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, NOVEMBER 19, 2019

4:13 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

Ms. Eraina Ortega, Vice Chairperson

Mr. Rob Feckner

Ms. Fiona Ma, represented by Mr. Matthew Saha

Ms. Lisa Middleton

Ms. Stacie Olivares

Ms. Mona Pasquil Rogers

BOARD MEMBERS:

Mr. Henry Jones, President

Mr. David Miller

Mr. Jason Perez

Ms. Betty Yee, represented by Ms. Lynn Paquin

STAFF:

Mr. Doug Hoffner, Chief Operating Officer

Mr. Matthew Jacobs, General Counsel

Ms. Paramveer Dhoot, Assistant Chief, Human Resources Division

Ms. Renee Salazar, Acting 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 Myszka, Grant Thornton

Mr. Michael Oak, McLagan(via teleconference)

I N D E X

P R O C E E D I N G S

CHAIRPERSON TAYLOR: All right. I'm going to call the Performance, Compensation and Talent Management Committee to order. And first order of businesses is roll call.

COMMITTEE SECRETARY QUERAL: Theresa Taylor?

CHAIRPERSON TAYLOR: Here.

COMMITTEE SECRETARY QUERAL: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Here.

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?

CHAIRPERSON TAYLOR: She's here somewhere.

COMMITTEE SECRETARY QUERAL: She's here.

And Mona Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: Here.

CHAIRPERSON TAYLOR: Is that it?

Okay. Thank -- thank you.

Our first agenda item is approval of the November 19th, 2019 Performance, Compensation and Talent Management

Committee timed meeting.

What's the --

COMMITTEE MEMBER PASQUIL ROGERS: So moved.

CHAIRPERSON TAYLOR: So moved by Ms. Pasquil Rogers.

I need a second.

VICE CHAIRPERSON ORTEGA: Second.

CHAIRPERSON TAYLOR: Second by Ms. Ortega.

All those in favor say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion carries.

I'm on the Executive Report, Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Good afternoon. Doug HoffNER, CalPERS team member. We have three items before you today, one action consent and two action items. Item 4b is an action item related to the Board's policy. This is really effectuating the changes that were adopted by the Committee in September. And we put those in a red-lined version for you, if there's any questions.

In addition, we have item 6a, which we talked about a little bit in September as well. This is a request for proposal for the Board's independent incentive compensation consultants. And so this outlines a timeline with your approval that we could conduct that solicitation. We were looking for basically a subcommittee of this Committee to conduct that. There would be four members. That would be modeling the process we used five years ago, four and a half years ago when we conducted the last solicitation. And the idea there is if you have any questions about that process, we can get into it in a minute, but that's the first action item.

And item 6b is a presentation by McLagan and Michael Oak, who's on the phone. This is the presentation that was asked for by the Committee Chair related to peer comparison data related to the CEO position and salary compensation within the Board's peer group, which is identified in the policy. That's item 6b.

In addition, I'd like to recognize Renee Salazar, who is sitting behind me. She's in the Acting Human Resources Division Chief role and is serving -- this is day two. So I didn't think it was appropriate to have Renee come up and make this presentation, but I did want to highlight and recognize her for her contributions and leadership. Renee comes to us from the Legal Office and will be in this position while we do an active recruitment to backfill the Human Resources Division Chief.

With that, I just want to say thank you to the Committee and happy to answer questions you might have.

That concludes my report.

CHAIRPERSON TAYLOR: All right. Seeing no questions. Let's first take the action consent item of approval of the meeting minutes for September of 2019 -- 17th, 2019. I need a motion from the Committee.

COMMITTEE MEMBER FECKNER: Move approval.

COMMITTEE MEMBER OLIVARES: Second.

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

All those in favor of the motion say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

Motion carries.

That moves us on to 4b, revision of Board's Compensation Policy for Executive and Investment Management positions.

Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: So this is on action consent. I don't know if there's any questions. Again this is the item essentially modifying the provisions that you adopted last in September, the last time we met. This incorporates the provisions of the long-term incentive plan for the Investment Officer positions. It includes the Deputy Chief Investment Officer roles. And it's basically running through that policy, all the changes that were adopted by this

Committee and Board in September. And there's a red-lined version, so I can walk through the specifics, if there's any more details you'd like to see.

COMMITTEE MEMBER FECKNER: Move approval.

COMMITTEE PASQUIL ROGERS: Second.

CHAIRPERSON TAYLOR: I just got a move approval from Mr. Feckner, seconded by Ms. Pasquil Rogers.

All those in favor of the motion say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All those opposed?

All right. Motion carries on Agenda Item 4b.

All right. And we are on 5, information consent items. Nothing has been pulled off so we're going to move on to 6, action item -- action Agenda Item 6a, proposal for the Board's primary executive and investment compensation consultant, scope of services timeline, evaluation subcommittee process.

So go ahead.

Oh, Parm.

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT:

Yeah. Good afternoon, Madam Chair and members of the Committee. Parm Dhoot, CalPERS team member.

At the September 2019 meeting, the Committee approved the initiation of the request for proposal for a primary compensation consultant. Today's item seeks the

Committee's approval on the detailed scope of services anticipated timeline, and the selection process.

If approved as outlined, the Committee Chair will need to identify four Committee members to act as the evaluation subcommittee. The Chair may identify the subcommittee members through direct assignment, through a request for volunteers, or through another method that she deems necessary or appropriate.

This can be done at today's meeting or following today's meeting. Based on the current estimated timeline, it's anticipated the subcommittee will meet in May of 2020 in a noticed open session meeting to review and evaluate proposals and select finalists who will then be interviewed by the subcommittee in a noticed open session meeting in June of 2020. It's anticipated that the subcommittee well recommend a single finalist as the Board's primary executive and investment compensation consultant for the full Committee's approval at the June 2020 meeting.

Thank you, members of the Committee. If you have any questions at this time, I'd be happy to answer them.

CHAIRPERSON TAYLOR: So I was just informed that the President is the one that establishes subcommittees. So I'll make recommendations to the President and then he can establish the subcommittee.

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT: Okay.

CHAIRPERSON TAYLOR: And that was an action item. So I don't think we can do an action item on that, because only the President can do that.

CHIEF OPERATING OFFICER HOFFNER: So I think what we're looking for is maybe the scope of services that are attached here in attachment 1.

CHAIRPERSON TAYLOR: To accept the scope of services.

CHIEF OPERATING OFFICER HOFFNER: To accept the scope of services. This is basically consistent with what the scope of service that you have to date. In addition, we provided and added some language related to training and educational components. It could be something that any potential vendors might provide as an additional service to the Committee and the Board. And following that selection of the four, we would have this in process. That would allow the team to essentially go through the RFP behind-the-scenes processes that we would need to conduct with our contracting unit --

CHAIRPERSON TAYLOR: Okay.

CHIEF OPERATING OFFICER HOFFNER: -- to get that ready for submitting and sending out to prospective vendors.

CHAIRPERSON TAYLOR: Okay. So --

COMMITTEE MEMBER PEREZ: Theresa.

CHAIRPERSON TAYLOR: Oh, hey, Mr. Jones.

PRESIDENT JONES: Yeah. I just want to add --

CHAIRPERSON TAYLOR: I'm sorry.

PRESIDENT JONES: Yeah, I just want to indicate that I authorize the establishment of a subcommittee and with you being able to name the subcommittee members.

CHAIRPERSON TAYLOR: Okay. Thank you. So then we can move forward with that.

Does anybody have any questions on the actual scope of work?

Oh, you are. Sorry.

Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Doug, can you talk a little bit about the training that you said this is expanding the scope to the training?

CHIEF OPERATING OFFICER HOFFNER: So we -- we didn't detail specifically what that would look like --

VICE CHAIRPERSON ORTEGA: Okay.

CHIEF OPERATING OFFICER HOFFNER: -- but we did add it as a bullet component in case, you know, as we've been talking about onboarding and education, and sort of the utilization of some third-party independent entities that can provide additional information related compensation, as we have with other --

VICE CHAIRPERSON ORTEGA: For the Board or for staff?

CHIEF OPERATING OFFICER HOFFNER: This would be for the Board -- Committee and the Board.

VICE CHAIRPERSON ORTEGA: For the Board. Okay.

CHIEF OPERATING OFFICER HOFFNER: So this really modeled after the different sessions we've been conducting with like the CFA with the Investment Office, those kinds of things. So it would be -- it would be an option, but that wasn't included in the prior solicitation material. And so we thought it would be helpful to at least include that, particularly if we get into other items that may be more specific to specific types of investment, compensation, or other unique areas that we want to help reinforce or provide education for. So it's really more of an optional component.

VICE CHAIRPERSON ORTEGA: Okay. Thanks.

CHAIRPERSON TAYLOR: Okay. So we have been authorized to set up the subcommittee. I have some names I will email you guys and ask for your participation. At the same time, it looks like we are also accepting the cope of the timeline and evaluation process. So I need to get a motion for accepting Agenda Item 6a.

Anybody?

COMMITTEE MEMBER PASQUIL ROGERS: So moved.

CHAIRPERSON TAYLOR: All right.

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON TAYLOR: Second by -- okay. Moved by Ms. Pasquil Rogers, second by Mr. Feckner.

All those in favor of accepting Agenda Item 6a, please say aye?

(Ayes.)

CHAIRPERSON TAYLOR: All right. All those opposed?

All right. Item passes.

We are moving on to Agenda Item 6b, market compensation data and recommendations for the Chief Executive Officer position. And this is also an action item.

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT:

That's correct. So, good afternoon, once again. Parm Dhoot, CalPERS team member.

Agenda Item 6b is being presented today as a result of direction received from the Committee at the September 2019 meeting to bring back compensation data for the Chief Executive Officer position based on the peer group defined in the Board's Compensation Policy for executive and investment management positions.

CalPERS engaged McLagan to gather data and in a moment will turn it over to Michael Oak who's on the phone with us today to present their findings, including how total cash for the CalPERS CEO position compares to our peer group.

McLagan provided similar data back in 2015 for executives and investment management positions, and this is kind of similar to what they did last time. The CEO is one of two remaining covered positions for which the compensation has not yet been revised to align with market data and in accordance with the pay philosophy adopted by the Board over the last 18 months for other covered positions.

Following Michael Oak's presentation, you'll hear from Eric Myszka of Grant Thornton, who's sitting behind me. And he's going to be talking to you guys about the Board's -- as the Board's primary executive compensation consultant. Mr. Myszka will present Grant Thornton's recommendations for aligning compensation for the CalPERS CEO position with the comparator group and the Board's pay philosophy.

As you listen to the presentation, please consider the recommendations your -- and encourage -- you're encouraged to focus on the CalPERS CEO position itself and whether you feel the revisions are necessary to align total compensation with the comparator group and pay philosophy. This is not a discussion about the current incumbent and not part of the annual performance evaluation process that we just went through back in September, as you guys are well aware.

