MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

ROBERT F. CARLSON AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, SEPTEMBER 17, 2019

2:21 P.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

Mr. Rob Feckner

Ms. Fiona Ma, represented by Mr. Matthew Saha

Ms. Lisa Middleton

Ms. Stacie Olivares

Ms. Eraina Ortega, represented by Mr. Ralph Cobb

Ms. Mona Pasquil Rogers

BOARD MEMBERS:

Mr. Henry Jones, President

Ms. Margaret Brown

Mr. David Miller

Mr. Jason Perez

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. Neal Johnson, Service Employees International Union Local 1000

Mr. Andrew Junkin, Wilshire Associates

Mr. Eric Myszka, Grant Thornton

I N D E X

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P R O C E E D I N G S

CHAIRPERSON TAYLOR: Performance, Compensation and Talent Management Committee meeting is called to order.

And let's start with the roll call, please.

COMMITTEE SECRETARY QUERAL: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY QUERAL: Eraina Ortega?

CHAIRPERSON TAYLOR: She's coming.

COMMITTEE SECRETARY QUERAL: Rob Feckner.

COMMITTEE MEMBER FECKNER: Good afternoon.

COMMITTEE SECRETARY QUERAL: Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Here.

COMMITTEE SECRETARY QUERAL: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY QUERAL: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Here.

COMMITTEE SECRETARY QUERAL: Mona Pasquil Rogers?

COMMITTEE MEMBER PASQUIL ROGERS: Here.

CHAIRPERSON TAYLOR: All right. Our second order of business is the Action Consent items, which is the approval of the February 20th, 2019 PCTM Committee closed session meeting minutes.

COMMITTEE MEMBER PASQUIL ROGERS: Moved.

CHAIRPERSON TAYLOR: Moved by Ms. Pasquil Rogers.

COMMITTEE MEMBER MIDDLETON: Second.

CHAIRPERSON TAYLOR: Second by Ms. Middleton.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion passes.

Action Agenda item 3a, review of the Performance and Compensation, Chief Executive Officer.

Ms. Campbell.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: I think we're out of order.

CHAIRPERSON TAYLOR: I'm looking at my -- am I looking at closed session or open session?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah, that was closed. That was closed.

CHAIRPERSON TAYLOR: I'm looking at closed. My bad. Sorry.

Oh, I'm sorry. Executive report, Mr. Hoffner.

DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you.

Doug Hoffner, CalPERS team member. Today, we have several items before you today. Agenda Item 4b is the action consent seeking approval of proposed revisions to the Board's compensation policy for executive and investment management positions. There's a red-lined document in your materials, as well as we did sort of a synopsis of the changes. This brings into effect essentially the changes the Board has approved in the last fort of 6 months, including adding several positions to the descriptions of the comp policy. There's some tax statements in there from our outside tax counsel, as well as some other revisions from an administrative perspective we're looking to get approval for.

This does not include anything to do with long-term incentives, because that has not been approved by the Board. So any action that you take today would need to be incorporated into policy provisions later on. But just want to clarify there's nothing related to long-term care in that policy at the moment.

In addition, we have several other items for action. 6a is an action item to look at the CEO's annual appraisal and result of your closed session discussion. 6b is discussion about a request for proposal for the Board's primary incentive comp consultant. The contract the Board currently has with Grant Thornton comes to an end in the fall of 2020. And we just want to tee up for you a RFP process that we would go through mirror what we did nearly four and a half years ago when we -- the Board selected them as the consultant.

And then 6c it's a recommendation from the Board's incentive comp consultant on salaries and incentive ranges for a Deputy Chief Investment Officer position, as well as a revised salary range for the General Counsel position.

And then finally 6d is the second reading of the long-term incentive program brought to you by your Board's incentive comp consultant Grant Thornton.

And that concludes my report, Madam Chair.

CHAIRPERSON TAYLOR: All right. Thank you, Mr. Hoffner.

All right. Now, we are on action consent items. So we're moving the approval of the Performance, Compensation and Talent Management Committee meeting minutes and the proposed revision to the Board's Compensation Policy for Executive and Investment Management.

What's the Committee direction, action consent items.

COMMITTEE MEMBER FECKNER: Move approval.

COMMITTEE MEMBER PASQUIL ROGERS: Second.

CHAIRPERSON TAYLOR: Okay. Moved by Mr. Feckner, second by Ms. Olivares?

COMMITTEE MEMBER OLIVARES: No.

COMMITTEE MEMBER PASQUIL ROGERS: (Raises hand.)

CHAIRPERSON TAYLOR: Ah, Ms. Pasquil Rogers.

Okay. All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Okay.

Abstain for you?

Eraina, are you --

VICE CHAIRPERSON ORTEGA: I said aye.

CHAIRPERSON TAYLOR: Okay. Action passes.

We're moving on to 5, information consent items. I don't believe we had anything pulled off. Draft agenda for the next Perf -- okay.

So then we're going on to 6. Agenda Item 6a, and I think that is Tina.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Good afternoon, members of the Committee. Tina Campbell, CalPERS team member.

The Board's Compensation Policy for Executive and Investment Management positions requires an annual review -- did you -- did you say 6a, right?

DEPUTY EXECUTIVE OFFICER HOFFNER: Yes.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay -- annual review of performance for the CEO. Agenda Item 6a is an action item resulting from the Committee's closed session evaluation of the CEO's fiscal year 18-19 performance. All members of the Board were encouraged to participate in the Committee's performance discussion.

Based on the performance ratings determined in closed session by the Committee and the incentive metric outcomes the resulting incentive fiscal year 18-19 award for the CEO is 94,340, or 28.5 percent.

And then I -- we need a motion.

CHAIRPERSON TAYLOR: Okay. All right.

I will entertain a motion for the monetary compensation for the CEO of 94,340, or 28.5 percent.

COMMITTEE MEMBER PASQUIL ROGERS: Moved.

CHAIRPERSON TAYLOR: I was moved by Ms. Pasquil Rogers

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON TAYLOR: Second by Mr. Feckner.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion passes.

Okay. 6c.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: And then based on the Committee's closed session performance review of the CEO, the subsequent Salary increase for fiscal year 19-20 is 2 percent resulting in a new base salary of $337,334.

CHAIRPERSON TAYLOR: 334?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Four, um-hmm. Correct

CHAIRPERSON TAYLOR: Okay. I will entertain a motion for the base salary increase to $330,334.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: It's 337,000.

CHAIRPERSON TAYLOR: 337,334. Did I read that wrong? I wrote it down right. Okay.

COMMITTEE MEMBER FECKNER: So moved.

CHAIRPERSON TAYLOR: Moved by Mr. Feckner.

COMMITTEE MEMBER MIDDLETON: Second.

CHAIRPERSON TAYLOR: Second by Ms. Middleton.

All those in favor?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

Okay. And I think we are on, what, 6c?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: B.

CHAIRPERSON TAYLOR: The primary compensation consultant. That's right. Okay Go ahead. 6b.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay. Tina Campbell, CalPERS team member.

