's how the collective organization does and aligns to meeting the mission of this organization.

CHAIRPERSON TAYLOR: So we're picking -- so what we're doing in this action item is picking A or C.

DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

CHAIRPERSON TAYLOR: That is what we're going. Okay. Because it doesn't actually say that. So I'm a little concerned that it doesn't say that. It just says revised pay ranges and incentive award ranges for investment management positions. So we're not actually telling you that we accept range -- or C.

DEPUTY EXECUTIVE OFFICER HOFFNER: I think that would the motion if that's -- at some point in time that would be the discussion, if it's what you wanted to do or not.

CHAIRPERSON TAYLOR: Go ahead, Bill.

COMMITTEE MEMBER SLATON: Well, I would suggest --

CHAIRPERSON TAYLOR: And then I've got Adria after you.

COMMITTEE MEMBER SLATON: Okay. I would suggest maybe it's in -- it's a two-step process. One is do we -- do we accept the concept of C that includes a long range incentive? I think that's the first one.

The second one is, and I don't know if it's appropriate if you want this instruction today, for us to go through the costs, and then see if we are comfortable with the ranges in C for these positions.

The design of the detail of the long-term incentive would be -- I would view that as a task for staff to work on with consultants and come back to us with that design.

CHAIRPERSON TAYLOR: So I think that's the same thing, Bill. I think if we're comfortable with the ranges, we're saying yes to C.

COMMITTEE MEMBER SLATON: No. No. I -- well --

CHAIRPERSON TAYLOR: So we don't need to take a vote on both, I think.

COMMITTEE MEMBER SLATON: Okay. We can combine them. C with these ranges is fine.

CHAIRPERSON TAYLOR: Yeah.

COMMITTEE MEMBER SLATON: But then the plan design, there's still detail work to be done on the long-term incentive portion of the plan itself.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER SLATON: So if -- if you're okay to entertain a motion, I would put a motion on the floor.

CHAIRPERSON TAYLOR: Okay. You want to give me some verbiage for that.

COMMITTEE MEMBER SLATON: Sure. That --

CHAIRPERSON TAYLOR: I need to get to Adria first before we get to the motion.

COMMITTEE MEMBER SLATON: Oh, I'm sorry.

Go ahead.

COMMITTEE MEMBER JENKINS-JONES: Well, first of all, thank you. I think we need to look at this a little bit more. She started off the presentation talking about recruitment and retention. And I personally don't believe that we have enough information. When in December, I asked to get down to some granular details to recruitment and retention, and that has not been presented at all.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER JENKINS-JONES: So I had CalHR pull the numbers, okay?

So if you look at their voluntary separation rate over the last three years, it's at 3.8 percent, okay? Also, the vacancy rate for investment managers averages which is about 13 percent over a three-year period, which is the State average, which is between 13 and 14 percent. So I have a hard time believing, first of all, that we have a recruitment and retention issue.

Also --

CHAIRPERSON TAYLOR: I'm sorry, just -- could you tell me what was that classification again?

COMMITTEE MEMBER JENKINS-JONES: That's the group, all the classifications. This is an average of all the classes -- investment classifications.

CHAIRPERSON TAYLOR: The ones we're looking at right now. Okay.

COMMITTEE MEMBER JENKINS-JONES: However during the same period, there's a 17.4 percent vacancy rate for CalPERS Investment Officers, which is rank and file. So while we give them more salary, we're creating a bigger gap between rank and file and supervisory. And when you look at all the appointments that have been made at CalPERS over the last three years, 80 percent of those appointments into the Investment Manager classification come from people that already work for CalPERS. So how can that even be an argument that there's a recruitment and retention issue for this classification?

If you look at all the job postings that they've done over the last -- from 2016, 2017 and the first half of 2018, on average, they receive 31 applications for every position. And they have at least 77 people on a Cert List every time they pull a Cert. So there's a lot of other information and details that I feel that we need to be looking at before we start saying, oh, we're going to go with C or we're going to go with A.

