



Performance, Compensation & Talent Management Committee

Agenda Item 6c

September 17, 2019

Item Name: Salary and Incentive Ranges for Deputy Chief Investment Officer and General Counsel

Program: Administration

Item Type: Action

Recommendations

1. Approve base salary and incentive ranges for the Deputy Chief Investment Officer position.
2. Approve a revised base salary range for the General Counsel position.

Executive Summary

Government Code section 20098 provides authority for the CalPERS Board of Administration (Board) to set the compensation for designated positions covered under the code. The Investment Office is transitioning to an organizational structure which includes a new Deputy Chief Investment Officer (DCIO) classification. The DCIO classification will report directly to the Chief Investment Officer (CIO). This agenda item seeks approval of a salary and incentive range being recommended by the Board's Primary Executive Compensation Consultant for the DCIO position. CalPERS is borrowing the DCIO classification from the California State Teachers' Retirement System. To do this, approval by the California Department of Human Resources is also required; therefore, recruitment of a DCIO and utilization of salary and incentive ranges approved today are contingent upon final approval by applicable control agencies.

The General Counsel (GC) position is also covered under Government Code 20098, and it's one of two remaining positions which has not been reviewed for base salary adjustments to align with market data and the pay philosophy adopted by the Board for numerous other covered positions over the last several meetings. This agenda item seeks approval of a revised base salary range for this position.

Strategic Plan

This agenda item supports CalPERS' Strategic Goal to promote a high-performing and diverse workforce in the 2017-22 Strategic Plan. The Executive Compensation Program provides a means for recruiting, retaining, and empowering highly-skilled executives to meet organizational

priorities and strengthen the long-term sustainability of the pension fund by generating returns to pay member benefits.

Investment Beliefs

The inclusion of the DCIO in the Investment Officer organization structure supports Investment Belief #10: *Strong process and teamwork and deep resources are needed to achieve CalPERS goals and objectives.* Further, it will best position CalPERS for success by having strong governance, focusing resources on the highest value activities, and employing professionals who have intellectual rigor, deep domain knowledge, and a broad range of experience. The introduction of a DCIO into the structure further supports this belief because it will establish a bench of potentially viable internal candidates to be considered when the CIO position becomes vacant.

Background

Deputy Chief Investment Officer

Currently, the CIO oversees all Investment Office activities and provides direct supervision over all Managing Investment Directors (MID) and a Chief Operating Investment Officer (COIO), for a total of nine direct reports. The MIDs are responsible for activities such as the day-to-day oversight, strategy and policy development and implementation, and investment decisions related to their respective asset class or total fund program. The COIO is responsible for activities such as strategy and policy development and implementation, investment performance review and monitoring, and all operational aspects of the investment office.

General Counsel

In 2015, the Board approved a 5 percent increase to the maximums of several salary ranges for covered positions, including the GC position, based on a salary survey conducted by McLagan. The maximum of the GC base salary range was increased by an additional 4 percent in 2017 to address potential retention issues due to the incumbent being at the maximum of the range.

Analysis

Deputy Chief Investment Officer

It's common in the investment industry to have a DCIO (or similar position) report to the CIO and oversee the investment professionals who are responsible for such things as day-to-day asset and program oversight; investment strategy and policy development and implementation; and other investment and operational activities. This structure enables the CIO to dedicate an appropriate amount of time and focus to the highest level strategic activities, investment decisions, and other critical responsibilities to ensure the best possible returns and long-term fund sustainability. The California State Teachers' Retirement System, University of California Office of the Chief Investment Officer, other public funds (national and international), and many private sector asset management firms maintain an organizational structure which includes a DCIO or similar role. However, CalPERS Investment Office is not currently structured this way.

The CalPERS Investment Office plays a critical role in fulfilling the CalPERS Mission to deliver retirement benefits to members and their beneficiaries, and it is imperative the CIO dedicates

focused time and attention to the most strategic and critical investment decisions. Due to the high number of direct reports and resulting inherent need to be involved in the day-to-day activities, the ability for the CIO to focus on strategic investment decisions is impeded. The addition of the DCIO classification will transfer key day-to-day responsibilities away from the CIO which will enable the CIO to re-focus on Total Fund investment oversight and decision-making necessary to advance the fund toward achieving a long-term rate of return which meets or exceeds the CalPERS actuarial expected rate of return. Due to size and complexity of the Investment Office, and the breadth of asset classes and programs, we anticipate the need to fill up to three DCIO positions.