This action item seeks the compensation's approval to proceed with the development of a Request for

Proposal for the Board's primary compensation consultant. Currently, Grant Thornton fills this role for the Board and they were selected through a competitive process in 2015 for a 5-year contract, which expires November 2020. We're bringing this item to you today to allow for the appropriate amount of time to develop an RFP and conduct the competitive selection process for a new contract to be in place around the same time the current contract expires.

If the Committee approves the development of this RFP, we'll return at our next meeting with more details on services, timeline, and the competitive selection process, including how a subcommittee for this Committee will be involved in the process.

Thank you, members of the Committee. I'm happy to answer any questions.

CHAIRPERSON TAYLOR: Any questions from the Committee members?

Okay. I will entertain a motion for starting the RFP process for our consultant.

COMMITTEE MEMBER MIDDLETON: So moved.

CHAIRPERSON TAYLOR: Moved by Ms. Middleton.

COMMITTEE MEMBER OLIVARES: Second.

CHAIRPERSON TAYLOR: Second by Ms. Olivares.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion carries. We're moving on and we are on 6c now.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Tina Campbell, CalPERS team member.

This action item seeks the Committee's approval for salary and incentive ranges for the Deputy Chief Investment Officer position and a revised salary range for the General Counsel position.

As you're aware, the Investment Office plans to transition to an organizational structure, which includes the addition of Deputy Chief Investment Officer, a classification for which CalPERS has received approval to borrow from CalSTRS. This structure will enable our Chief Investment Officer to place more focused time and attention to the most strategic and critical investment decisions by transferring key day-to-day responsibilities to the Deputy Chief Investment Officer role.

In regard to the General Counsel, this is one of two remaining positions which have not yet been reviewed for compensation adjustments to align with market data and the pay philosophy adopted by the Board for other covered positions over the last several meetings.

The incumbent in this position has not received any base increase in the last two years, since he is at the max of the salary range. Eric Gonzaga of Grant Thornton is here to present the base pay and incentive range recommendations for these positions.

And with that, I'll turn it over to him unless you have questions for me.

CHAIRPERSON TAYLOR: I do have a question from Ms. Ortega.

VICE CHAIRPERSON ORTEGA: No, I can wait.

CHAIRPERSON TAYLOR: Oh, you can wait?

VICE CHAIRPERSON ORTEGA: Yeah, I'll wait till the presentation is done.

CHAIRPERSON TAYLOR: All right. Push your button again then.

Okay. Go ahead.

MR. GONZAGA: So consistent with -- you know, for both positions, you know, consistent with the philosophy of, you know, how the organization has historically benchmarked, we utilized, you know, the same peers. And the proposal for, you know, the Deputy CIO is really one that, you know, positions pay halfway between the CIO and the managing directors. And, you know, it essentially is reflective of the same market positioning as for the other individuals which targets 50th percentile total cash of the marketplace.

You know, as for the General Counsel, you know, the same methodology utilizing data that was collated approximately 5 years ago, you know, and it was aged, you know, by a conservative 3 percent over the last 5 years. And it does certainly indicate, you know, the need for, you know, movement in the range.

And that is what that reflects, again, you know, consistent with that 50th percentile total cash philosophy, so...

CHAIRPERSON TAYLOR: Okay. So it's in between -- I just had a quick question and then I'm going to turn it over to my Vice Chair. It's in between our COIO and our Chief Investment Officer, is that -- you're saying mid-range, is that what I'm getting here?

Eric or Doug.

MR. GONZAGA: Yes. The CIO.

DEPUTY EXECUTIVE OFFICER HOFFNER: The Chief Investment Officer and the Managing Investment Director roles.

CHAIRPERSON TAYLOR: Managing Investment Director.

DEPUTY EXECUTIVE OFFICER HOFFNER: The COIO role is actually a lower salary than the MIDs.

CHAIRPERSON TAYLOR: Okay. Okay. And then I think one of my concerns was we're -- we want to create three of these positions, but we're going to do it at net zero basically. So I want to know how -- they're such high-paying positions, how do we get rid of or take over positions? How many positions are we looking at using to defray those costs?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: As far as the exact number of positions, I don't think that's been completely determined yet, depending on how we bring them up and when we bring them up. We had mentioned several times before about position pooling. And so there may be some resources there that we'll be using. But it is the net zero means that we will not be using --

CHAIRPERSON TAYLOR: New money.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: -- brand new positions --

CHAIRPERSON TAYLOR: Right.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: -- or new money.

CHAIRPERSON TAYLOR: Okay. So what is position pooling? I don't understand that.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah. So position pooling we've talked about this a couple times. And It's really about every time there's a vacancy in the organization, whether it's in Investment Office or anywhere else --

CHAIRPERSON TAYLOR: That's right.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: -- we look at the position to see if we still need it. And if we no longer need it, it goes to the executive team with our CEO to look at for where in the organization we may need it. And we do have a handful of positions in there now. And we're actually going through that next iteration to see if there are more positions that aren't needed in certain places within the organization. And that's going to be happening within the next month.

CHAIRPERSON TAYLOR: So -- and I just want to -- in my view, I don't -- I think this is a great way to move our Investment Office. So I don't necessarily think it has to be cost neutral. If we need to spend money on this, I'm not -- I'm not adverse to that, but that's entirely up to the Board. I just wanted to bring that up. I know that we're looking at the position pooling.

But anyway, Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Yeah. So I just wanted to talk a little more about the determination of whether there would be one or three or sort of how that might come forward. And I think -- I don't necessarily agree with the -- Ms. Taylor's comment about the money being neutral. That would be nice. But I also -- I think I have a more -- more of an interest in what does the organizational structure look like?

So there's a discussion about day-to-day tasks moving down. As I see it now, without a change in organizational structure, you're just adding another layer in the org chart, even if you're taking positions from -- from somewhere else. To do it on a fiscally neutral basis, you might be taking a position from another division to do that fiscally neutral.

CHAIRPERSON TAYLOR: Right.

VICE CHAIRPERSON ORTEGA: That, to me, is less of the issue than what is the organizational structure? Where are the duties lying? Do we really need three of those positions, and if so, what layers of other management in the Division are coming out?

CHAIRPERSON TAYLOR: Mr. Hoffner or Ms. Frost.

CHIEF EXECUTIVE OFFICER FROST: So we're not completely certain what the final organizational structure would be. Part of it would be to get started with recruitment of one Deputy CIO and then make a determination whether we needed to recruit, you know, position two and position three.

But we have done some sketching out of what that structure could look like. Potentially, it could be up to three, but it doesn't have to be three. But at this point in time, what we're asking is approval to have the Deputy

Chief Investment Officer at CalPERS and then we'd come back to you as we are refining the structure.

VICE CHAIRPERSON ORTEGA: Okay.

CHAIRPERSON TAYLOR: Okay.

Ms. Olivares.