If we go with the 50th percentile of each classification, basically, we're getting ready to approve a salary increase ranging from 42 to 100 percent. The Associate Investment Manager starts off at $171,000. 50th percentile puts it at $243,000. The Investment Manager, $240,000. 50th percentile puts it at $426,000, which is a 78 percent increase.

So, as we do this, we're creating a definite gap between rank and file and supervisory. At minimum, rank and file, the gap is like 28 percent. So I just want to --

CHAIRPERSON TAYLOR: Can I see that afterward.

COMMITTEE MEMBER JENKINS-JONES: Yeah.

CHAIRPERSON TAYLOR: All right. So we -- I appreciate that Ms. Jenkins-Jones. As a rank and file employee, I understand that. Unfortunately, I think that's something that has to be taken up elsewhere, rank and file.

COMMITTEE MEMBER JENKINS-JONES: Yes.

CHAIRPERSON TAYLOR: I agree, we're creating another wealth in the State employment. So -- however, we have been working on this for a while. If anybody has -- and I've got Margaret ready to go. Anybody else has any commentary on what Ms. Jenkins-Jones just brought up -- I don't disagree with what she's saying, but I do know that we've been working on this. And retention wasn't our only issue for this.

But, Ms. Brown -- or Margaret Ellen Brown.

BOARD MEMBER BROWN: Thank you. Thank you. We did that in closed session. Thank you.

I'm an individual who loves data. Almost too much analysis paralysis. And so I'd like to look a little more into Ms. Jenkins-Jones data. Because I don't like to start from an assumption that we have trouble recruiting and retaining managers without having the data that proves that. So I don't know if we have that same data that shows that, or if we can do at least a comparison and maybe set this over. I don't have a vote on this committee, but maybe set this over until we can take another look at it.

I do worry that if most of our management recruitment comes from within, I don't want to be creating a greater disparity between the managers and the workers. I, too, was rank and file and got promoted to management. And I will tell you my salaries kept going up and up and the workers did not, so -- not that management doesn't work.

But I certainly would like to see the data before we jump and make huge salary increases or salary and bonus compensation increases, if we truly don't have a problem that's as bad as this solution suggests.

Thank you.

CHAIRPERSON TAYLOR: Okay. Mr. Ruffino.

ACTING COMMITTEE MEMBER RUFFINO: Thank you, Madam Chair. The data woke me up.

CHAIRPERSON TAYLOR: I know, right?

ACTING COMMITTEE MEMBER RUFFINO: That's an issue of compaction that I'm very familiar, and I'm concerned.

That said, I don't have a problem giving the Investment Manager management whatever we think it's appropriate. I mean, give them all. But the question is are we -- what are we doing about rank and file or are -- we also have a plan to compensate rank and file, or is there even there a policy -- and maybe there isn't, that -- I know it does not exist at the statewide level for State employment in general. But is there a policy that says that there should be -- the gap between rank and file and management should be no less or no more? So I'm not sure if there is, and whether that's been considered during your research?

DEPUTY EXECUTIVE OFFICER HOFFNER: Let me try to respond to that. So the I -- Investment Officer III series is also incentive eligible. And that's tied to their direct manager. So they are receiving up to 15 percent incentive opportunities today. So that's different than you'd find in any other departments, other than maybe CalSTRS.

I'm not aware of an exact gap linked, you know, between the two, in terms of we wouldn't want to get beyond that. But essentially, they are connected at this point today in terms of incentive opportunity, and how what they do and tied together in the organization.

That doesn't address the other Investment Officers within the organization, but that's also addressed through collective bargaining.

CHAIRPERSON TAYLOR: So, and I will -- yes. Thank you. I was going to say that's addressed in collective bargaining most of that. So thank you for the ideas though. Let me call on Mr. Slaton.

COMMITTEE MEMBER SLATON: Thank you, Madam Chair.

You know, we have -- we have a unique delegated authority for this group, because this group drives the -- what's the percentage, 68? What's the current percentage that's from earnings that's provided?