The Board's Primary Executive Compensation Consultant (Consultant) recommends a base salary and incentive opportunity aligned with the ranges approved by the Board over the last several months for all other investment management positions (see Attachment 1). The Consultant recommends the following base salary and incentive range for the DCIO position:

Position	Deputy Chief Investment Officer
Base Pay Range	\$339,900 – \$566,500 (midpoint \$453,200)
Incentive Award Range	0 – 120% (target 80%)
Midpoint Base Salary + Target Annual Incentive	\$815,760
Maximum Base Salary + Maximum Annual Incentive	\$1,246,300
Maximum Base Salary + Maximum Annual Salary + Long-Term Incentive Paid at Target¹	\$1,699,500
Maximum Base Salary + Maximum Annual Salary + Maximum Long-Term Incentive¹	\$1,926,100

CalPERS team members will incorporate the DCIO position in the Board's Compensation Policy for Executive and Investment Management Positions, along with the approved annual base salary range and incentive schedule approved by the Board.

¹ Contingent on the Board's approval of the Long-Term Incentive Program design as presented in agenda item 6a

General Counsel

The current base pay range for the GC position is \$214,000 - \$351,624. The current incumbent is at the maximum of the salary range for the GC position, and it's one of the two remaining positions which has not been reviewed for base salary and/or incentive range adjustments to align with market data and the pay philosophy adopted by the Board for the other covered positions over the last several meetings. This creates a situation where retention is at risk; therefore, a base salary adjustment should be considered to align with market data.

The Consultant utilized the 2015 data from the salary survey conducted by McLagan and made conservative adjustments to reflect market changes that occurred since 2015 and made compensation recommendations for other covered positions. The Consultant utilized the same data and applied the same adjustments for the General Counsel position and recommends the following:

Position	General Counsel
Base Pay Range	\$225,000 – \$375,000 (midpoint \$300,000; comparator group 50 th percentile)
Incentive Award Range	0 – 40% (target 27%) (no change; retains current opportunity)
Midpoint Base Salary + Target Annual Incentive	\$381,000
Maximum Base Salary + Maximum Annual Incentive	\$525,000

Any changes to the existing salary range for the General Counsel will be made effective July 1, 2019 and be incorporated into the Board's Compensation Policy for Executive and Investment Management Positions.

Budget and Fiscal Impacts

Deputy Chief Investment Officer

The Investment Office has committed to filling up to three DCIO positions without an increase to its Personal Services budget or to the number of authorized positions. More specifically, the Investment Office will reclassify vacant positions and use the related, budgeted funding to cover the higher cost of the new DCIO positions. Because there are no other positions funded at this level, the Investment Office will likely need to use a combination of vacancies to achieve this goal. Although there is no specific plan at this time that identifies which positions will be used, the approach is reasonable for funding base pay. However, because the proposed DCIO incentives are much higher than other positions, there may be an increase in the total amount of incentives paid over that which is currently estimated. CalPERS' Financial Office will review the Investment Office's implementation of this new classification to monitor the fiscal impact.

General Counsel

Since a fiscal year 2019-20 budget has already been approved, any base salary increase granted because of the new salary range will need to be addressed by redirecting existing budgetary resources. This will need to be re-assessed during the next budget cycle and a determination made whether to increase the Personal Services budget or redirect existing resources.

Benefits and Risks

Deputy Chief Investment Officer

Approval of a base salary and incentive range will enable CalPERS to proceed with additional steps to fill the DCIO position(s). This will enable the CIO to focus on the highest level strategic activities, investment decisions, and other critical responsibilities to ensure the best possible returns and long-term fund sustainability. The addition of a DCIO will align CalPERS with similar public pension funds and will establish a structure to enhance succession planning for the CIO position.

General Counsel

Approval of a revised base salary range will align this position with market data and the pay philosophy utilized for other positions for which compensation was revised during the last several months. It will enhance CalPERS ability to retain current and future incumbents.

Attachments

Attachment 1 – Base Salary and Incentive Ranges for Investment Management Positions

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