COMMITTEE MEMBER OLIVARES: I have questions about the compensation ranges. I guess this is for Eric Gonzaga. So I understand this is some type of a midpoint between the CIO and the MID positions. How does this compare to private sector?

MR. GONZAGA: Consistent with, you know, the rest, it would be, you know, quite a bit below. You know, if you're taking a look specifically at, you know, all-in, because the targeted philosophy is 50th percentile total cash compensation. Okay.

And in industry, they tend to have long-term incentives as well, particularly for a position this senior. And so there certainly would be a significant lag relative to industry. But if you're only taking a look at the competitive salary plus annual incentive relative to industry, it would be in line. However, without the long-term incentives, it would be below market.

COMMITTEE MEMBER OLIVARES: How much below?

MR. GONZAGA: You know, without having the numbers in front of me probably 35, 40 percent low.

COMMITTEE MEMBER OLIVARES: And how do you weight civil service being part of this too? Do you add that as almost like an insurance factor, right? So you might not have all the upside in terms of equity, but you have more job security. How does that weight into it?

MR. GONZAGA: It weighs in quite a bit with the perspective -- and not just it being civil service, but the mission of the organization certainly isn't -- although you're competing for talent with other entrepreneurial organizations, this is a mission-driven organization, and so there's an expectation that there will be a discount relative to industry.

And so the philosophy that you've adopted certainly reflects that. And where there is a significant discount relative to industry. And so, you know, the issue comes down to are we paying competitively enough, recognizing things such as the culture, the mission and the security, although it not being so far below industry that you won't be able to recruit, retain the types of folks you want from industry. So it has a significant bearing by the inherently below market philosophy that you've adopted.

COMMITTEE MEMBER OLIVARES: So would it be that gap then of say 40 to the 50 percent? And you're saying the assurance additional, I would say, job security that comes from being a civil servant then makes up for that gap between 40 --

MR. GONZAGA: It certainly is one of the considerations that, you know, the fact that this isn't for -- just as an example, for many investment positions, you know, it is -- certainly, it -- you can make sometimes twice the dollars, maybe three times the dollars that, you know, CalPERS is paying, you know, based on good performance years. However, this is a mission-driven government organization. You don't have to raise your own funds necessarily. And so it's all of the factors in addition to the protections of being part of civil service that equate to allowing that discount, so...

COMMITTEE MEMBER OLIVARES: Thank you.

CHAIRPERSON TAYLOR: All right.

Ms. Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: Thank you, Madam Chairwoman.

I -- so I want to just touch upon a little bit more about Eraina's question was, and that is an org chart. And I think that I agree and I support, you know, a Chief Deputy, because I think, a good chief deputy actually allows the team to -- and the primary to really get what needs to be done. But I -- just in my experience, I think -- and especially knowing the investment world, and this department, and how there's a lot -- there are a lot of eyes on the Department, we help the Department by, you know, having an org chart proposed. So it could be draft A, we won't -- really just want to work on the Chief Deputy, but, you know, we look more -- much more thoughtful and wise if we can provide to the Board, you know, what it would look like.

Okay. Marcie, I just -- you know what I mean?

CHIEF EXECUTIVE OFFICER FROST: Yeah.

COMMITTEE MEMBER PASQUIL ROGERS: Thank you.

CHIEF EXECUTIVE OFFICER FROST: I mean, I can -- yeah, I can share the early thinking. And, you know, he's looking at -- you know, if more of his time is being spent on the investment portfolio and developing the team that you would have potentially a deputy over public markets, a deputy over private markets, and potentially the -- what's currently the COIO could become a Deputy level position potentially, depending on recruitment and what we might need.

But that's early ideas, but we do know that he needs one Deputy CIO more immediately than the other two.

COMMITTEE MEMBER PASQUIL ROGERS: I get it. But you understand what I mean by -- by --

CHIEF EXECUTIVE OFFICER FROST: I do. I completely understand it.

CHAIRPERSON TAYLOR: I lost you.

COMMITTEE MEMBER PASQUIL ROGERS: Sorry.

CHAIRPERSON TAYLOR: All right. Go ahead.

COMMITTEE MEMBER PASQUIL ROGERS: Thank you. I just -- in terms of, you know, the people that we serve, we look a -- we look better that way. And I think that we serve the team better if we are -- you know, plans can change, but we need to be prepared to think about questions like the Director of CalHR asks.

Thank you.

CHAIRPERSON TAYLOR: All right.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: One more point, if I can add --

CHAIRPERSON TAYLOR: Yes, Ms. Campbell.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: -- is that the CIO currently has -- it's either 8 or 9 direct reports. So just from a span control, you know, that's a lot.

CHAIRPERSON TAYLOR: Right.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: So that's another consideration when we're looking at these positions.

CHAIRPERSON TAYLOR: Right. And I think that was one of the things that Ben talked to us about yesterday was that he has a lot of direct reports and his hands are in day-to-day business, and that's what we're tying to relieve here.

So on that, I think if we can get -- I'd like to direct the staff to give us a -- kind of an org chart and give us an idea of what positions are being used to fund this -- at least this one position we're for sure looking to hire for right now. But I think Ms. Ortega is looking for some sort of organizational chart so we're not just have repetitive positions. So if we could get that.

And then I would like to entertain a motion for this salary and incentive ranges for the Deputy Chief Investment Officer and General Counsel, which we didn't -- I don't know that Ms. Campbell got to. Did you want to cover that? We didn't get to.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Mr. Gonzaga will actually cover that as well.

CHAIRPERSON TAYLOR: Okay. Mr. Gonzaga.

MR. GONZAGA: Yeah. And, you know, I did cover that a little bit in the commentary. But the methodology is the exact same as for, you know, the Deputy CIO, the same peer group as we've used historically --

CHAIRPERSON TAYLOR: Okay.

MR. GONZAGA: -- for the other positions.

And, you know, certainly when we take a look at the data, you know, the proposed adjustment to the salary range, it still keeps it well within market practices and consistent with the historical philosophy.

CHAIRPERSON TAYLOR: Okay. Great. Okay. So I will entertain a motion for both those salary and incentive ranges, anybody?

COMMITTEE MEMBER MIDDLETON: So moved.

CHAIRPERSON TAYLOR: Moved by Ms. Middleton.

COMMITTEE MEMBER PASQUIL ROGERS: Second.

CHAIRPERSON TAYLOR: Seconded by Ms. Pasquil Rogers.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion carries.

Ms. Brown. I'm sorry, Ms. Brown. I didn't see you till just now.

BOARD MEMBER BROWN: Okay. Thank you for calling on me after the vote.

I just wanted to again agree with Ms. Ortega that I have concerns that we're -- we might be adding a whole nother layer of top management. And with the MIDs, because I -- but in addition to the org chart, I'd like to see how the roles would change with the roles and reporting responsibilities are. Because right now, I think the MIDs have support or supervision over those asset classes. So I would like to know how that's going to work.

And then I did have a question about the new compensation for the General Counsel. Does that mean that our existing General Counsel -- that would go into effect for our existing General Counsel or would that only go into effect if we do a new hire?