Any decision made today will become effective July 1, and incorporated into the policy at that time, unless otherwise directed by the Committee.

And at this time, I'd be happy to answer any questions.

If we don't have any questions, we can hand it off to Michael Oak.

CHAIRPERSON TAYLOR: Yes. Go ahead. It looks like I have on questions from the Committee.

MR. OAK: Can you guys hear me?

CHAIRPERSON TAYLOR: Yes.

MR. OAK: Great. Thanks. I'm sorry. I couldn't be there in person today.

CHAIRPERSON TAYLOR: That is okay. Thank you for being with us on the phone.

(Thereupon an overhead presentation was presented as follows.)

MR. OAK: So the -- hopefully this can be short and sweet, but -- at least from our initial presentation, but please do jump in and ask questions, if you need any clarity, or have any questions on the data, or the methodology. So on page two of the attachment, it's attachment 1 on item 6b.

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MR. OAK: Page two has the high level summary of where your current CalPERS midpoint falls versus the market. And we've showed you the market three ways. The first is a combined peer, so this is the peer group that you're normally establishing your compensation against. And as we have in the past as some of the Committee members have found it helpful, we've also bifurcated the data from that combined peer into public peers by themselves, and then private sector peers by themselves.

So from a base salary perspective, the CalPERS midpoint is below the 25th percentile. So in other words, it's low versus market across all peer groups. When we factor in incentives paid at target for the CalPERS -- so it would be the CalPERS salary at midpoint plus target incentives, CalPERS is below the 25th percentile for both the combined peer group in the private sector and falls between the 25th and 50th for the public peers.

And then if we were to look at the maximum incentives, so this would be salary plus all possible incentives earned, the combined peer group, you would more or less be at the competitive 25th percentile for the combined peer group, from public peers, you'd be between the 25th and 50th, and for private sector, below the 25th. And we show this in more detail in the other -- the next pages. But the short of it is you can kind of visually see there and read that you're below the 25th for most of these analyses.

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MR. OAK: So moving on to the next page, this is the actual data. So, for example, the first two set of bars, the first blue bar is CalPERS, and this is the base salary only, the minimum is 224, the midpoint is 288, and the maximum is 353.

So the white thick bar that separates the two blue points is midpoint and then the bar on the top and bottom represent the min and the max. This compares to the market salary midpoint of 437, 25th percentile 350, and 75th percentile at 503. So a significant discount for the median and even below the 25th percentile.

Moving on to the right. When we factor in target incentive compensation at CalPERS, that brings the midpoint up to 366 versus the median of 712. And again, the 366 is below the 396, 25th percentile. And then if we factor in maximum incentive compensation, that brings CalPERS midpoint up to 404, which is why we earlier said approximates the 25th percentile at 396. So statically insignificant difference there, between the 404 and the

396.

All clear so far?

CHAIRPERSON TAYLOR: Um-hmm.

I don't have any questions.

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MR. OAK: SO the next two pages --

Was that a question?

CHAIRPERSON TAYLOR: No, I don't have any questions. Go ahead.

MR. OAK: Okay. Good. So the next -- the next two page are the same format, except one is the public sector, which is page four of nine. And again, here, this is the U.S. -- just as a reminder, they're listed in the back, but this U.S. and Canadian public pension funds, as well as select California based agencies. So we kind of went through a positioning before, salary below the 25th percentile, salary plus target between the 25th and median, and a similar positioning, salary plus maximum is coming up below median, but above 25th percentile.

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MR. OAK: And on to the next page which is the private sector data. The bars get a little bit squished and hard to see, because the magnitude of difference. But again, you have transparency as to what's being included. The CalPERS salary is below the 25th percentile, and then well below the 25th percentile by multiple -- when factoring incentive compensation.

And that's it. That's the data. So it's kind of straightforward and factual. But if you have questions, I'm happy to answer them.

CHAIRPERSON TAYLOR: Any questions from the Committee?

Ms. Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: Yes. Thank you for the information. Sorry if I sound like I'm confused, but there's a lot of numbers here. Did we -- was there something -- was this done when -- during the -- when the job offer was made? Did we do a salary survey like this to see where other -- other like pensions or -- and, you know, operations, businesses how they compensated? I mean, I'm just -- I'm kind of -- why did we get to the percentile that we're at is what I'm trying to figure out.

CHIEF OPERATING OFFICER HOFFNER: Yeah. So the -- no, I think I understand your question. So the last time we conducted a salary survey that covered this position using the McLagan firm was back in 2015.

COMMITTEE MEMBER PASQUIL ROGERS: Okay.

CHIEF OPERATING OFFICER HOFFNER: The last modification occurred, and that was basically -- I think it was -- excuse me, I think it was from 2014 data. It was modified with a five percent increase in 2015, but it didn't really elongate the overall salary range at that point. So typically these are done every couple years. And at one point, we're kind of alternating between the Investment Office and the executive office going back from 2012-2013.

There was not a salary survey conducted when the CEO position was vacant in early -- or at least announced to be -- that the former incumbent was retiring in 2016. That was not conducted then.

COMMITTEE MEMBER PASQUIL ROGERS: Okay.

CHAIRPERSON TAYLOR: Okay. Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: This is for the consultant. Did you come to any overall conclusion regarding the comparative salary that our CEO is receiving?

MR. OAK: I'm not sure I understand the question.

COMMITTEE MEMBER MIDDLETON: Do you believe our CEO is overpaid, underpaid, or appropriately paid?

MR. OAK: Yeah. So that's -- I think that's -- you have -- you all have spent a considerable amount of time establishing a compensation philosophy, reviewing and refining peer groups, and adopting that philosophy and peer groups that represent or are intended to represent the labor markets that you would recruit from and lose talent too.

So my observation is you have -- you've spent a lot of energy, effort, time, quite frankly money on expensive consultants like myself refining these things. And the positioning you're at is well below market. So my observation is that you are below market across all of these peer groups you're looking at, including public and private sector organizations. And I think that means you represent a good comparison, and over the years a lot of time and energy spent refining this peer group and refining your pay philosophy.

So -- and perhaps it's a better question for Grant Thornton as your primary comp consultant. But my observation, having worked with you all for many years, is that this position in particular has not -- has not been addressed, the deficit of market. The positioning is not new of how you fall versus market. The last time we presented data to you, it was equally below market. And I believe at the time you chose not to address it, because you had some other compensation issues that you would be addressing going forward.

So now I think is maybe the appropriate time to address the deficit, I guess, is my -- is my opinion.

COMMITTEE MEMBER MIDDLETON: Thank you.

CHAIRPERSON TAYLOR: So -- and I will let everybody know that we do have the Grant Thornton handout as well as in our attachment 2.

I am moving on to Ms. Pasquil -- I'm sorry, no. I'm -- Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Oh. Thank you, Madam Chair.

I just had two questions. And one is I think that we gave the CEO a raise for this current fiscal year in September. So if we adopted a new range now would that change her base salary for this year?

CHAIRPERSON TAYLOR: You want to answer that, Parm. Thank you.

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT:

Yeah. We're anticipating that if you made the recommendation to change something today, it would be effective this upcoming fiscal year.

ACTING BOARD MEMBER PAQUIN: So fiscal year 19-20?

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT:

So July 1, 2020.

ACTING BOARD MEMBER PAQUIN: Okay. And then the other question I had was under our current policy is any annual increase limited to eight percent if the person in that position is at the bottom quartile?

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT:

Going forward, based on the meeting in September, we actually aren't basing the increases on the quartiles anymore, and so for outstanding performance. But that's a performance discussion and that's not what really this is about, but it would be seven percent, if there was outstanding performance.

ACTING BOARD MEMBER PAQUIN: Seven percent, but not 90 percent.

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT: Yes. Um-hmm.

ACTING BOARD MEMBER PAQUIN: But that would be max in any one year?

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT: Any one year, yes.

ACTING BOARD MEMBER PAQUIN: So --

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT: Unless you decided to do something different.

ACTING BOARD MEMBER PAQUIN: So, I mean, the Board could set whatever salary range they wanted to today. But in practical terms then, the increase is limited to seven percent for next year?

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT: That is correct.

ACTING BOARD MEMBER PAQUIN: Okay. Thank you.

CHAIRPERSON TAYLOR: I think -- I think there's a miss -- are you saying that -- if we set the salary for July 1, 2020, and it's $200,000 higher, we're going to set the salary for 2000 -- $200,000 higher, but then going forward, her salary increase can only be seven percent.

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT: That is correct. She would go to the base of whatever salary you set, if that salary is higher than her salary today.

ACTING BOARD MEMBER PAQUIN: I have a follow-up.

CHAIRPERSON TAYLOR: Yeah, go. Oh, hold on. Let me find you. There you are.

ACTING BOARD MEMBER PAQUIN: So I guess I'm just a little bit confused, because I thought that the lower end of this range that we're looking at now, she's already -- her base salary is already above that, is that true?

CHAIRPERSON TAYLOR: Just barely.

ACTING BOARD MEMBER PAQUIN: So I was --

CHIEF OPERATING OFFICER HOFFNER: I was thinking maybe we should let Grant Thornton --

CHAIRPERSON TAYLOR: Yeah.

CHIEF OPERATING OFFICER HOFFNER: -- present their letter of there -- there's three options they've identified. Maybe we could tease that out, because there's several different things --

CHAIRPERSON TAYLOR: We've got a bunch of questions too, so --

CHIEF OPERATING OFFICER HOFFNER: -- depending upon which option that they've proposed. Some include long-term incentive, one does not. So I mean, there's -- there's kind of a variety of things to look at, I guess.

ACTING BOARD MEMBER PAQUIN: Okay. Great. And if we -- in that discussion, I guess I just want to know if you can answer that question at that point, where the base salary is starting from, this new proposed range and how that impacts what a future base salary would be, given our seven percent policy.

Thank you.

CHAIRPERSON TAYLOR: So we've got a bunch of questions. So, first, I'm going to -- Ms. Olivares.

COMMITTEE MEMBER OLIVARES: I'll hold my questions until then.

CHAIRPERSON TAYLOR: Till then. Okay.

And then Ms. Pasquil --

COMMITTEE MEMBER PASQUIL ROGERS: The same.

CHAIRPERSON TAYLOR: The same.

COMMITTEE MEMBER PASQUIL ROGERS: Thank you.

CHAIRPERSON TAYLOR: And then Ms. Ortega, you want to hold your question or --

VICE CHAIRPERSON ORTEGA: Yeah, I'll wait until they're done.

CHAIRPERSON TAYLOR: Okay. So I'm going to get rid of all of you.

All right. Go ahead.

MR. MYSZKA: All right. Thank you, Madam Chair and members of the Committee. So we went through and provided a few recommendations. I sent you a memo outlining those. But our recommendations were based upon a few things. One, aligned with the CalPERS new policy.

THE COURT REPORTER: His microphone just went off.

CHAIRPERSON TAYLOR: Sorry.

