



Performance, Compensation & Talent Management Committee

Agenda Item 6a

November 19, 2019

Item Name: Request for Proposal for the Board's Primary Executive and Investment Compensation Consultant: Scope of Services, Timeline, and Evaluation Subcommittee Process

Program: Administration

Item Type: Action

Recommendation

Approve the scope of services, estimated timeline, and selection process for the Request for Proposal for the Board's Primary Executive and Investment Compensation Consultant.

Executive Summary

This agenda item seeks approval from the Performance, Compensation, and Talent Management Committee (Committee) for the scope of services, estimated timeline, and selection process for the Request for Proposal (RFP) for the Board's Primary Executive and Investment Compensation Consultant. Upon Committee approval of the recommendation and/or further direction, team members will initiate the RFP process and work with the Committee Chair as needed to complete each aspect of the process.

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.

Background

Since 1995, when the Board of Administration (Board) first engaged with a compensation consultant, a competitive selection process has been conducted to select each firm which has provided compensation services. The most recent competitive selection process was conducted in 2015, when the current Primary Compensation Consultant, Grant Thornton LLP, was selected.

In 2015, the Committee Chair independently assigned members of the Committee to form a Subcommittee to review, evaluate, and score RFP responses which passed the preliminary Minimum Qualifications Review. The Subcommittee interviewed the finalist firms in a noticed, open session meeting and made a recommendation to the Committee in open session at the subsequent regularly scheduled meeting. A five-year contract was executed and is scheduled to expire in November 2020.

In September 2019, the Committee approved the development, service categories, and selection process. The Committee's approval today will ensure a consultant can be selected for a new contract to be executed by the time the current contract expires on November 30, 2020.

Analysis

The following service categories were approved by the Committee in September 2019:

- Consultation on Compensation Program Structure
- Consultation on Compensation Policy
- Compensation Research, Analysis, and Recommendations
- Compensation Program Administration Analysis and Recommendations

Today, CalPERS team members seek approval of a detailed scope of services (proposed in Attachment 1), which will be included in the RFP. Following today's meeting, the Committee Chair will identify four members of the Committee to form a Subcommittee that will meet in two noticed, open session meetings to review, evaluate, and score the RFP responses that meet minimum requirements and were submitted by the filing deadline; and conduct finalist interviews to identify and recommend final selection of a Primary Executive and Investment Compensation Consultant to the Committee.

The estimated schedule of events is as follows:

Process	Timeframe
RFP Release Date	March 2020
Evaluation of Proposals and Finalists Selected for Interviews	May 2020 Subcommittee Meeting
Finalist Interviews	June 2020 Subcommittee Meeting
Contract Awardee Selected	June 2020
Anticipated Contract Start Date	December 1, 2020

Budget and Fiscal Impacts

Costs associated with a new contract are unknown and will be determined based on fees proposed in the selected consultant's proposal. The fees will then need to be funded through the budgeting process.

Benefits and Risks

A well-managed compensation program aligned with best practices is critical for the recruitment and retention of highly qualified executives and investment professionals. Engaging with a

primary compensation consultant provides access to the necessary expertise for the Committee and Board to make fully informed and value add compensation decisions. This will ensure and maintain a compensation program which meets the needs of the system and is based on sound principles and practices.

Without a primary compensation consultant to provide ongoing, independent compensation expertise, CalPERS is at risk of having an executive and investment compensation program out of sync with organizational priorities and best practices. Misalignment with relevant market compensation and practices may impede CalPERS' ability to recruit and retain certain highly candidates for key positions across the organization.

Attachments

Attachment 1 – Proposed Scope of Services

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