CHAIRPERSON TAYLOR: So as I understand it, I believe this has to do with our existing General Counsel being at the top of his range, is that correct?

MR. GONZAGA: That's right.

CHAIRPERSON TAYLOR: So we're just increasing the pay range?

MR. GONZAGA: That's right.

BOARD MEMBER BROWN: I'm asking staff. So --

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. It's the policy that's been proposed that's here is for the incumbent, but it would be applicable for anybody else. The issue would be he's at the top of the range today, should he have the opportunity for a pay increase? That's the performance question to come. So this is talk about the salary range itself. And then how the -- the performance of that position is separate. So they're two distinct things.

BOARD MEMBER BROWN: So it's just the salary range not the performance.

DEPUTY EXECUTIVE OFFICER HOFFNER: Correct.

BOARD MEMBER BROWN: Thank you.

CHAIRPERSON TAYLOR: All right. It looks like we are moving on to 6d, Long-Term Incentive Program Design. So that's Mr. Gonzaga.

(Thereupon an overhead presentation was presented as follows.)

MR. GONZAGA: Thank you. And I actually am -- you know, we're going to go over a couple different sections. One is just a refresher on, you know, how we got here, and, you know, certainly there's some redundancy between this presentation and the last one. However, you know, just discussion of the background, which Mr. Myszka will lead, and then we'll go into the recommendations.

MR. MYSZKA: All right. Thank you, everybody. Good to see you guys. And so I thought first we'd go through some of the key definitions, so everybody is kind of consistent with the terminology that we'll use throughout today, as well as, as part of that discuss some of the suggestions and recommendations on some of the key plan policies. And then we'll get into recommendations that you guys had asked us back in June to come back with today.

So as we go through, you know, we'll see CAGR, which is really just the compounded annual growth rate. And that's really going to be set equal to the kind of total fund returns. And that will be used to measure performance through the 5-year performance period. How we use CAGR is it kind of smooths out any large swings year to year. The expected rate of return again will be what the actuarial assumption is for the year. And then year 1 of the 5-year performance period and that will set the target goal.

So, for example, if CalPERS's expected rate of return is 7 percent. In year 1, then that would become the goal, or 7 percent become the goal for the next 5 years.

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MR. MYSZKA: Moving on. The initial LTIP value. Again, this is going to be a 5-year performance period. And that first value is going to be set equal to the lower of a participant's annual incentive target or the actual bonus that was received in that year. And then that value can increase or decrease depending on the performance over that 5-year period.

That increase or decrease is set based upon a payout multiplier. And that's going to be 0 to 150 percent, depending on performance, and over that performance period of 5 years.

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MR. MYSZKA: And then the total fund returns is going to be measured using the net time-weighted rate of return of the total fund performance over that 5-year period.

So one way to think about it would be the, you know, actuarial assumptions for setting the goal. That methodology will be used the same to set the -- what the actual performance was over that 5-year period.

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MR. MYSZKA: So back in February of 2019, just as a refresher, you know, the Committee had agreed to increase base salaries, you know, mid-points for the ranges to the market 50 -- between the market 50th and market 75th percentiles. We also adjusted the -- and consolidate annual incentive ranges. And then finally introduced a long-term incentive plan with the goal to get compensation between these three base salary, annual incentives, and this long-term incentive component to be competitive with the market total cash 50th percentile.

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MR. MYSZKA: And then back in June, we had proposed a structure for the long-term incentive program. We discussed the threshold target maximum performance levels for the total fund returns and how that could play out in terms of long-term incentive payouts. And we've -- you guys asked us to come back with another model or scenario for you to consider. And that's what we're here today to discuss is really that threshold level or what that threshold level should look like in terms of when payouts will occur.

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MR. MYSZKA: So with that, I'll turn it over to Mr. Gonzaga.

MR. GONZAGA: Great. So, you know, relative to our plan recommendations again, you know, just to drive it home, this is based on absolute total fund returns as measured over a 5-year period. So it equates to how the fund performs on an absolute basis, on a forward-looking basis, essentially, you know, CAGR over that 5-year period.

The goal -- it does require an element of goal setting. And just to align with the expectations of, you know, this organization, you know, the goal would be -- the target goal regardless, the solid expected, you know, level of stretch performance would be based on the actuarial assumption.

In today's date, it's at 7 percent. So in order to achieve target award, you'd have to achieve CAGR of 7 percent over that 5-year period on an absolute basis.

Now, the opportunity levels are linked with how the annual incentive plan is administered, in that, the target opportunity is going to be the lower of the target opportunities that you'll see on the subsequent page or the most recent annual incentive award that's linked directly to -- relative to returns looking on a backward looking basis. So it will be the lower of those two.

You'll provide in annual incentive -- a long-term incentive plan opportunity for every 5-year period, with a new period -- 5-year period starting, you know, every year. It encourages, you know, appropriate pay for performance. There's always the potential for dealing with retention issues from the standpoint that there's always something, if somebody chooses to leave the organization, the amounts that are not yet -- the perform -- if the performance period isn't done yet, that individual will forfeit the opportunity for that 5-year award.

And also there's a range of opportunity, anywhere from zero up to 150 percent of whatever the target value is for that performance period. So there's an ability to recognize performance, both -- you know, you get nothing, if it's below expectations. You can earn -- there is some significant upside, but it's not such a -- it's not such huge upside, such that it encourages any sort of risky --

excessive risk taking, where, you know, you can achieve award up to 150 percent of that specific target long-term incentive opportunity.

--o0o--

MR. GONZAGA: Now, on page 11, what you'll find is just, you know, the proposed long-term incentive opportunities. They're essentially comparable to, you know, the annual incentive opportunities. The whole point being that we always want to encourage appropriate balance between annual and long-term performance and hence the opportunities are the same.

--o0o--

MR. GONZAGA: And if you go to page 12, this really gets into the plan construct. When we had this conversation, you know, a couple months back, the issue was, well, if we're expecting 7 percent over the next on average, and that's the actuarial assumption, for all three options that you have in front of you, target, so the expected level of award for good stretch performance, is set at 7 percent. If you get to that 7 percent CAGR over a 5-year period, it would pay out at the expected or target levels under the pay plan.

And so with that, with target annual incentive, and with salary positioned at the midpoint, you would be achieving that 50th percentile total cash compensation level, not total direct, specifically total cash compensation.

Now, the upside in all three is the same as well. Typically, you provide some element of upside based on performance. And, you know, we'd put the maximums under all three opportunities getting to 120 percent of target. Pretty common to provide maximum bonuses for exceeding target by 20 percent and it would cap out at 150 percent award of target.

Finally, you know, there's threshold. It's pretty commonplace for plans to provide payouts in the event of performance that's a little bit below target, recognizing that goal setting is -- there's some art to it. And just to encourage always that incentive for the sustained period, you know, it's common to have thresholds.