MR. MYSZKA: So we based our recommendations on three items. The first being alignment with CalPERS new compensation philosophy of targeting total cash compensation -- or sorry, total compensation between the market, 50th and 75th percentiles for total cash. And so what that means is for CalPERS base salary annual incentive, and if eligible, long-term incentive, and aggregate competitive with the market total cash between the 50th and 75th percentile. And that's just base salary and annual incentive for the market data.

Next, you know, aligning -- so then look at the market date that McLagan pulled together. We looked at that and came up with the recommendations. And then lastly, we considered positioning within CalPERS comparable positions governed by the Committee.

So the three alternatives we provided to you include two Grant Thornton recommendations and then one item or an option just for comparison, or for further consideration. I'll turn to the memo page three as a table. It kind of outlines our recommendations. It might be easier to follow that way.

But our first recommendation, Option A targets the base salary midpoint at the market 50th percentile. And then we built a range that's plus or minus 25 percent from there.

So, for example, the midpoint of McLagan's market data the combined peer group was 437,000. We then targeted that as the mid-point of the salary and built a range of $327,000 to $546,000.

We increased the annual incentive target to 40 percent with a maximum of 60 percent opportunity. And then also including a long-term incentive that the investment office recently has part of their compensation program, which is equal to a target of 40 percent. And it would be the same participation as the long-term -- as the incentive office. So if the actual incentive earned for one year was less than 40 percent, then the long-term incentive portion would just be that amount of actual annual incentive compensation earned.

This would place the mid-point of salary targeted annual incentive and LTI slightly above the market 50th percentile for total cash, about 786,600 for our recommendation and the market data of 712,000. And it put the maximum between the 75 -- 50th and 75th percentile though well below the 75th percentile.

Our second alternative is -- it kind of follows the same process that we increase the base salary even higher to target the 75th percentile of $503,000 and then built a range off of that.

The annual incentive target would remain unchanged at 27 percent with a maximum opportunity of 40. And then again adding in the long-term incentive component of 27 percent. This would provide similar mid-target annual incentive LTI, as their prior recommendation, again slightly above the 50th percentile and the maximum of about 1.05 million, which again is far below the 75th percentile of the market.

Our third alternative, basically just is the same thing, though it does not provide for a long-term incentive component. It targets the base salary at the market 75th percentile and then increases annual incentive to 53 percent target with a maximum opportunity of 80 percent.

Our -- we feel that all three of these provides a proper leverage between fixed compensation base salary and incentive compensation for performance between the annual and long-term incentive component for our recommendations.

We don't recommend option C just because in our mind it focuses too much attention on short-term performance, and without having that long-term incentive component and kind of balancing out annual and long-term performance.

So I'll pause there, if there's any questions. We also have a visual in our appendix that kind of shows this as a graph format as well.

CHAIRPERSON TAYLOR: Great. So do I have questions from the Committee now?

I need you guys to light up again, if you need to ask questions.

Okay. Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Yeah. A couple of things. So I think just to be transparent about where I would come from on this issue. I don't generally agree with the comparator groups that bring in the private, the bankers, the insurance industry, the Canadian funds. I think the public comparisons make a lot more sense. That's -- I asked for the detailed information on the California based agencies. I think that's a more realistic pool of the type of candidates that typically come into the pension funds.

However, when I look at those numbers, we're still seemingly significantly behind.

CHAIRPERSON TAYLOR: Um-hmm.

VICE CHAIRPERSON ORTEGA: So I -- where I think my perspective on this would normally lead me to not be supportive of making a change, I look at these salaries and I think we're considerably under. And I can't understand what the reason for that would be considering the complexity of the CalPERS system and some of the additional responsibilities that our CEO has in comparison to some of these agencies, when you consider the health side of the CalPERS operation.

So I think it would be helpful. I don't -- I'll wait and see where everyone else is on this. I think it would be helpful to me to see that where the median ends up, if we just looked at the California, and see whether these recommendations from Grant Thornton are still sort of on par with where I would see maybe we should go. But I'm not making that recommendation. I just think it would be helpful.

The other question -- the question I would have about taking this type of action is how this might affect other executive team salaries and other salaries that the

Board has the authority to set. I would very much be concerned if this was taken as a sign that we were going to adjust everyone else's salary to sort of catch up. I don't think that that would be appropriate. Although, that is very much the way compensation works in the state. So I do want to raise that as whether that's, in fact, what we would intend to do. And so that's one question.

And my second question is on the Grant Thornton recommendation on the incentive options. I may have missed this, but in a previous discussion about the long-term incentive for the Investment staff, we talked about how it was a potential that a long term incentive proposal would come back for the CEO and other salaries that are in the Board's authority. And so this would not be a long-term incentive, correct?

MR. MYSZKA: Our recommendations do provide for a long-term incentive. So it would be having the CEO participate in that long-term incentive program.

VICE CHAIRPERSON ORTEGA: Okay.

MR. MYSZKA: And so if you do adopt one of our recommendations, then the only remaining position would be the COO, who is not participating in that long-term incentive program at this time.

VICE CHAIRPERSON ORTEGA: Okay.

MR. MYSZKA: So we would suggest addressing that at a future meeting.

CHIEF OPERATING OFFICER HOFFNER: As well as other executive positions covered outside the Investment Office do not have long-term incentives. I just want to be clear there.

VICE CHAIRPERSON ORTEGA: Yeah. Yeah. I guess --

CHAIRPERSON TAYLOR: But we have an option.

VICE CHAIRPERSON ORTEGA: -- I would not want to revisit the CEO salary again in a few months to talk about a long-term incentive. So I just -- that's the reason for the clarification.

CHAIRPERSON TAYLOR: So I will say that I was looking at other salaries in the Investment Office right now. And we have Investment Officers that make more than our CEO with their long-term incentive and such. So -- and then I have no problem using just the California based. I think we should throw in Canada, because they are a pension fund. Now, I don't know if they manage their pension in a private sector fashion. And maybe that's why you're taking that into consideration.

And finally, I just wanted to reiterate I remember the conversation when we first looked at raising this. And I think a lot of it surrounded the why should we be paying more money. It's a State job. And I think that we need to get over that, and move on, and hopefully -- and it sounds like we have, but I -- and hopefully that we are moving in the right direction to bring compensation up to a standard.

And we could probably quickly get a comparison of -- is -- I'm just looking real quick. Am I missing STRS? STRS is not here, is that correct?

CHIEF OPERATING OFFICER HOFFNER: They're in the --

CHAIRPERSON TAYLOR: In the --

CHIEF OPERATING OFFICER HOFFNER: Not in that list. They're in the U.S. --

CHAIRPERSON TAYLOR: They should be. I mean, if we're going to include --

CHIEF OPERATING OFFICER HOFFNER: They're include -- so, Madam Chair, they're included in the U.S. pension peer group, which is --

CHAIRPERSON TAYLOR: Different.

CHIEF OPERATING OFFICER HOFFNER: -- on a -- it's part of the public pension side, which includes Canadian and U.S. funds, which is -- what slide are we on, five or six?

CHAIRPERSON TAYLOR: Yeah.

CHIEF OPERATING OFFICER HOFFNER: It's included there.

CHAIRPERSON TAYLOR: Okay.

CHIEF OPERATING OFFICER HOFFNER: And so there's a breakout of that. And Michael Oak has done work for that system as well, so he could speak to that compensation, as well as the differences between those peer comparator groups and plans that exist today, if that would be helpful.

And then I wanted to go back to Mrs. Ortega's question. So looking at the list of those that are covered by this policy that the Board has authority over, all the positions minus the CEO and the Chief Actuary have had relatively recent modifications to compensation. The CFO was about a year plus ago. The Health Director and Chief Operating Officer was recently. The General Counsel was two months ago. And then the Deputy Chief Investment Officer was two months ago. And then the rest are covered by the Investment Office plans that were adopted in February.

So effectively, there's only two positions that within the covered policy group that haven't had a review since probably 2013-14-ish time frame. So just for background.

CHAIRPERSON TAYLOR: Okay. Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Thank you. So I'd like to know what the compensation --

THE COURT REPORTER: Pull the microphone closer.

COMMITTEE MEMBER OLIVARES: I'm sorry -- what the base compensation and any incentive compensation is for STRS CEO.

HUMAN RESOURCES ASSISTANT DIVISION CHIEF DHOOT:

So the current CEO salary is 474,996. And their incentive ranges work a little bit differently now. They're making some changes over there. So they're at 0 to 80 for fiscal year 18-19. They're going to go to 0 to 115 percent for fiscal year 19-20, and they're going to go to 0 to 150 percent for fiscal year 20-21.

COMMITTEE MEMBER OLIVARES: And then on this comparison of California based agencies, I'm -- I don't understand why LACERA is not on here. LACERA is listed on here, but this is not current compensation.

CHIEF OPERATING OFFICER HOFFNER: So that was our understanding that they just filled that position last week or so. And so that was the data that we had assailable.

COMMITTEE MEMBER OLIVARES: Yeah, I think their recruitment range was Like 500 to 550.

CHIEF OPERATING OFFICER HOFFNER: Yeah. And I'm just looking at what the salary was that was -- that we could identify, so --

COMMITTEE MEMBER OLIVARES: Okay.

CHIEF OPERATING OFFICER HOFFNER: As a week ago, we didn't even have this number, because it was vacant.

COMMITTEE MEMBER OLIVARES: Okay. So it's higher. It's 550.

CHIEF OPERATING OFFICER HOFFNER: So we had an unknown number. Yeah, they list it at 260 at one point. And they said basically during the recruitment it was unknown. So they weren't advertising specifically what the full range was when the data was developed.

COMMITTEE MEMBER OLIVARES: I want to understand the comparative basis for the incentive compensation, because it's helpful to see the base salaries, but I don't see any comparative information for the incentive comp, at least with State agencies, beyond what's here for additional pay. Am I -- am I missing something?

CHIEF OPERATING OFFICER HOFFNER: No, many of them do not. At least this is the subgroup. This is the California based agencies was the group that the Committee members, about two years ago, included in addition to the U.S. and Canadian pension funds. And so many of them, as you can see here, do not include incentive compensation. Other than State Compensation Insurance Fund has some bonus, as well as retention differential. The others tend not to. And I think McLagan can speak to the pension side, both Canadian and U.S., they typically would.

COMMITTEE MEMBER OLIVARES: What about UC Regents?

CHAIRPERSON TAYLOR: They're on the pension fund side, so you -- you didn't give us -- I thought I asked you guys for those figures.

CHIEF OPERATING OFFICER HOFFNER: They include incentive opportunities, at least on the investment side. That's typically a higher threshold, which is more like the 0 to 150.

COMMITTEE MEMBER OLIVARES: Do we -- can I get the cash base and the incentive range, please?

CHIEF OPERATING OFFICER HOFFNER: I'll see if I have that.

COMMITTEE MEMBER OLIVARES: Thank you.

CHAIRPERSON TAYLOR: Okay. Any other questions, Mrs. Olivares?