CHAIRPERSON TAYLOR: Sixty-eight.

COMMITTEE MEMBER SLATON: Huh? Fifty-eight.

DEPUTY EXECUTIVE OFFICER HOFFNER: Fifty-nine.

COMMITTEE MEMBER SLATON: Fifty-nine. All right. Well, let's agree, 59. So that is such an important piece of this entire organization's work. And so the Legislature has agreed to give us that delegated authority for that particular group, which is unusual. It's not typical in State service. CalSTRS has it and we have it.

So that puts an awesome burden on us to make sure that we have that particular type of workforce that's going to optimize that 59 percent and grow that number to be a higher percentage. That's the solution for this organization.

So there are forces that play here that go beyond normal State service. The fact that we have maybe not that large a percentage vacancy does not translate to having the right people in the right places to accomplish the right objective. That's something that we have delegated to our CIO and the staff to make that happen.

Our job is to make sure that we have a plan here that will optimize that. Now, we may make an error in it and have the compensation be a slight bit too high. I'd rather err on that side than on the downside, because the productivity per employee of that management group is outstanding. It -- that's where the leverage is for this organization is with that group of people.

So I think that -- and I believe we talked before in a briefing, the number of -- I don't know if we can do this in this particular session. The number of actual people that would be subject to an increase if we were to adopt this. Is that something we can talk about or not, just the number of positions?

DEPUTY EXECUTIVE OFFICER HOFFNER: I think the agenda item includes that. I think there's like 19 potential people that are impacted in that way, Mr. Slaton.

COMMITTEE MEMBER SLATON: Okay. And you've mentioned in the opening remarks that we're going to -- there's going to be a transition of that. This is not going to be an automatic suddenly you're making X and now you're going to make Y, that there's a transition approach with this, which is appropriate for management to execute. But how many people are we talking about on the total investment group here?

DEPUTY EXECUTIVE OFFICER HOFFNER: A hundred and twenty-six.

COMMITTEE MEMBER SLATON: All right, 126. And there's 19 --

CHAIRPERSON TAYLOR: Bill, I'm sorry. I got a whole bunch of people waiting.

COMMITTEE MEMBER SLATON: Okay. Anyway.

CHAIRPERSON TAYLOR: Thank you.

COMMITTEE MEMBER SLATON: I just suggest that we can move along and look at the total number and see if we're comfortable with it.

CHAIRPERSON TAYLOR: All right. Mr. Miller.

BOARD MEMBER MILLER: Just a couple comments from the peanut gallery here. I'm not on a Committee member. But one of the things that may be a little bit of an elephant in the room is we're talking about relatively few really critical management positions. And when we look at this, I think, you know, we may be saying to ourselves in the organization, hey, we haven't been able to get the kind of candidate pools ideally we would like to see with our existing structure.

But to do that, we think a lot of those candidates, you know, may not work here or in another government agency, or pension fund, but they're out in the broad world, and we've got to be able to, A, recruit them, B, retain them, and be able to drive their performance.

The trick for -- for me is I've seen in State government how critical our rank and file folks are. They're doing all the day-to-day heavy lifting and work. And if they don't see opportunities for upward mobility and career growth, it's a problem. If we create, you know, this situation like we have in my experience where all the supervisors and managers in my field were instantly given a 47 percent pay raise, and all of a sudden all the opportunities for promotion were being taken by external candidates, who now suddenly were attracted to State government in that field. And it left our career professionals who started and stayed with State government long term feeling like, man, now what looked like a real career path to me, looks like I can't compete, because I chose a State career rather than a private sector career in this career field.

So I kind of share some of the concerns about we really need to make sure that we don't have other unintended consequences on our career workforce in these fields that are so important to us.

CHAIRPERSON TAYLOR: Again, I'll remind the Board that -- the -- some of the positions that were being discussed are rank and file and are governed by bargaining. And I'm going to go back to a Board member and then I'll go back to a non-Board -- I'm sorry, Committee member and non-Committee member.