A recommendation is, you know, option A, because that's consistent with, you know, what this Committee wanted going forward, which is we're only going to pay target awards if we achieve target. And that's where, you know, option A there is no threshold.

Option B and C are just -- these are pretty common features, whereby, you know, you provide a little bit of latitude underneath target and they would pay out at 50 percent of target to the extent that it's meaningful performance, not quite at target, just a little bit below.

You know, 5.6 percent is 20 percent below target, pretty common methodology. We came at this -- the 6.1 percent at threshold, because at sometime or another, there was some conversation around, you know, over the next 5 to 10 years, that this would be the expected return over the next 5 to 10 years.

So there's three options to think about. Option A is certainly consistent with, you know, the direction that the Committee gave us last time, and that's the primary recommendation. But we also provide options B and C just as a reference point for what typical market practice is within the context of a long-term performance plan, so...

CHAIRPERSON TAYLOR: All right. Thank you. I have -- ah, I do.

Ms. Ortega.

VICE CHAIRPERSON ORTEGA: So can I just ask a -- first, a clarifying question. The long-term incentive that's proposed, let's just look at option A, is fully on top of the existing incentive program that we have in place.

MR. GONZAGA: It is.

VICE CHAIRPERSON ORTEGA: And there's no proposed reduction or offset of any type to our existing incentive programs, is that correct?

MR. GONZAGA: No. I mean, there was some movement in the ranges, but -- in terms of incentive opportunity, where, you know, I think it was taken down a little bit for some, while it went up for others just based on consolidation.

VICE CHAIRPERSON ORTEGA: Okay.

MR. GONZAGA: But for the most part, there is some addition here. It also -- and the additions would really come in, from the standpoint that the philosophy is 50th percentile total cash compensation, these long-term incentive opportunities, in some respects, outside of wanting the balance between annual and long-term performance. It also relates back to the fact that this is what would get you to 50th percentile total cash compensation.

VICE CHAIRPERSON ORTEGA: That was sort of my second question is are we trying to solve a problem of providing incentive for long-term performance or are we trying to solve a problem of we don't think our cash incentive compensation is high enough? Because those are potentially two separate paths you could go down, depending on the problem definition.

MR. GONZAGA: That's right. And it's actually intended to address both, one from the standpoint that it is good to always have a balance between annual and long-term performance, recognizing there's no perfect incentive plan, but you don't want folks sacrificing for the short term -- for the long term, you know, in the event of short term.

The other element is just, you know, we've been working through this for about 4 years. It real comes back to the competitive market, and not being fully competitive with industry, but getting -- you know, getting paid consistent with at least the cash compensation offered, you know, as in terms of being in the middle of the market.

VICE CHAIRPERSON ORTEGA: Well, I think for the Board, I am compelled by the argument that we should be doing more to incentivize the long-term view and the long-term approach. I am still skeptical of the need to increase the overall incentive compensation. And I have not still seen enough evidence of the problem of recruitment and retention to be compelled to layer this on top of an existing incentive plan that we already have in place.

CHAIRPERSON TAYLOR: All right. Do I have any other commentary, because we have an action item in front of us?

Ms. Olivares.

COMMITTEE MEMBER OLIVARES: I wanted to get just more clarification. So it seems as though these are performance hurdles, is that correct?

MR. GONZAGA: That's right.

COMMITTEE MEMBER OLIVARES: Okay. So 50 percent is the first hurdle, that's option A; option B is the second hurdle, that's 80 percent; and then option C is the third hurdle at 87 percent, is that right? I mean --

MR. GONZAGA: No. Actually, that's a -- that's a good point. No. Option A is simply that --

CHAIRPERSON TAYLOR: Target.

MR. GONZAGA: -- target. And there really is no threshold. You either get to 7 percent or there's no --

COMMITTEE MEMBER OLIVARES: There's nothing.

MR. GONZAGA: There's nothing. Option B and C are -- and we used this to put in perspective, which is to say that, you know, the plan as proposed and as considered by the Committee last time we spoke, you know, it's actually a little bit more difficult to -- there isn't as much flexibility, you know, relative to industry, in that you have to achieve, you know, the expected return. There's no award for, you know, modestly, you know, missing the target or the expectation.

COMMITTEE MEMBER OLIVARES: Okay. So I guess then the other reading of it then, which hopefully I'm getting this right, is that then you get your payout even if you're not reaching the threshold, right?

MR. GONZAGA: No, there is -- actually, another way to say it that --

COMMITTEE MEMBER OLIVARES: Even if we don't reach the 7 percent, you still get paid?

MR. GONZAGA: No, you get zero. If -- under option A --

COMMITTEE MEMBER OLIVARES: Under option B --

MR. GONZAGA: Under option B, you would have to get to 80 percent of target, so you would miss the 7 percent target.

COMMITTEE MEMBER OLIVARES: In order to get that additional pay?

MR. GONZAGA: Right. Anything below 5 percent -- 5.6 percent you get nothing. Option C, anything below 6.1 percent you'd get nothing.

COMMITTEE MEMBER OLIVARES: Does that create any perverse incentives as you're almost close to hitting that 7 percent? Are you -- I mean, there might be that negative incentive where you don't want to try that much harder.

MR. GONZAGA: Well, that is actually why, you know, most organizations again recognizing that goal setting can be an art form. And that is why more often than not, there is a little bit of room underneath target, you know, to -- just to make sure that there's always a realistic incentive -- a realistic, you know, possibility of earning an award and creating thresholds that are, you know, kind of these minimum expectations of acceptable performance.

MR. MYSZKA: And one thing to add too is that performance between -- under B and C, performance between threshold and target would be interpolated. So if you fall between 5.6 percent and 7 percent, option B, you'd get an amount between 50 percent and 100 percent of your payout. So there is some --

COMMITTEE MEMBER OLIVARES: Um-hmm.

MR. MYSZKA: -- incremental payout for incremental performance above threshold, and likewise, between target and maximum as well. Whereas, under option A --

COMMITTEE MEMBER OLIVARES: Um-hmm.

MR. MYSZKA: -- any incremental -- you know, there's kind of that 0 or nothing or 0 to 100 percent of payout could cause or has potential to cause a chance for excessive risk taking, let's say, in year 5, if you're close to that -- you know, let's say you're at 6.8 percent or something like that and you might take additional risks to get above 7 percent to get your payout. Whereas, under the other models, there is an opportunity to get some payout for that getting close. And maybe that would mitigate some excessive risk taking.

COMMITTEE MEMBER OLIVARES: So I'm aware of those risk taking controls, particularly when trading. But I think the incentive structure is different here, right? There is no incentive to turn a client's account, or turn a portfolio by continuing to sell securities, or doing something like that. So I would imagine we have other risk controls in place, correct? So it's not that just this structure would prevent those other risks from being taken.

MR. MYSZKA: Sure. Yeah. This would not be a one-size -- you know, one -- there would be multiple avenues to control risk for sure.

COMMITTEE MEMBER OLIVARES: Thank you.

CHAIRPERSON TAYLOR: Okay. Mr. Jones.