COMMITTEE MEMBER OLIVARES: No, thank you.

CHAIRPERSON TAYLOR: Okay. Thank you.

Ms. Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: Thank you, Madam Chair.

Of all of the CEOs that you've listed on here and even some that the consultants and the team made, how many are women?

CHIEF OPERATING OFFICER HOFFNER: So Doug

Hoffner, CalPERS team member.

We looked at the data set for the California based agencies, as well as the U.S./Canadian funds. There are a total of 22 entities listed there and there's only one woman CEO in the Virginia Retirement System. And then -- so there's only one in this comparator group here.

I don't know. Maybe Michael Oak can speak to the number of entities that are in the -- you know, the private sector financial side, but I don't know how any of them would be included there.

MR. OAK: So we don't collect gender within the compensation surveys. But I can tell you from other research that we do on diversity that women make up less than five percent of executives in the industry.

CHAIRPERSON TAYLOR: Which is a shame.

COMMITTEE MEMBER PASQUIL ROGERS: Thank you.

CHAIRPERSON TAYLOR: All right. Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Yes. These may be more -- excuse me -- comments than questions. But I certainly concur with Ms. Ortega that we should be looking at public employment. I'm inclined to accept the Canadian public employment as comparisons.

But I'm looking very specifically at the list of other CEOs here in California. And I don't have personal knowledge of each and every one, but I do have some very distinct personal knowledge of a couple of these. And the complexity of the assignment that our CEO has carried out is incomparably more complex in terms of the depth of knowledge that is needed both of public sector and the financial sector of our economy, and then multiply that by the political complexity of the assignment that we have given our CEO, and add to that the critical nature of where we are as a fund, we have, I believe, one of the most difficult jobs in California public employment and we are underpaying our CEO to do that job.

CHAIRPERSON TAYLOR: Thank you.

Mr. Perez.

BOARD MEMBER PEREZ: Oh, man.

CHAIRPERSON TAYLOR: You're up.

BOARD MEMBER PEREZ: So looking at off the list of the California cities, including the CalSTRS number that was given to us, it appears on base salary alone that the range -- or the rate is 357,943.

CHAIRPERSON TAYLOR: Did you do the average, is that what you're saying?

BOARD MEMBER PEREZ: Yeah.

CHAIRPERSON TAYLOR: So I will say -- thank you, 357, which is the bottom of the range.

BOARD MEMBER PEREZ: The top -- there's only two that allow more range, and it's at the top of the range.

L.A. Water and Sac Muni.

CHAIRPERSON TAYLOR: Okay. I would also say that we need to include the pension funds, because that -- those are our peers. These -- these counties aren't our peers. So the pension funds aren't even included. These are -- except for LACERS, which --

COMMITTEE MEMBER OLIVARES: LACERA.

CHAIRPERSON TAYLOR: Yeah, but there's not the big pension -- the bigger pension funds. And I think if we're the largest pension fund in the country, we should be comparing ourselves to the larger pension funds.

BOARD MEMBER PEREZ: Yeah, I've been saying -- I've been saying for a long time that you get what you pay for.

CHAIRPERSON TAYLOR: Right.

BOARD MEMBER PEREZ: And it's not -- it's not specific to our current CEO, but it's the office of the CEO for CalPERS.

CHAIRPERSON TAYLOR: Right.

BOARD MEMBER PEREZ: Not that I don't have any -- you know. You know --

CHAIRPERSON TAYLOR: Right. I think -- so here -- what does the -- what does the Committee want to do here? We've got an action item. We've got three suggestions, two by Grant Thornton, right? The other one was not one of your suggestions. Hold on. I'm looking for it now. There it is.

So what is the Committee's desire? What -- do I have a recommendation for any of the Option A, B, or C.?

COMMITTEE MEMBER PASQUIL ROGERS: Did you have the numbers first on STRS?

COMMITTEE MEMBER OLIVARES: I did, yes.

CHAIRPERSON TAYLOR: Okay. So I've got two people still on -- I'm sorry. I haven't cut your mics yet. You guys want to talk or --

COMMITTEE MEMBER OLIVARES: Do we have the STRS information?

VICE CHAIRPERSON ORTEGA: Somebody can pull it up.

CHIEF OPERATING OFFICER HOFFNER: Yeah. So I think Parm may have just said that. So the base range right now is 325 to 475 with a current salary at 474,996, with an incentive range, in the most recent fiscal year, of 0 to 80 percent, for next year to be 0 to 115, and the year after that to be 0 to 150.

COMMITTEE MEMBER OLIVARES: And will that -- is that base slated to change in the near future?

CHIEF OPERATING OFFICER HOFFNER: So they had a workshop, it's my understanding, on Thursday of last week and discussed in that workshop looking at, I think, in the next 90 to 120 days coming back with some recommendations and feedback related to compensation from a base salary perspective. The incentive opportunities were just most recently adopted by their Board, I want to say, this last year. So I think they're kind of doing sort of two steps at this.

And then they also looked at another measure related to non-executive positions within the organization. So they had sort of two measures they were looking at. But I believe in the next, you know, quarter, they're essentially going to bring back some data from their incentive comp consultant to bring back some recommendations as to what that might look like.

CHAIRPERSON TAYLOR: So do we have current salary for the CEO?

CHIEF OPERATING OFFICER HOFFNER: Yeah, 474,000 --

CHAIRPERSON TAYLOR: Total salary.

CHIEF OPERATING OFFICER HOFFNER: Oh, I'm sorry. I didn't --

COMMITTEE MEMBER OLIVARES: Yeah, total comp. Yeah.

CHAIRPERSON TAYLOR: Yeah, total compensation.

CHIEF OPERATING OFFICER HOFFNER: Yeah. I'm sorry. It's $805,316, which was approved last week.

CHAIRPERSON TAYLOR: Last week?

CHIEF OPERATING OFFICER HOFFNER: Yes, which includes the incentive as well.

CHAIRPERSON TAYLOR: All right.

Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Yeah. I do want to caution against doing a complete comparison to the CalSTRS salary, because -- and Michael was, I believe, their consultant as well, so he can speak to this better than I can, but I think they used a different comparator group. So I think our a -- the analysis we have is drawn down a bit by the fact that we even include this California comparison group. The CalSTRS --

CHAIRPERSON TAYLOR: Does not.

VICE CHAIRPERSON ORTEGA: -- comparator group does not include that, so that draws us down compared to them. However, I would argue that that's a more appropriate way to look at our comparator. I think the way they do it results in, in my opinion, a higher comparison than is appropriate.

CHIEF OPERATING OFFICER HOFFNER: So maybe Michael Oak can speak to that. They also have a weighting component to their peer comparator group that we do not have.

So, Michael, can you -- did you hear that last question related to sort of the differences --

MR. OAK: Yeah.

CHIEF OPERATING OFFICER HOFFNER: -- between CalPERS and CalSTRS and their peer comparator group. Though they look similar on the face, maybe speak to a little bit about the differences, please.

MR. OAK: Sure. And just a caveat with, of course, you could have went to any meeting we presented so. So everything I'm saying is public knowledge.

Their peer group is combined of two groups. One is public funds. Their public fund group, however, is only looking at U.S. funds, whereas, yours looks at U.S. and Canadian. And that has an explicit weighting of 67 percent. And the second component for their executive positions is private sector, which is a broad range of private sector firms, including investment advisory banks, insurance companies, endowments, foundations, corporate pension plans. That has an explicit weighting of 33 percent. So the difference there would be your private sector group is only looking at banks and insurance companies, which would pay less than the investment advisory firms that are included in the CalSTRS group.

And you also look at AUM-based groups for the private sector. So you exclude the really large firms and you exclude the really small firms. Whereas, they have everybody into that bucket.

So the market data does come out different. So there are a number of differences there as I just described. But the biggest difference and the biggest driver of why the two market data points might be a little bit different is, as someone mentioned earlier, the use of the California based agencies in your group does kind of pull the market data down a bit.

However, I mean, as you can see, their -- as you just described, their pay data -- the 105 -- 805,000 was the -- was last week's decision. So the current maximum opportunity, if I did the math right, is about 855,000. And the 19-20 fiscal year, the maximum is just over a million dollars at the 115 percent. And when it does move to that 150 percent, assuming the base salary also doesn't change, that maximum for them would be just under is 1.2 million.

CHAIRPERSON TAYLOR: Wow. Okay. Ms. Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: I want to pass for a minute. I've got to think about it.

CHAIRPERSON TAYLOR: Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Okay. I would like to offer this perspective that when we look at other California based public entities, we're largely looking at base salary.

CHAIRPERSON TAYLOR: Right.

COMMITTEE MEMBER MIDDLETON: And the more that we put into our incentive program, the more we are going to be back here every year for very long and difficult meetings on whether or not this incentive or that incentive should be approved. And I recommend that we do as much as we can within the base salary and not follow the CalSTRS model of having as much as 150 percent of base salary that is in play.

CHAIRPERSON TAYLOR: Agreed. So are you suggesting -- so we just did a whole revamp of our compensation. You aren't suggesting that we just don't do incentive at all?

COMMITTEE MEMBER MIDDLETON: No.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER MIDDLETON: But I am suggesting that we build in a base that we feel very comfortable with and that we feel is very responsible. And then there is an incentive over that, but that incentive should be the tail not the dog.

CHAIRPERSON TAYLOR: Gotcha. Okay.

And then Ms. Olivares.

COMMITTEE MEMBER OLIVARES: I'd like to know the compensation for the UC Regent President.

CHIEF OPERATING OFFICER HOFFNER: I'll try to find that in a minute. Okay.

COMMITTEE MEMBER OLIVARES: And then while someone it looking that up, I have another question. Is there any comparison for a CEO of a public pension plus somebody who oversees the health benefits? So both, right, because there's the pension component and then there's benefits.

CHIEF OPERATING OFFICER HOFFNER: Michael, do you want to try to answer that, in terms of the Canadian and the other U.S. funds. I would say the majority of them do not include a health component, but you might have better date on that.

MR. OAK: Yeah, I'd say -- I don't have fund-by-fund data on who has that, but I would agree with your conclusion that most of them are not going to have both of those functions under one roof. So in other words, your job is likely larger than the other pension funds being included.

COMMITTEE MEMBER OLIVARES: So have we looked at compen -- CEO compensation for health plans besides Covered California?

CHIEF OPERATING OFFICER HOFFNER: We did. This is Doug Hoffner again. We did that when we looked at the Chief Health Director position. And that wasn't for CEOs of those companies though. That was for folks running those types of operations within a larger entity. We didn't explicitly look at CEOs of health care organizations at that time. And the board adopted that policy, you know, this -- in the last year in terms of compensation. But it wasn't geared towards specifically the CEO of health care.

COMMITTEE MEMBER OLIVARES: Yeah. I think this role is unique in that it's a hybrid position and I think the compensation should reflect that.

CHAIRPERSON TAYLOR: Okay. I'm sorry. Mr. Perez.