Adria.

COMMITTEE MEMBER JENKINS-JONES: Will, no. I was actually just going back to answer Frank's question, and actually Doug. Doug didn't know what the difference between Investment Officer III and Associate Investment Manager was a 28 percent difference between the top pay range from the Investment Officer III classification and Associate Investment Manager. The typical, for you, Frank, for CalHR is 10 to 15 percent is what we keep between rank and file and supervisor.

CHAIRPERSON TAYLOR: And that is -- is that a standard, a policy?

COMMITTEE MEMBER JENKINS-JONES: Yeah, that's our standard. That's our standard.

CHAIRPERSON TAYLOR: That's your standard.

COMMITTEE MEMBER JENKINS-JONES: That's what we look at.

CHAIRPERSON TAYLOR: Okay. Thank you very much.

Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you, Madam Chair.

I wanted to thank Ms. Jenkins-Jones for bringing out those data points. And, you know, hopefully the staff can bring up the same information that she requested in December. And I think looking at the two options before us -- we don't have a vote on this Committee, but I think that option C is a long-term incentive alignment. I'd be very curious to see how that is constructed. And I think it's important to make sure that everybody's long-term interest are aligned. And, you know, there are bad years in the market. But just like the Wall Street folks don't get their bonuses, if the market tanks, I mean, that is part of the long-term alignment. Because hopefully, we are all working at the same team and the same place, and we certainly want to pay people what they're worth. But, you know, that is part of the risk in being in this business too.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

Ms. Campbell. I don't have to -- go ahead.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank you.

I have just some information that I think would be helpful to share with recruitment data. So we did pull 10 sample recruitments through our AIMs through our COIO, two of each. Four of those ten were external hires, two of which have left. We have some rejected offers, offers based on pay. We don't keep those stats, but we do know that offers have been rejected due to our pay. We also have no way of tracking or knowing the number of people that don't apply because of the posted pay ranges. And also, we see range and apply thinking that they can -- they see the range and apply thinking that they can negotiate to a top of the range is not always the case. So because they're used to doing this in the private industry, they'll ask for more than even what we -- what the salary is now.

To address the question, at least one of the questions that Ms. Adria Jenkins-Jones had back in December, it was around the rank rule. And there, we do have AIMs through the COIO that have open continuous exams. The rule of three ranks does apply, which is a six limited scoring method, and only the top three ranks are reachable. That was one of the questions I think, Adria, that you had -- Ms. Jenkins-Jones that you had. And so I did want to point that out.

I also wanted to point out that we do believe this change will also help our IO Is, IIs, and IIIs, because we won't lose them to private, because they'll stay seeing that they have a better future here if they do move into management ranks. So we actually see this as a positive for them as well. And if something could be worked out through bargaining for them, certainly that's something that we would support.

I just think that, you know, what we're here for today is what you guys govern and what we're able to provide. And then I should just comment, and some of you may know this, but in May, CalSTRS will be hearing salary data and looking at making changes for their investment management classifications as well.

So -- and we have been doing this for a couple of years. And it is important, and that's why we've been doing it this long to make sure we get all those questions answered. But the main goal of today was hopefully to choose from A and C. We thought we had the information to do that.

But obviously, whatever questions that we're not able to answer or anything else that we need to bring back, happy to do it. But I just want to put some of those things out there.

And just going back to what we talked about in the very beginning, what is our philosophy, what do we think? And this -- one of these will align with the philosophy that we -- that the Board chose.

CHAIRPERSON TAYLOR: Great. Thank you, Ms. Campbell.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thank you.

CHAIRPERSON TAYLOR: Mr. Jones.

PRESIDENT JONES: Yeah. Thank you, Madam Chair.

I think Ms. Campbell said what I was going to say, is that a problem was identified some time ago. And we asked consultants and staff to go and bring us information to solve this problem. Over the course of the last several months, the information has been provided to -- for us to think about how we might go about solving this problem.