PRESIDENT JONES: Thank you, Madam Chair.

Yes, I think I expressed my concern about implementing performance option other than A, because if we have a target investment return, that should be the target. I don't think we should be incentivizing a compensation program that's less than the target, because you could, I think, reach a false conclusion. So therefore, from my point of view, I don't think B or C is an option from my vote, anyway.

The other question I would like to drill down a little bit on Ms. Ortega's question. Are you saying that the long-term would -- if we have 7.2, 7.3 over the next 4 or 5 years, they would be getting an incentive on that, plus they would be banking another 7.2 going forward to receive that after 5 years? Is that --

MR. GONZAGA: There would be overlapping cycles. But, I mean, each one is -- each performance award is based on, you know, CAGR over a 5-year period. So, you know, year 1 through 5 would be a performance cycle, year 2 through 6 would a performance cycle. And so -- and that's, you know, by intention. I mean, recognizing that it always trues up the incentive. There's always the potential for -- you know, it results in, you know, continual cycles, and continual focus on the long term.

PRESIDENT JONES: So it's aggregated for the first five years.

MR. GONZAGA: That's right.

PRESIDENT JONES: Okay. So then if during that period, there's a negative, does that reduce that incentive in the 5th year?

MR. GONZAGA: If they don't -- so, I mean, I think what I'd say is if CAGR is at, you know, 7.2 percent on -- you know, over the 5-year period, they would receive an award a little bit above target. If it's 6.9 percent, you don't get anything.

PRESIDENT JONES: Okay. So that's -- it's aggregated, so it would take into consideration negative returns?

MR. GONZAGA: Yes. Yes.

PRESIDENT JONES: Okay.

DEPUTY EXECUTIVE OFFICER HOFFNER: I just want to highlight -- Doug Hoffner, CalPERS team member -- on -- later on in the slide deck under option A, there's an illustrative example that plays I think to Mr. Jones's comment. It doesn't go negative, but it goes to several scenarios where under -- under a 5 percent return or a 2 percent return. So you can see how that plays out over time and what the payout, in that case, would be zero. So I just -- yeah, that would be maybe helpful for that conversation.

PRESIDENT JONES: Okay. Thank you.

CHAIRPERSON TAYLOR: Okay.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Okay. Thank you, Madam Chair.

I want to make sure that I'm understanding correctly what we're dealing with here. This is long-term performance, so -- and it's being measured over the course of 5 years.

MR. GONZAGA: Correct.

COMMITTEE MEMBER MIDDLETON: So is there any payout in the first 5 years or do we wait 5 years to see what the final results are going to be?

MR. GONZAGA: You wait 5 years.

COMMITTEE MEMBER MIDDLETON: All right. And the universe of individuals that this applies to is it's simply the positions that are identified on page 11 or are there -- is there anyone else?

MR. GONZAGA: It is -- currently, it's focused on the Investment Office, in general, so...

COMMITTEE MEMBER MIDDLETON: As whole, all 300 individuals?

MR. GONZAGA: The positions, you know, as indicated.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So to your point, Ms. Middleton, it's these positions here. It does not include the Chief Investment Officer that is identified in slide 37. This was proposed previously. That position is not identified here. It's -- these are the management investment positions in the organization.

COMMITTEE MEMBER MIDDLETON: So this is going to apply to a very small universe of people?

MR. GONZAGA: Initially, yes.

COMMITTEE MEMBER MIDDLETON: We're contemplating expanding this model on to other individuals, is that correct?

DEPUTY EXECUTIVE OFFICER HOFFNER: So what the Board has authority for and related to compensation and incentive perform -- incentive and base salaries, covers the investment management positions and then other positions within the executive compensation program. What is proposed today is only in the Investment Office and the investment management positions. It doesn't cover the other positions, the Investment Officers I, II, or III are not identified here, and it doesn't cover positions outside the Investment Office that the Board has authority to set compensation or salary ranges for. Strictly for investment.

COMMITTEE MEMBER MIDDLETON: And a little more broadly. Is this a program that is important to Mr. Meng's concept of one team, one fund as we're moving forward to try to move our incentive programs much more to fund total return?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.

COMMITTEE MEMBER MIDDLETON: All right. Okay. I understand the concept and I do want to support that, but I'm also inclined to agree with President Jones, the 7 percent target isn't an artful term that we have here.

And I can appreciate it in other contexts. But here, that 7 percent goal is something that we've identified and it is a clear and important criteria for employers. So I think the 7 percent actually has a relevance here that is critical.

CHAIRPERSON TAYLOR: I see Mr. Junkin. Go ahead.

MR. JUNKIN: Thank you. I had a couple of comments that I wanted to make, but one was just in relation to that last question about sort of the cultural impact of this plan on the Investment Office.

COMMITTEE MEMBER MIDDLETON: Right.

MR. JUNKIN: You'll recall over the last couple of months at the Investment Committee, we presented asset class reviews and we scored, among other things, the organization. And every year we end up dinging you when we compare you to a private sector organization, because you can't offer employee ownership.

And that is the market in which you compete for talent. So really this is kind of a -- in our view, a substitute for some of the employee ownership that you could have, whether it's ESOP, or a profit sharing plan, or -- sorry, a long-term stock option plan.

Similar, I think this page makes it really clear that this is -- you have to earn your way into the long-term plan, right?

COMMITTEE MEMBER MIDDLETON: Um-hmm.

MR. JUNKIN: You have to make the initial 5-year return to make the initial award.

COMMITTEE MEMBER MIDDLETON: Right.

MR. JUNKIN: And then it's almost a nested if-then statement, right? If you earn the first one, then you have to earn it again for the next 5 years.

I wanted to address Ms. Olivares' comment about risk controls. I would say the biggest governing risk control here is that the total fund has a tracking error budget of one and a half percent versus the strategic asset allocation, so -- and only half of that, or 75 basis points, can come from asset allocation misweights.

So if staff really -- you know, if -- I would not accuse anyone of doing this. But if you were very close to 7 and someone thought, hmm, if we can just juice up the returns a little bit, A, you'd have to call the markets right, and B, you could only swing the portfolio a little bit in terms of overweighting or underweighting equities, which is really what you'd have to -- you'd have to get that call right. And I just think that would be an impossible thing.

And then last on -- I certainly understand the rationale behind the 7 percent. What page is this? Option A, B, and C on -- thank you, 12. It's important to note that the 7 percent is a very long-term actuarial return. Your expected returns over the next 10 years are less. That's the 6.1 percent. So the 7 percent is already sort of a stretch goal. I'm not arguing for one way or the other. I'm just noting that that's -- really, if you hit 7 percent over a 5-year window, I would argue that's probably a top quartile 5-year return based on your asset allocation.

I don't whether I helped or I just confused things, but I thought it was important to comment on those.

CHAIRPERSON TAYLOR: Anything else, Ms. Middleton?

COMMITTEE MEMBER MIDDLETON: (Shakes head.)