BOARD MEMBER PEREZ: Yeah, with that -- with the California folks being included, we're at -- that number is the average, and -- but that's not acceptable. She does exceptionally -- that office does exceptionally more work and responsibility than those other entities. But I agree with Mr. Middleton's thoughts, if I was King, I would give her a large base and minimal incentives.

CHAIRPERSON TAYLOR: So I'm going to go to Henry and then I need to ask the Committee some questions.

Henry.

PRESIDENT JONES: Yeah. Thank you, Madam Chair. Yes, I'm inclined to also support Ms. Middleton's thought about making the base the driver of the compensation. And we talked about complexities. I mean, we only talked about some of the complexities. We only mentioned health care, but we also have long-term care. We also deal with 30 -- 3,000 different agencies throughout the state. We also provide oversight, it's my understanding, the Social Security Administration for public agencies in this state.

So when you add all these complexities, I think we need to be mindful of where we're going to set that base salary and it should be up substantially.

CHAIRPERSON TAYLOR: Okay. So we have three options. I understand what Ms. Middleton is saying. I think that we had a -- kind of a decision point when we did the last compensation adjustment, which was to include the long-term -- to tie it to long term, because I don't think in the news, even though our CEO is doing a fantabulous job and she's probably going to the Legislature. If we were to have another recession or mistake, right, it would probably be a bad thing in the news to be giving our CEO compensation that year.

So if we're -- if we're not, you know, giving -- or long-term incentive that year, so -- but in really good years when we're making our mark shouldn't the CEO be tied to the long-term compensation? So that's where I'm -- I get -- so the discussion I'm having with you guys as the Committee is the option three cuts out the long-term incentive. Okay. Option C not three.

The other two options that Grant Thornton are -- is the one recommending has the annual incentive and the long-term incentive. But we have midpoint salaries of 437 and 503 for those two options, plus -- but we can get all the way to -- with option A, we can get all the way to 786, which would put us in kind of competition then at that point with the long-term salary.

So we're actually giving them an annual incentive, so if they're doing a really excellent job, like everything is -- whatever it is outstanding or excellent or whatever, so they get the target of 40 percent and they get the long-term incentive, because they made five years of seven percent of 40 percent, then they're going to get the 786. But they're not going to get that unless all of that is consistent. So we're -- how does -- how does the Committee want to fall on that? We don't have to do those. This is entirely up to the Committee.

Yeah, go ahead.

MR. MYSZKA: Yeah, one thing I'll add is you're talking about a higher salary, and, you know, we consider that kind of leverage between fixed comp and variable compensation. At our option B, our second recommendation, you know, does target the 75th percentile and provides less compensation and incentives, both annually and long term to get to, you know, just above median for target and, you know, between median and 75th percentile for the maximum opportunity.

Whereas, the first recommendation is more, I would say, competitive with the market median throughout. So it'sgot the 50th percentile base salary target, plus incentives that would get to just above the market median.

So, Ms. Middleton, to your comment before, option B I think would be aligned more with what you're thinking of by higher salary and less in incentive programs.

COMMITTEE MEMBER MIDDLETON: Okay. Ms. Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: So the long term -- thank you, Madam Chair. The long-term target is -- it's 40 percent. It's not like the range zero to 40. It's 40 percent.

MR. MYSZKA: It's -- it will be the lesser of whatever the actual incentive that was paid for that year and 40 percent.

COMMITTEE MEMBER PASQUIL ROGERS: Okay.

MR. MYSZKA: So the target is 40, but it could be less, depending on if actual incentives was less than that, but it won't be more than that for the initial year.

CHAIRPERSON TAYLOR: Does that make sense?

COMMITTEE MEMBER PASQUIL ROGERS: Yeah.

CHAIRPERSON TAYLOR: Okay. Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Do we have an update on the UCs?

CHIEF OPERATING OFFICER HOFFNER: Yes. The President of the Regents is making $578,916 as of October 2017. It doesn't show that there's any incentive there. They are doing a recruitment as we know now. So I just talked to Mr. Cohen to see if we had any updates. So it sounds like there's a salary survey that's going to be in process. So we don't have that at the moment.

I did look at some of the other positions all in the investment office that have incentive. And their CIO, in this case, was just under $700,000 in this last report.

They do include chancellors of different universities that include health care facilities, as well.

COMMITTEE MEMBER OLIVARES: Um-hmm.

CHIEF OPERATING OFFICER HOFFNER: So they've broken those out differently for those that have health care hospitals and those that do not.

And so the chancellor of let's say UCD, UCI, UCLA or UC Riverside are all within the, let's say, 430 to 525 thousand dollars kind of range right now. And then if you get to a chancellor of one of those universities that is not having a hospital, those system costs come down. But if you get to the executive of the hospital, in this case, the CEO of UCLA hospital is earning just over a million dollars.

CHAIRPERSON TAYLOR: That's why our hospital costs are so high.

CHIEF OPERATING OFFICER HOFFNER: And others within UCSF is 1.47, the CEO of UCSD is 934,000, and the interim CEO of UC Davis Hospital $753,984.

COMMITTEE MEMBER OLIVARES: And what's the structure of their incentive compensation?

CHIEF OPERATING OFFICER HOFFNER: This doesn't show incentives. This is just showing straight up it looks like base salary.

COMMITTEE MEMBER OLIVARES: Base.

CHIEF OPERATING OFFICER HOFFNER: So this -- the data I'm looking at from the document from their governance committee doesn't show an incentive provision within this document.

COMMITTEE MEMBER OLIVARES: And can we briefly review the performance requirements or targets for the annual incentive?

CHIEF OPERATING OFFICER HOFFNER: What exists --

COMMITTEE MEMBER OLIVARES: The components of that.

CHIEF OPERATING OFFICER HOFFNER: Of what exists today?

COMMITTEE MEMBER OLIVARES: Yes. And then is anything different proposed?

CHIEF OPERATING OFFICER HOFFNER: There aren't different proposed changes at the moment within the policy. So --

COMMITTEE MEMBER OLIVARES: Okay. So the components would be the same?

CHIEF OPERATING OFFICER HOFFNER: Yeah. They are existing the same today with -- they're baked into the existing policy.

COMMITTEE MEMBER OLIVARES: And then just another clarification. On LTI, that's after five years, is that right or...

CHIEF OPERATING OFFICER HOFFNER: Correct.

COMMITTEE MEMBER OLIVARES: Okay. Thank you.

CHAIRPERSON TAYLOR: Okay. Mr. Perez.

BOARD MEMBER PEREZ: I'm glad I'm not on this committee. But to add insult to injury, consider the retirement benefits that other pensions have, like CalSTRS is classic -- the CEO there is classic, whereas our current CEO --

CHAIRPERSON TAYLOR: Is PEPRA.

BOARD MEMBER PEREZ: -- is PEPRA.

CHAIRPERSON TAYLOR: Yeah. Yeah. So she's had her -- yeah. That's a good thought. Didn't think of that.

Mr. Miller.

BOARD MEMBER MILLER: Just a couple general thoughts. I really am very much in line with Ms. Middleton's comments that given the complexity, given the almost uniqueness of this, and certainly when you look at almost any of our comparator groups, I would want to see our CEO compensated in a way that puts them, you know, solidly above median performance -- median compensation levels. And I would want them to be -- have relatively little exposure to the long-term incentive, given the tenure and duration of these positions, our ability to recruit in the future, our ability to look at workforce kind of strategic talent flow, everything for this position.

And so setting that base salary up where the base salary is the lion's share of the attention, is the lion's share of the flag that we use to attract candidates and to retain the talent we have with the regular incentive pay being a portion and the long term being a much smaller contributor. Because I don't think that's really what will drive our ability to recruit and retain the kind of talent we need and the kind of comprehensive talent that we need with health care, with pension, with all the factors we've talked about for this position versus peers. I don't think we want to have our base salary offers slipping below that median. I would be -- I would want to see them at or well above median.

CHAIRPERSON TAYLOR: And I will add that I don't know if we mentioned this or anybody mentioned this earlier, but we have -- our CEO is constantly at the capitol talking to our legislators and our Governor. Our CEO is putting out fires, PR fires all the time. So she's also our head PR person, so -- and we are the fund that attracts the most media. So I think that's important to consider too when we consider her compensation.

And Ms. Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: Madam Chair, I'd like to move option B.

CHAIRPERSON TAYLOR: I will second that.

I know.

So I have option B moved. Does anybody want to make a second?

COMMITTEE MEMBER MIDDLETON: I'll second it.

CHAIRPERSON TAYLOR: Do you need it read out? Anybody need it read out?

Are we good?

Option B.

So we have a motion by Pasquil Rogers, second by

Middleton.

COMMITTEE MEMBER MIDDLETON: I do have a question for the maker of the motion.

CHAIRPERSON TAYLOR: Hold on one second.

I clicked it.

Let's try again. Oh, there it went

COMMITTEE MEMBER MIDDLETON: There we go.

What is the base salary that you're recommending?

COMMITTEE MEMBER PASQUIL ROGERS: Are we doing that today or are we doing -- are we doing range for to be decided -- maybe I'm confused. So we're deciding today the range, right? And then are we also deciding -- what would -- I thought we were going to do that next July.

CHAIRPERSON TAYLOR: So, Doug, can you tell us what she currently -- base is making, so we can determine where our base starts?

CHIEF OPERATING OFFICER HOFFNER: Sure. So the current range is identified on this slide or one previous. And then current compensation is $343,949.

CHAIRPERSON TAYLOR: So she's at 343, which is top of the range, right?

CHIEF OPERATING OFFICER HOFFNER: It's like $9,000 from the top, but yes.

CHAIRPERSON TAYLOR: Yeah.

COMMITTEE MEMBER MIDDLETON: Okay. So would the maker of the motion accept that the base salary should be not less than the midpoint of 503,000?

COMMITTEE MEMBER PASQUIL ROGERS: Yes. Yes, or more.

CHAIRPERSON TAYLOR: Okay. So the motion from Ms. Pasquil Rogers is option B with the base salary not being less than the midpoint of 437 or 503?

COMMITTEE MEMBER MIDDLETON: 503.

CHAIRPERSON TAYLOR: 503, the midpoint of the new range.

COMMITTEE MEMBER MIDDLETON: With -- bringing this recommendation back to us in December with a final figure that we would base, but it would not be less than 503.

CHAIRPERSON TAYLOR: I think we're good. You can make a friendly amendment.

VICE CHAIRPERSON ORTEGA: Can I ask a clarifying question?

CHAIRPERSON TAYLOR: Let's start that again. Okay. So go ahead.

VICE CHAIRPERSON ORTEGA: So as I'm understanding the motion -- so tell me if I have it wrong. The motion would be option B and the actual salary of the CEO on July 1 would be the midpoint of the new range, which is stated here as 503?

COMMITTEE MEMBER MIDDLETON: Not less than the midpoint.

VICE CHAIRPERSON ORTEGA: Right.