They weren't charged with solving all these other problems, even though it's a problem that we all care dearly about. Certainly, I do, and I'm sure the other

Board members and Committee members care early about it.

CHAIRPERSON TAYLOR: Yeah, those are my members.

PRESIDENT JONES: But those action can't solve that problem. The problem that we have to deal with is the one that's being presented here, and we can solve this problem. So I would hope that we separate those two and deal with the problem at hand, that we charge people to come with solutions about, and let's solve that. And then do whatever we can to support this other problem about the rank and file, because I think we all are concerned about rank and file salaries also.

But I would strongly suggest that we solve the problem that -- that's in our governance opportunity right now, and go -- and whatever -- you know, make suggestions of how we can be engaged and help the others. I'd be willing to do that. But I don't think we should holdup this whole process to get to that point.

CHAIRPERSON TAYLOR: Thank you, Mr. Jones.

So I would be happy, Mr. Slaton, to entertain that motion.

COMMITTEE MEMBER SLATON: Okay.

CHAIRPERSON TAYLOR: I don't even have to turn your button on.

COMMITTEE MEMBER SLATON: Whatever.

I move that we select option C as our preferred alternative. And that we instruct staff to come back with a plan design for the long-term incentive. And I guess the only other piece are we -- should I include in the motion -- just leave it at that or let the ranges --

CHAIRPERSON TAYLOR: Leave it at that.

COMMITTEE MEMBER SLATON: Just leave it at that.

CHAIRPERSON TAYLOR: Yeah.

COMMITTEE MEMBER SLATON: Why don't we just leave it at that for now. That gets us -- is that what -- that's what you were looking for primarily, right?

CHAIRPERSON TAYLOR: Does that get us what we need?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes. But by adopting either A or C, we are adopting the ranges. What you're suggesting is the incentive -- the long-term incentive and the plan design.

COMMITTEE MEMBER SLATON: Okay.

CHAIRPERSON TAYLOR: For Range C, you said, right?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: For range C.

COMMITTEE MEMBER SLATON: For the -- it's adopting the C platform with the ranges indicated in C.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Correct.

VICE CHAIRPERSON HOLLINGER: Second.
COMMITTEE MEMBER SLATON: That's the motion.
CHAIRPERSON TAYLOR: Okay. I have a motion on the floor, a second. A motion by Mr. Slaton, a second by Ms. Hollinger.
All those in favor of the motion say aye?
(Ayes.)
CHAIRPERSON TAYLOR: Okay. All those opposed?
(Nay.)
CHAIRPERSON TAYLOR: Okay. Let the record show that Ms. Adria Jenkins-Jones is a nay.
And the motion passes.
All right. Thank you.
HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Thanks.
CHAIRPERSON TAYLOR: Yea. We got done with that one.
Is that it.
My whole thing logged off, so now I have to wait.
Hold on a sec. I think we are done, but let me check.
Okay. That is --
DEPUTY EXECUTIVE OFFICER HOFFNER: So I think it would be Summary of Committee direction. The feedback we just -- you just voted on would be the team here working with your independent consultant to provide additional

information on the long-term incentive. We'd bring that back at a future meeting.

CHAIRPERSON TAYLOR: Could I also request -- Ms. Jenkins-Jones supplied her own numbers, but could you go back and get with her and make sure that you know -- I know you do, but maybe the whole Board would like to see it. And I don't want to make you do that. So if you wouldn't mind just providing us with that.

DEPUTY EXECUTIVE OFFICER HOFFNER: So we could do that and just provide it back to the Committee.

CHAIRPERSON TAYLOR: Yeah, that would be great. Okay.

DEPUTY EXECUTIVE OFFICER HOFFNER: Okay.

CHAIRPERSON TAYLOR: Any other direction?

That was it.

All right. So thank you very much. We appreciate it.

MR. GONZAGA: Thank you.

MR. MYSZKA: Thank you.

CHAIRPERSON TAYLOR: All right. And our Committee is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 1:55 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 25th day of February, 2019.

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