CHAIRPERSON TAYLOR: Okay. Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you, Madam Chair. I had a question. Will the new Deputy CIO positions be part of the long-term incentive program as well?

MR. GONZAGA: Yes.

CHAIRPERSON TAYLOR: Oh. There you go.

ACTING BOARD MEMBER PAQUIN: So even though they're not listed in the presentation, that is the intent to put them in as well?

MR. GONZAGA: Yes. And, you know, I mean, our recommendations are really -- because there is a bigger issue. I mean -- and it is consistent with this whole concept of one CalPERS. You know, recommendations, of course, are deal with Investment Office as it now stands. Our recommendation also though would be, you know, at some point to deliberate, you know, should the CIO participate in the Long-Term Incentive Plan. And my recommendation would be, yes, should other executives outside of the Investment Office participate in the long-term incentive plan, and I'd say yes.

Now, you know, the non-investment folks, there's different things that you can do to kind of -- you know, recognizing that they're not necessarily managing the funds on a day-to-day basis, but there are some other things that you could build into it. So, you know, we're believers in long-term incentives for leadership, because it forces the balance between long-term reward, and, you know, annual operating performance.

So, I mean, I guess that's -- that's kind of our perspective is that over time you'll just have to consider whether or not it makes sense to expand to the rest of the organization.

ACTING BOARD MEMBER PAQUIN: Okay. Thank you.

And I also have comment. I agree with Mr. Jones comments about option A. I think that since we are not using this to supplant any of the current incentive bonus awards that Investment staff are eligible for, that it makes sense to tie this to the discount rate, since that is what everything else is based on.

Thank you.

MR. GONZAGA: And I -- and just as your consultants, I mean, we support that wholeheartedly, so...

CHAIRPERSON TAYLOR: Okay. Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Yeah. Just one last comment. Again, when we talk about the one CalPERS culture and Ms. Middleton talked about this, I'm concerned that as we have another incentive program tied on top of another, and we have some investment officers that aren't eligible for anything, it just might create some more division, and less alignment than the culture. So just something to think about.

MR. GONZAGA: You know, and that certainly is something that, you know, we're reflective of. I do think it's great to start out with the Investment Office as it now stands, because, you know, again, part of it is the competitive gap, the other part is just, you know, basically behavior and incentive, you know, for performance, and we're trying to blend those two together.

But the one thing I'll say is that -- and this will be a discussion for a later date is we do have a recommendation later that, you know, maybe you should consider certainly the CIO and potentially more members of the leadership team to participate in the long-term incentive plan.

DEPUTY EXECUTIVE OFFICER HOFFNER: I just want -- Doug Hoffner, CalPERS tea. I just want to clarify one of the comments that Ms. Olivares made. So some positions in the Investment Office that we don't have direct control over their salary-setting authority. So that's something that's bargained with the State of California. They've just gone through that process. And they're literally in ratification process right now I think for the next, you know, 10 days, 12 days or something like that.

So there's some that there's always going to a potential misalignment where the Board and authority vested within the organization doesn't have that control, but to the degree those can be aligned. I hear what you're saying. I just -- there's some of the stuff beyond our control.

CHAIRPERSON TAYLOR: Okay. Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Yeah. And I think that -- that misalignment goes to my earlier comment, which is across State government more broadly, we would expect -- we would look for a higher bar, in terms of when we would add additional compensation on top of the existing structure. We would look for higher rates of vacancy, higher turnover rates, more problems than I think we've seen to date.

And I think the other point, and the answer to Ms. Paquin's question about the new position being added to the list as well. And I think based on some of the discussion that occurred after that comment, it seems clear that this is opening the door to a lot of potential future conversation about other positions being added to the long-term incentive.

So again, my biggest concern is not unlike my concern about the new position itself, is that we look to -- we identify a problem and we look to layer on a solution on top of what we already have, but we're not looking at taking anything out of it. We just add on top of. And that -- that sort of -- it doesn't work across all compensation structures in State government, and so it gives me pause to approve it here.

CHAIRPERSON TAYLOR: Okay. Thank you. I don't see anymore commentary. But I will say I know that our CEO can't say anything on this, but could you for our newer employees -- so we have -- doug, if you could, kind of go into -- because it was real confusing when we were doing this earlier, kind of go into base pay, the incentive, and then the long-term incentive just kind of how that works.

DEPUTY EXECUTIVE OFFICER HOFFNER: So how this would work under the proposal here?

CHAIRPERSON TAYLOR: Yeah.

DEPUTY EXECUTIVE OFFICER HOFFNER: So there's base salaries, which the -- in this case, the Board has already approved that was done most recently in February, the most recent changes to the salary compensation structure within the Investment Office. There are targets for performance that are quantitative and qualitative really tied to the total fund so that's kind of going to that alignment of the total interest of this organization that the total fund is what we're looking to make sure we go.

Then you have that's -- so that's base. You have incentive targets. The ranges have moved up and down, depending on which positions and classes you are in the Investment Office. But they could range 0 to 75 percent of your base salary. Some are at 0 to 60 -- or 50 percent again, tied to the specific work that you're doing. And then how did you perform against that quantitative and qualitatively, which was presented in closed session.

In addition to this, if that was to be in effect, the long-term piece would come into play whereby beginning whatever the effective date would be, you'd have this new

5-year window, where you might have the opportunity, if you perform, hitting, let's say, option A, the 7 percent. If you hit that or higher, you would then be eligible for that increase over that 5-year period as well.

So you get base pay each year. Depending on how you perform on an annual incentive, you might get -- you would get some of that, depending on performance. And then this is the opportunity, and this is strictly total fund, so how well did it -- did we hit it or not? It's sort of -- it's all or nothing --

CHAIRPERSON TAYLOR: Right.

DEPUTY EXECUTIVE OFFICER HOFFNER: -- in some respects, right? It's like -- to the example was on slide, I think, 23 or so, whatever that -- the return looks like over that 5-year window is what the payouts would then be. And if you don't hit it, you don't get paid, which you've already gotten base and you've probably gotten some annual incentive over that 5-year window as well.

CHAIRPERSON TAYLOR: And we -- and I just will tell the new folks that we've been working on this for a while. And we -- I think we all kind of came to the agreement that we needed something, because that is something that keeps us from hiring good talent on one hand. But I will say, I think we also all agreed on --

that we wanted to -- if we have to hit 7 percent, we wanted to see 7 percent. I could be wrong, so if anybody thinks I'm wrong on that.

That was where I understood it. But at this point, since we have no commentary -- additional commentary, we are kind of in a vote situation here. So I need a motion on one of these three options.

COMMITTEE MEMBER FECKNER: I move option A.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER MIDDLETON: Second.

CHAIRPERSON TAYLOR: Okay. Mr. Feckner has moved option A, Ms. Middleton has seconded it.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

(No.)

CHAIRPERSON TAYLOR: No?

Okay. One no, one abstain. Ms. Ortega. Ms. Olivares abstain.

All right. And the agenda item carries. Thank you.