COMMITTEE MEMBER MIDDLETON: So I would like to leave open that --

VICE CHAIRPERSON ORTEGA: Well, I don't know how it would be more than.

COMMITTEE MEMBER MIDDLETON: -- we --

CHAIRPERSON TAYLOR: We would have to make that decision.

COMMITTEE MEMBER MIDDLETON: Today.

CHAIRPERSON TAYLOR: So we can't ask them to bring that back. We would have to make that decision.

COMMITTEE MEMBER MIDDLETON: Then I think we need to be closer to 75 percent as opposed to 50 percent midpoint.

CHAIRPERSON TAYLOR: So I need a number.

COMMITTEE MEMBER MIDDLETON: Can somebody give me what 75 percent would be?

CHAIRPERSON TAYLOR: Ms. Pasquil Rogers could you withdraw and restate.

COMMITTEE MEMBER PASQUIL ROGERS: I withdraw. I'm withdrawing my motion.

CHAIRPERSON TAYLOR: Okay.

Ms. Olivares.

Oops. Hold on.

Go ahead.

COMMITTEE MEMBER OLIVARES: Okay. So a couple things. First, I want to say that I do not think option B is an adequate range, just given the base salaries of other California -- CEOs of other base -- California based agencies, UC System, and the complexity of the role. And I actually think that the base salary range should be up to 750, and I would like us to be around 75 percent of that.

This is --

CHAIRPERSON TAYLOR: So are you saying the high point is 750?

COMMITTEE MEMBER OLIVARES: Potentially, yes. And that's why I want to ask the consultant about that too. I mean is that reasonable from what you've seen, given the Complexity of this role and how there aren't a lot of comparables?

MR. MYSZKA: Yeah. You know, we would support a higher range. One of the things though, just, you know, looking, we developed this based upon, you know, the peer group that you guys had approved originally. And so while there might be some individual organization who might pay more or less, we base this upon your kind of combined peer group that includes public funds, as well as private institutions. So I would -- hesitant to based upon -- base a range just on a handful of organizations, but more looking at the more broad peer group that the Board had approved previously.

CHAIRPERSON TAYLOR: Okay.

Ms. Ortega

VICE CHAIRPERSON ORTEGA: I just want to state for the Board members and the record, I would support one of the changes that is proposed in the Grant Thornton memo. I think they're based on a good analysis. We have all the information necessary to think about comparisons and the kinds of issues that are raised. If we start coming up on the fly with different outside boundaries and based on information we found on the internet in the last 15 minutes, I will not support the motion at that point.

CHAIRPERSON TAYLOR: Okay. Mr. Feckner.

COMMITTEE MEMBER FECKNER: Yeah. I guess, I'm just confused, when I hear Ms. Olivares say that, you know, it puts us behind everyone. 503 is higher than everybody on this list except one.

CHAIRPERSON TAYLOR: No, we're talking about UC Davis -- or UC Regents.

COMMITTEE MEMBER OLIVARES: Regents. We're talking about LACERA.

COMMITTEE MEMBER FECKNER: But not who's on this list, right?

CHAIRPERSON TAYLOR: CalSTRS. LACERA is right there.

COMMITTEE MEMBER OLIVARES: LACERA isn't updated on here. And then also --

CHAIRPERSON TAYLOR: LACERA is not updated.

COMMITTEE MEMBER OLIVARES: -- Sacramento Municipal Utility District.

COMMITTEE MEMBER FECKNER: It's lower.

CHAIRPERSON TAYLOR: It's 550.

I'm sorry. Say that again, Ms. Olivares.

COMMITTEE MEMBER OLIVARES: And then Sacramento Municipal Utility District, that range is 427 to 650.

COMMITTEE MEMBER FECKNER: Right, that's one.

COMMITTEE MEMBER OLIVARES: Yeah, LACERA is 550.

COMMITTEE MEMBER FECKNER: Well, not on here, but okay.

COMMITTEE MEMBER OLIVARES: No, it's -- yeah.

COMMITTEE MEMBER FECKNER: I hear you.

COMMITTEE MEMBER OLIVARES: And those --

COMMITTEE MEMBER FECKNER: But it's higher than everything else on this list.

COMMITTEE MEMBER OLIVARES: -- are far more limited, right? So we do have health insurance. We do have long-term care insurance, and a lot of exposure.

CHAIRPERSON TAYLOR: So I am kind of on the page -- because we have the option of getting her up to 786 with option A, 774 with option B. We can adopt a midpoint and stay -- adopt the midpoint, so we're starting high. Because if you think about it, if her base salary starts at 503, that's higher than Mr. Ailman's base salary. And now we don't end up higher -- now --

COMMITTEE MEMBER OLIVARES: It should be.

CHAIRPERSON TAYLOR: Huh?

ACTING COMMITTEE MEMBER SAHA: Are we talking about CEOs? Are you thinking about Jack Ehnes.

CHAIRPERSON TAYLOR: Yeah.

COMMITTEE MEMBER OLIVARES: Jack Ehnes.

COMMITTEE MEMBER FECKNER: Ehnes.

CHAIRPERSON TAYLOR: I'm sorry, Jack Ehnes.

COMMITTEE MEMBER OLIVARES: It should be higher. It should be far higher, given the complexity of this job compared to that at CalSTRS.

CHAIRPERSON TAYLOR: Sure. So -- but then the other issue is, and maybe we should ask Grant Thornton, if we start the salary in the option B that Mona originally mentioned at the midpoint, do we then do the salary target of 27 percent, or do we ask to move option A's salary -- annual incentive salary target down to option B?

MR. MYSZKA: And that was something that we discussed internally when putting this together. And if you were to do that, the maximum opportunity would be about 1.2 million around there. So it would be kind of directly in between the 50th and 75th percentile.

CHAIRPERSON TAYLOR: Okay. So if we moved -- I nee to get closer to the mic.

If we moved option A's annual incentive of 40 -- target salary of 40 percent instead of 27 percent down to option B, then we're at, what, 1.2 million?

MR. MYSZKA: Yeah, for the maximum.

CHAIRPERSON TAYLOR: For the maximum, 1.2 million.

MR. MYSZKA: I don't remember the target off the top of my head, but I do remember the maximum would be directly between the 50th and 75th percentile of the market. And then do we leave -- is that also changing the long-term incentive to the 40 percent as well.

MR. MYSZKA: That would, correct.

CHAIRPERSON TAYLOR: Okay.

MR. MYSZKA: And the maximum annual incentive opportunity of 60 percent.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER OLIVARES: And are we still looking at mid-range or are we looking at 75th percentile?

CHAIRPERSON TAYLOR: So we're looking at

mid-range of option B 503. But then at the very top of the salary target of 40 percent and long-term incentive at 40 percent, should could make $1.2 million. And we're not saying that's where that's going to go.

COMMITTEE MEMBER PASQUIL ROGERS: But we're saying that that's --

CHAIRPERSON TAYLOR: That could be where it could go.

MR. MYSZKA: And to clarify too, that midpoint of 503,000 is targeting the 75th percentile of the market for base salary.

COMMITTEE MEMBER PASQUIL ROGERS: Okay.

CHAIRPERSON TAYLOR: That is targeting the 75th percent.

COMMITTEE MEMBER PASQUIL ROGERS: That's what I was going to ask.

CHAIRPERSON TAYLOR: Okay. 75th percentile.

Okay. Now, I've got a couple more questions, and that is Matt. Go ahead.

ACTING COMMITTEE MEMBER SAHA: Madam Chair, I just want to make sure that I'm understanding clear what's being proposed, at least I guess in the motion is the iteration of option B that's being suggested, that the range of the salary, the bottom of it is 503, and that's the new starting point or is --

CHAIRPERSON TAYLOR: But it goes no higher than 628.

ACTING COMMITTEE MEMBER SAHA: Well, I can see that. I'm just asking if the range is no longer 377 to 628?

MR. MYSZKA: We would recommend the range being 377 to 628 with that midpoint of the range target in the center.

ACTING COMMITTEE MEMBER SAHA: Okay. Well, I guess maybe I should ask the person who's making the motion, is that correct or not?

COMMITTEE MEMBER PASQUIL ROGERS: I pulled mine. It's hers, isn't it?

ACTING COMMITTEE MEMBER SAHA: I don't know whose --

CHAIRPERSON TAYLOR: We don't have a motion on the table, guys.

COMMITTEE MEMBER MIDDLETON: We don't have a motion at this point.

ACTING COMMITTEE MEMBER SAHA: Okay. Thank you for clarifying.

CHAIRPERSON TAYLOR: So we're just still discussing this right now.

ACTING COMMITTEE MEMBER SAHA: Okay. Just making sure I had -- I know there was a motion previously, so --

CHAIRPERSON TAYLOR: Okay. So can I have a motion for what we just talked about?

COMMITTEE MEMBER PASQUIL ROGERS: I'd like to move --

CHAIRPERSON TAYLOR: Hold on. I need your --

THE COURT REPORTER: It's on.

CHAIRPERSON TAYLOR: Oh, you turned it on for me.

You're so awesome. Thank you.

Go ahead.

COMMITTEE MEMBER PASQUIL ROGERS: Madam Chair, I would like to move for option B with the salary being no less than 503 of replacing the long-term 27 to 40 percent.

CHAIRPERSON TAYLOR: And the annual incentive?

COMMITTEE MEMBER PASQUIL ROGERS: And the annual incentive.

CHAIRPERSON TAYLOR: 27 to 40 percent?

COMMITTEE MEMBER PASQUIL ROGERS: Yes.

CHAIRPERSON TAYLOR: Okay. Do I have --

COMMITTEE MEMBER PASQUIL ROGERS: Oh, no, it's 0 to 40, because your target, you have -- it's 0 to 40. That's what you --

CHAIRPERSON TAYLOR: Right, but we're replacing it from the 0 to 20 -- a target of 27 percent. So we're going -- we're taking option A's - if this is what I'm hearing from you for your motion - option A's annual incentive of 0 to 60, target of 40, and moving it down to option B and replacing that one.

COMMITTEE MEMBER PASQUIL ROGERS: No.

CHAIRPERSON TAYLOR: No?

COMMITTEE MEMBER PASQUIL ROGERS: I was -- I was actually -- I said the long term of -- target instead of 27 to 40, but keeping -- keeping the 0 to 40 for the annual incentive.

CHAIRPERSON TAYLOR: Okay. So then we won't get 1.2 mil. Is that where you want it to be? That's fine with me. I just need to know.

COMMITTEE MEMBER PASQUIL ROGERS: I'm open for discussion, but that's what I'm proposing.

CHAIRPERSON TAYLOR: Okay. So let me get this right. So we have a motion for the salary, the 75th percentile of option B, 377 to 628. No -- starting at no less than 503, annual incentive of 0 to 40 percent, target rate of 27 percent, long-term incentive -- incentive paid 27 percent moving that up to 40 percent, is that correct?

COMMITTEE MEMBER PASQUIL ROGERS: Correct.

CHAIRPERSON TAYLOR: Okay. Do I have a second for that?

I do not have a second for that.

Okay. Motion dies.

We have to get a -- we have to make a decision here guys.

COMMITTEE MEMBER PASQUIL ROGERS: No, I know. I was just --

MR. MYSZKA: And one thing I'll mention on that. If you were to go that route, that would be a different long-term incentive structure than everybody else who's participating in the long-term incentive program.

So currently how the structure was designed for the incentive office -- sorry, the Investment Office, the target was going to be equal to the annual incentive target, but it could be less if actual payment was less. So I would --

CHAIRPERSON TAYLOR: So it should be --

MR. MYSZKA: I would suggest keeping that a similar process.

CHAIRPERSON TAYLOR: Okay. Do I have another motion?

Oh, hey, number 3, which is Mr. Miller.

BOARD MEMBER MILLER: I would just again kind of reiterate that I would de-emphasize rather than increase the exposure to that long-term incentive by leaving it kind of as it is in B and put your emphasis on increasing the salary. And if you wanted to even think about it, instead of in just terms of nominal figures, think about it as encompassing from the 50th up through and into the

75th percentile ranges, or something like that, rather than just tossing out numbers, and focus on increasing the salary range. And if you wanted to increase anything else, the annual incentive rather than the long-term incentive.

CHAIRPERSON TAYLOR: So unfortunately, I think the problem is is we'd have to ask for another review, because we have -- you're talking about 75th percentile inclusive of stuff that we haven't got on our figures here, as I understand it, is that correct?

MR. MYSZKA: That is. And, you know, that option B, again, we were targeting the 75th percentile. Somebody in that -- you know, depending on that individual, they could be in the lower end or the higher end of that range. So it's possible that somebody could get paid more than the 75th percentile in the market, because the range goes up to $628,000.

If you were to add in kind of combined -- what I'm hearing is the midpoint of 503, which the target is the 75th percentile, and then increase the incentives that the current structure is today, to 0 to 60 for annual and 40 percent for long-term incentive. That would get a maximum opportunity between the 50th and 75th percentile, directly between.

CHAIRPERSON TAYLOR: Directly between.

MR. MYSZKA: Yes.

CHAIRPERSON TAYLOR: Okay. Now, I've got number 12, Lisa.

COMMITTEE MEMBER MIDDLETON: All right. My concern with the motion, as Ms. Pasquil Rogers made it, is it still seemed it put too much in the incentive and not enough in the base salary. So -- and I'm doing my math roughly, but I think the 75th percentile of this 377 to 50 to 628,750 comes out somewhere in the range of 560 to 570 thousand dollars.

CHAIRPERSON TAYLOR: Okay.

COMMITTEE MEMBER MIDDLETON: And again, my math was rough. But assuming that we started with the base salary there, if we, using option B, kept the annual incentive and the long-term incentive at 27 percent, then I think we would end up with something that was primarily base salary and would still provide an opportunity starting at -- in the $560,000 range to get close to a million dollars by -- if everything was achieved.

CHAIRPERSON TAYLOR: The only problem is is we're closer to the top.

COMMITTEE MEMBER MIDDLETON: Yeah.

CHAIRPERSON TAYLOR: That's the only problem.

Go ahead.

MR. MYSZKA: The one thing I'll mention, our current recommendation of option B, while the target is at $775,000, the maximum opportunity is a little over a million that we currently have on here as an option.

CHAIRPERSON TAYLOR: At the 27 percent?

MR. MYSZKA: Yes. If you -- if you -- as written here in our recommendation option B, the maximum opportunity for this position in this structure would be $1.05 million.

CHAIRPERSON TAYLOR: Okay. So if we start -- so then I'm going to take this as a motion, Ms. Middleton, of $570,000 --

COMMITTEE MEMBER MIDDLETON: Okay.

CHAIRPERSON TAYLOR: -- and option B at 75 -- 75th percentile. You're taking 75 percent between the 377 and 628, right, which is the 570?

COMMITTEE MEMBER MIDDLETON: Um-hmm. Right.

CHAIRPERSON TAYLOR: And leaving the annual incentive target -- annual incentive is 0 to 40, target 27, long-term incentive lower of actual annual incentive paid 27 percent of salary. And we're going to leave it there.

Okay. I need a second on that motion.

COMMITTEE MEMBER PASQUIL ROGERS: I second.

CHAIRPERSON TAYLOR: Okay. So I have the motion made by Ms. Middleton, second by Ms. Pasquil Rogers.

It looks like I have people who want to talk. So hold on. We have discussion before we'll take a vote. Number 15 is Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you, Madam Chair. Before this motion was made, I was actually going to speak out in support of Mona's move -- resolution. It's getting too late.

(Laughter.)

ACTING BOARD MEMBER PAQUIN: I agree this is a very complex organization. We have a great CEO. She does a great job. I think our only concern is that we have compensation policies. And we've just gone through a process of setting compensation, base salaries, incentives, long-term incentives for the Investment Office for many of the executive positions, and we set those at the midpoint. We set the annual incentive and the long-term incentive. And I think that this sets a different precedent. And I'm not sure that we want to go down this road.

And it might be better to just stick with one of the options as presented by the compensation consultant. And I think that that also speaks to some of the concerns that Eraina was expressing earlier as well too.

Thank you.

CHAIRPERSON TAYLOR: And I agree. The only thing

I will say is that managing directors make 506 at midpoint, so --

CHIEF OPERATING OFFICER HOFFNER: Can I respond to that?

So we do have in the agenda item -- so there's been sort of several things that you -- I think Ms. Paquin just mentioned. So for the CIO we paid at the 75th percent. CFO was the 50th, and that's just base. And then from a total cash, slightly above 50th or between 50th and 75th. So we're kind of in that space right now.

Some of the investment positions again between the 50th and 75th. The same thing on total cash side. So I think we're kind of in that band. I don't think we're outside of it at the moment, so --

CHAIRPERSON TAYLOR: Okay.

CHIEF OPERATING OFFICER HOFFNER: Yeah, and that's on page two of three in the agenda item background.

All those have been essentially done in the last, between June 2018 and basically September of 2019 those changes have been made, so...

CHAIRPERSON TAYLOR: So would you say this is our -- kind of our philosophy at this point. That we should be moving in this direction --

CHIEF OPERATING OFFICER HOFFNER: It sure feels like it.

CHAIRPERSON TAYLOR: -- with the CEO and the CIO -- I mean, the CEO?

MR. MYSZKA: And as we developed these recommendations, we had that in mind too of, you know, the company's -- the organization's philosophy today is to target between the 50th and 75th percentile of total comp to market total cash. And so we modeled that with these recommendations, as well as compared it internally with the same structure as well --

CHAIRPERSON TAYLOR: Okay. Great.

MR. MYSZKA: -- for the positions that Mr. Hoffner just mentioned.

CHAIRPERSON TAYLOR: Mr. Perez.

BOARD MEMBER PEREZ: I was just going to suggest, I don't know that you have to come to a decision today. This is kind of a big deal for all parties involved. And with the --

CHAIRPERSON TAYLOR: We're not meeting again for months.

BOARD MEMBER PEREZ: But this isn't going to take effect until July 1. So we can kick it back to them and ask for, you know, like legit research.

CHAIRPERSON TAYLOR: This was legit research.

BOARD MEMBER PEREZ: Not that. The -- you know, me looking up all the other infor -- not --

(Laughter.)

BOARD MEMBER PEREZ: I'm not punking you. You know what I'm saying.

(Laughter.)

CHAIRPERSON TAYLOR: It sounds like it, man.

BOARD MEMBER PEREZ: No. No, no, no. I'm saying the internet searches that we did up here.

CHIEF OPERATING OFFICER HOFFNER: Yeah. So just to be clear, we followed the peer comparator group that was in the Board's policy. So the additional questions are fine. But what we did and have done for all of these positions, both McLagan and Grant Thornton has looked at what the Board has adopted in terms of its overall peer comparator group for both the Investment Office and executive positions.

So adding additional perspectives -- this is where the California based agencies came in about two years ago was based upon your feedback.

CHAIRPERSON TAYLOR: Right.

CHIEF OPERATING OFFICER HOFFNER: If you'd like to add others or remove some, that's -- we're fine with all that. We just want to make sure we're, you know, comparing based upon the policy that's been adopted.

CHAIRPERSON TAYLOR: And I will say just one other thing. We have two women in all of this that we're comparing with. And it would sure be nice to actually get a woman into the 75th percentile. I don't know what that other woman makes, but I know we're not there.

So, Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Can I get a clarification on the -- on option B, the 503,000 is the midpoint between the range, right?

MR. MYSZKA: Correct.

VICE CHAIRPERSON ORTEGA: What is the 50th percentile? Is it -- it's not the -- is that number in this table on the salary only?

MR. MYSZKA: Yeah, so the 50th percentile of the market data is 437,000.

VICE CHAIRPERSON ORTEGA: Okay.

CHAIRPERSON TAYLOR: So it's option a.

MR. MYSZKA: Yeah. And the 75th percentile the market data was 503. One thing too to kind of clarify, as well as today's recommendation, is really just on the structure and the range, not necessarily the individual in the role. That would be a later discussion.

VICE CHAIRPERSON ORTEGA: Yeah. So I want to offer a substitute motion of option B, setting the salary effective July 1 at the midpoint of 503, because setting the salaries at the midpoint in the range is pretty common State practice. And I feel like it would be more consistent with the way we treat public employees.

CHAIRPERSON TAYLOR: Okay. I need a second for that.

BOARD MEMBER PEREZ: We didn't catch that.

CHAIRPERSON TAYLOR: You want to say that louder.

VICE CHAIRPERSON ORTEGA: Sure. It's a substitute motion for option B setting the salary effective July 1 at the midpoint of the range, which is 503.

CHAIRPERSON TAYLOR: $503,000.

COMMITTEE MEMBER FECKNER: Everything else stays the same?

CHAIRPERSON TAYLOR: Everything else -- the --

VICE CHAIRPERSON ORTEGA: Yes.

CHAIRPERSON TAYLOR: Okay. The annual incentive, the long-term incentive --

VICE CHAIRPERSON ORTEGA: Under -- what's under B, yeah, option B.

CHAIRPERSON TAYLOR: Under B. Okay.

COMMITTEE MEMBER FECKNER: Second.

CHAIRPERSON TAYLOR: I have -- and this is a substitute motion, so we're voting on the substitute motion. I have two people that want to talk first.

Ms. Olivares.

COMMITTEE MEMBER OLIVARES: Earlier you mentioned that STRS is reevaluating the base salary for their CEO. Right now their base -- his base salary is 479. I would anticipate that that base salary is only going to increase. I'm concerned that if we set the midpoint right now, that we might have to renegotiate salary a year later. What are your thoughts on that?