All right. It looks like we are in summary of committee direction.

DEPUTY EXECUTIVE OFFICER HOFFNER: So I have I think one item that I kind of combined between the various comments I heard was we'd like to see -- the Board would like to see a draft org chart for DCIO role, vacant positions to be used as related to that role, and then roles and responsibilities of that position. I think that covers it.

CHAIRPERSON TAYLOR: Yeah. And can I --

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah.

CHAIRPERSON TAYLOR: -- add one thing. I think that I'd like to see us do a comparison - I know we've done it before - of the CEO's pay with like pension systems, because I feel like we are not gender aligned. So if we could do that for whenever our next PCTM meeting is.

DEPUTY EXECUTIVE OFFICER HOFFNER: So let me just maybe clarify the point on that. So I -- what I would recommend if -- sort of asking for the data, that we align it with the - and I'm trying to find it in the policy here - the peer group we've already identified and the Committee and the Board has approved as our group in terms of compensation for these investment and other executive management positions. We've already identified that peer group. So if we --

CHAIRPERSON TAYLOR: Have we brought it forward to the Board?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: It what we used for the others.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yes. But I'm saying we can get that data. When you just say our like peers, I want to make sure we're clarifying that it's consistent with the group and body identified in the overall policy that's in -- the Board approved.

CHAIRPERSON TAYLOR: Yes. Yes.

DEPUTY EXECUTIVE OFFICER HOFFNER: Okay. That's all. I just want to --

CHAIRPERSON TAYLOR: Yeah.

DEPUTY EXECUTIVE OFFICER HOFFNER: Thank you.

CHAIRPERSON TAYLOR: I'm sorry.

Anybody?

Mr. Gonzaga, did you have something? You were --

MR. GONZAGA: Oh, no.

CHAIRPERSON TAYLOR: Okay.

MR. GONZAGA: I was just -- yeah, I mean, I was just going to say that, you know, as part of that review -- I mean, again, I mean, it's this whole concept of, you know, just when the time is right to consider who should the Long-Term Incentive Plan apply to again thinking about one CalPERS.

CHAIRPERSON TAYLOR: Okay. Great. Thank you very much.

So at this point, we're going to move on to public comment.

Oh, I'm sorry, Stacie.

(Laughter.)

COMMITTEE MEMBER OLIVARES: That's okay. I'd like to know who the peer group is.

CHAIRPERSON TAYLOR: It's in policy. Hold on a sec.

DEPUTY EXECUTIVE OFFICER HOFFNER: Hold on.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Okay. So it's leading U.S. public funds --

COMMITTEE MEMBER OLIVARES: I'm sorry?

CHAIRPERSON TAYLOR: Microphone to you.

There you go.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Tina Campbell, CalPERS team.

Leading U.S. public funds, leading Canadian public funds --

COMMITTEE MEMBER OLIVARES: Oh, wait. I'm sorry. Leading U.S. public funds?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Um-hmm.

COMMITTEE MEMBER OLIVARES: Okay.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Leading Canadian public funds.

COMMITTEE MEMBER OLIVARES: Uh-huh.

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Select

California based agencies including large local agencies, banks and insurance companies, and it's on page 6 of our policy.

COMMITTEE MEMBER MIDDLETON: Is the list on page 6?

CHAIRPERSON TAYLOR: I don't think the monetary list is on page 6 though, right?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Are you talking -- what was --

CHAIRPERSON TAYLOR: Looking at monetary comparison, that's what I want to see.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So that's the group we've used before, but we'll --

CHAIRPERSON TAYLOR: Yes.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yes. And that's just for the executive management positions. We've used that. Grant Thornton has presented and provided that historically to this body in the last couple years. We'll update the material, bring that back to you with those key identified areas. So we're using apples to apples comparisons.

COMMITTEE MEMBER OLIVARES: And when we get that list, will those names of -- will the entity names be listed?

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yes.

COMMITTEE MEMBER OLIVARES: Okay.

CHAIRPERSON TAYLOR: Yeah, it's public information, most of it is.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So we'll --

HUMAN RESOURCES DIVISION CHIEF CAMPBELL: Yeah. Just not the private ones. We can't --

COMMITTEE MEMBER OLIVARES: Some of them are in SEC disclosures.

DEPUTY EXECUTIVE OFFICER HOFFNER: Yeah. So when we used various consulting groups to help bring that executive data, so we've -- from other firms, so yeah.

CHAIRPERSON TAYLOR: Okay. Thank you, Stacie.

COMMITTEE MEMBER OLIVARES: Thank you.

CHAIRPERSON TAYLOR: Okay. I'm on to public comment. And that is Mr. Johnson. Can you come on down, grab a microphone over here on my left, your right.

MR. JOHNSON: Neal John, SEIU Local 1000.

As was mentioned by Mr. Hoffner, we recently completed a collective bargaining agreement with Ms. Ortega and the administration. In that -- through the -- in that process, we had proposed to increase the compensation of the investment officers that work for PERS, STRS, Department of Insurance, Earthquake Authority, and I think there's one other that -- we did not succeed in that, but we got a counterproposal that increased the bonus structure or bonus percentage of the Investment Officer IIIs, and added the Investment Officer IIs into the concept of a performance-based compensation.

We had, back in the Schwarzenegger administration proposed increase our -- bringing the IIs into the incentive program, and that was not entertained at that time. But I do want to thank the administration for their thoughtfulness on this issue. And Mr. Hoffner and I have agreed that we'll sit down in a couple of weeks, after our members are hopefully ratified the agreement, and discuss some of the specifics, because the proposal we got came at essential the stroke of midnight. Ms. Ortega was outside the State caucus room writing I think her speech. At the time we had some questions about some of the specifics of the proposal. So I'm going to sit down and -- not that I particularly see problems, but I'd like to address the issues beforehand.

So, you know, we have -- besides the investment managers, the investment officers, rank and file people are also in the incentive-based compensation.

Taking a moment of personal privilege I'd like to thank Ms. Ortega and the administration for what I think was a very thoughtful approach to bargaining. You know, clearly, our members are not going to like the overall general salary increase, but it's a contract no one went backwards in and they really realized that the people who were at minimum wage or below, what will be the $15 threshold, should be brought up and brought now. And I thank them for that -- doing that.

And also, to recognize that compensation in certain areas where there are a large number of vacancies and lower paid employees, particularly thinking of Santa Cruz, San Luis Obispo, Santa Barbara Counties, and with low paying employees, many of which work part-time bases, and getting a salary increase. And so I think -- I really thank you for your thoughtfulness.

And it was never -- bargaining is never enjoyable. It's a drag, but I think it was we got -- to quote the Rolling Stones song, you can't always get what you want. But if you try, you get what you need.

Thank you.

CHAIRPERSON TAYLOR: Thank you.

VICE CHAIRPERSON ORTEGA: Thank you, Mr. Johnson.

CHAIRPERSON TAYLOR: All right. So seeing no further comments, this meeting is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 3:26 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 22nd day of September, 2019.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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