MR. MYSZKA: I think that's one of the reasons why we suggest having a range and targeting, let's say, the midpoint at the 75th percentile. There are going to be people who may make more. I'm not -- you know, and we can discuss the individuals in the role, but there's going to be room in that range to move somebody within that range.

And when you look at individuals and trying to -- one of the issues with comparing one individual's pay with another individual is there's different -- there could be different mechanics involved. I would suggest looking at the range of what you could pay what the role is worth or the role is, you know, is competitive at.

That's why we're suggesting paying at the 75th percentile midpoint with the ability to earn more than the 75th percentile in base salary. Getting some incentives in there to kind of target between the 50th and 75th percentile as well.

So to answer your question, there is room within a range that somebody could make more than the midpoint. Could somebody in another organization get paid more? I guess that's possible, but I would caution to not base your range just upon one individual or one data point in the marketplace.

COMMITTEE MEMBER OLIVARES: Of course, I understand. I also recall that you said that the incentive range for CalSTRS CEO 19-20 is going to be 0 to 115 percent, which was greater than the incentive range I see here for the CalPERS CEO. And in fiscal year 20-21, it's going to be 0 to 150 percent. Is it possible then that the -- if we choose option B, for example today, that the CalPERS CEO would be compensated less than the CalSTRS CEO?

CHAIRPERSON TAYLOR: So I just want to input there and then I'll let Rob -- he's overpaid. Let's just be clear.

(Laughter.)

CHAIRPERSON TAYLOR: He is out of the range by a lot.

MR. MYSZKA: And one thing I'll add to that --

COMMITTEE MEMBER OLIVARES: Is that your opinion as well?

MR. MYSZKA: I'm going to speak to the individual comp of one individual.

(Laughter.)

MR. MYSZKA: But what I would say is that if you look at the maximum opportunity at what you described at CalSTRS with 150 percent, incentive that comes out to 1.1, almost $1.2 million.

COMMITTEE MEMBER OLIVARES: Um-hmm.

MR. MYSZKA: If you look at our option B the maximum is one million with the potential though with that long-term incentive, you know, that money does go into, you know, the initial amount would be, in this example of option B, 27 percent of salary. If mar -- if the targets are hit over the next five years, that amount could increase based upon performance that could be paid out. So there is an opportunity to get potentially more than $1.5 million in any one year, if the fund outperforms its target.

So again, I think our recommendations are -- have the appropriate leverage between base salary and incentives. The current -- you know, option C we provided where there's no long-term incentive and a high annual incentive, while less than the CalSTRS annual incentive ranges, it's still in our mind puts too much emphasis on short-term performance and less on, you know, longer term performance. So our recommendation would be not to have an annual incentive of that magnitude for this role.

CHAIRPERSON TAYLOR: That's sounds --

COMMITTEE MEMBER OLIVARES: I also want to be cognizant -- if I could just make another comment too. So as we've discussed, CalPERS has a lot more complexity, many more responsibilities beyond that of CalSTRS. And I don't want to use just CalSTRS as a reference point, but I also do not want to have our CEO who's doing far more be paid less and the message that sends about a CEO whose a woman. It almost sends the message that we value her less.

CHAIRPERSON TAYLOR: I totally get what you're saying.

COMMITTEE MEMBER OLIVARES: And I think it's the wrong message to send.

CHAIRPERSON TAYLOR: And I can't -- we can't -- unfortunately, we can't ask our consultants to weigh in on that, but I will -- I will agree with you, but I -- you heard what I said earlier.

Did you want to talk, Mona?

COMMITTEE MEMBER PASQUIL ROGERS: No, I'm good.

CHAIRPERSON TAYLOR: Okay. So then I have Ms. Middleton.

BOARD MEMBER PEREZ: You guys want to say something?

MR. MYSZKA: No, I was just going to say that our -- you know, our ranges are designed to be competitive with the market 75th percentile. Where an individual falls in that range is up to you and where you want -- where you want to place the individual. But we're coming up with a range for the CEO position, not necessarily the pay for one individual.

CHAIRPERSON TAYLOR: Okay. Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: Yeah. We're struggling to find what is the right salary. And I don't know that there is an ability for us to quick -- to do this --

CHAIRPERSON TAYLOR: Today?

COMMITTEE MEMBER MIDDLETON: -- today. The most important thing that I want to see happen at the end of the day is that both our CEO and the community recognizes the high regard that we have for her and the work that she is doing, and that becomes the critical question. And in everything that we're doing here, while I could support higher figures, we are providing a substantial increase in salary, and we are doing so, because we are trying to define the value that we have in Marcie Frost and the understanding that we have of the complexity of the assignment of -- that anyone holding that office will have.

CHAIRPERSON TAYLOR: I agree.

Ms. Pasquil Rogers.

COMMITTEE MEMBER PASQUIL ROGERS: Yeah, thank you, Madam Chair. I agree, I do not -- I caution everybody to wait and to postpone. Because if I heard correctly when I asked, you know, we've -- people -- we've -- this Board has postponed before and nothing has happened. And when a Board does something like that, the signal that we send to the staff, to the whole pension world and to other businesses is not a good one. And so I think we need to make a decision on a range today. And then when July comes and, you know, we've got to decide -- you know, you do the -- we do an evaluation, performance measures, then you can have that conservation.

But today, I think that this Committee should agree upon a range, so that we can move forward with the whole Board.

Thank you.

CHAIRPERSON TAYLOR: Okay. So I have no further comments from the Committee. I have a motion from Ms. Ortega for option B, 75th percentile at the midpoint -- starting salary at the midpoint of $503,000, leaving the annual incentive of 0 to 40 percent, target of 27 percent, long-term incentive lower of actual annual incentive paid, and 27 percent of salary. It was seconded by Mr. Feckner.

For all of -- can we do this on a roll call? It has to be a roll call vote.

Okay. I need a roll call vote.

COMMITTEE SECRETARY QUERAL: Theresa Taylor?

CHAIRPERSON TAYLOR: Start with Ms. Ortega and finish with me.

COMMITTEE SECRETARY QUERAL: Oh. Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Aye.

COMMITTEE SECRETARY QUERAL: Rob Feckner?

COMMITTEE MEMBER FECKNER: Aye.

COMMITTEE SECRETARY QUERAL: Fiona Ma?

CHAIRPERSON TAYLOR: Matthew --

COMMITTEE SECRETARY QUERAL: Oh, sorry. Matthew Saha for Fiona Ma?

ACTING COMMITTEE MEMBER SAHA: Aye.

COMMITTEE SECRETARY QUERAL: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Aye.

COMMITTEE SECRETARY QUERAL: Stacie Olivares?

COMMITTEE MEMBER OLIVARES: Nay.

COMMITTEE SECRETARY QUERAL: Mona Pasquil Rogers?

COMMITTEE MEMBER PASQUIL ROGERS: Aye.

COMMITTEE SECRETARY QUERAL: And Theresa Taylor?

CHAIRPERSON TAYLOR: Aye.

Motion passes. So that's where we're at. We're at the option B, starting salary range 503,000, keeping the annual incentive and long-term incentive of option B.

Yea, we did it.
We're not done yet though, are we?
Hold on a second. Come on.
VICE CHAIRPERSON ORTEGA: Can I clarify something on that?
CHAIRPERSON TAYLOR: Sure.
Ms. Ortega.
VICE CHAIRPERSON ORTEGA: Yeah, I just want to clarify, because the way the outcome of the vote was stated was slightly different than the way I stated it in the motion. So I just want to make clear that the motion was the range in option B with the salary effective July 1 at the midpoint, the 503. But at the end you kind of said the range was 503 to something. I think there was --
CHAIRPERSON TAYLOR: I didn't mean -- I didn't mean it like that.
VICE CHAIRPERSON ORTEGA: I think there was some confusion about that.
CHIEF OPERATING OFFICER HOFFNER: So I took it as recommendation B -- option B --
VICE CHAIRPERSON ORTEGA: Yes, option B.
CHIEF OPERATING OFFICER HOFFNER: -- the 377,250 to 628,750, midpoint 30 -- 503 as the starting salary in July 1 --
VICE CHAIRPERSON ORTEGA: Correct.

CHIEF OPERATING OFFICER HOFFNER: -- 0 to 40 with a 27 percent target and LTI of 27 percent.

VICE CHAIRPERSON ORTEGA: That was the motion.

CHIEF OPERATING OFFICER HOFFNER: Okay.

CHAIRPERSON TAYLOR: And it passed. So I think everybody got it.

Okay. Hold on. Where are we?

VICE CHAIRPERSON ORTEGA: Henry has something.

CHAIRPERSON TAYLOR: Oh. I actually have Henry.

Go ahead, Mr. Jones.

PRESIDENT JONES: Yeah. Thank you, Madam Chair. I just wanted to -- I'm going to be leaving now, but I just wanted to mention there's no closed session in the morning. Okay.

CHAIRPERSON TAYLOR: Thank you, Mr. Jones.

COMMITTEE MEMBER FECKNER: Now we get another 12 minutes of sleep.

CHAIRPERSON TAYLOR: So at this point we are on -- I think we're done, right?

So we're on 7a, which is Summary of Committee Direction.

CHIEF OPERATING OFFICER HOFFNER: I took other notes, but I think we answered those questions. And then with that motion, I think resolved any of their questions that were identified.

CHAIRPERSON TAYLOR: Do we want to still see that information?

COMMITTEE MEMBER OLIVARES: Absolutely.

CHAIRPERSON TAYLOR: So apparently, Stacie --

CHIEF OPERATING OFFICER HOFFNER: So which information? Let's be specific.

BOARD MEMBER HOLLINGER: I want the -- I would like to see the total compensation data for the Canadian and U.S. pension plans, and see where we fit in with that range. The UC Regents I want the base and I want all incentive. And then more detail too on what we were saying for the chancellors as well. And LACERA, the information is available.

Thank you.

CHIEF OPERATING OFFICER HOFFNER: So --

CHAIRPERSON TAYLOR: All right. And, Mr. Miller, go ahead.

BOARD MEMBER MILLER: I just want to thank all my colleagues, particularly the folks on the Committee for taking the bull by the horns, making a decision. It's a good decision, in my view. It maybe not the best decision, but, you know, that's what the future is for. And I'm really glad we did this, because I really felt kind I bummed out after our -- the last meeting of this Committee. And now I'm much more optimistic about going forward with more appropriate compensation plan for our CEO position.

CHAIRPERSON TAYLOR: Thank you, Mr. Miller.

Doug, anything else that you had for direction?

CHIEF OPERATING OFFICER HOFFNER: No, I, did not.

CHAIRPERSON TAYLOR: You had -- okay.

And do I have anybody with public comment?

It does not look like it.

So this meeting is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee meeting adjourned at 5:49 p.m.)

C E R T I F I C A T E O F R E P O R T E R

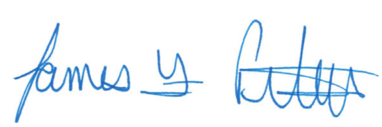
I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

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 26th day of November, 2019.



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