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Grant Thornton LLP
200 South Sixth Street, Suite 1400
Minneapolis, MN 55402-1434

T 612.332.0001
F 612.332.8361
www.GrantThornton.com

Memorandum

To: Performance, Compensation and Talent Management
Committee (“PCTMC”) of CalPERS

Date: June 2020

From: Eric Gonzaga, Eric Myszka, Rob Storrick, Grant Thornton LLP

Re: Annual Incentive Plan Metrics and Additional Considerations

Background

The Performance, Compensation and Talent Management Committee (“PCTMC”) engaged Grant Thornton (“us”, “we”, or “Firm”) to review proposed annual incentive plan metrics for 2020-21.

In 2016-2017, the PCTMC worked with Grant Thornton to update its total compensation philosophy, and implement a new annual incentive plan, with shared organizational metrics that aligned awards for all positions to the following performance measures:

- Fund Performance
- Enterprise Operational Effectiveness
- Investment Office CEM
- Customer Service
- Stakeholder Engagement

CalPERS has continued to use these metrics consistently, with updated performance goals for these metrics contemplated annually. In 2018-19 and 2019-2020, the Committee increased the challenge of the Stakeholder Engagement metric to align with increasing expectations and performance. In 2019-20, CalPERS moved to measuring Fund Performance entirely based on total fund performance (as opposed to asset class or individual performance) to align the entire team on the same metric and further emphasize teamwork, and also modified the Enterprise Operational Effectiveness to exclude third-party administer costs and Board costs to focus management specifically on the costs within their control.

In 2016-17, Grant Thornton also made recommendations for an updated salary structure and a long-term incentive plan to assist with establishing pay opportunities at median total cash compensation levels of peers. CalPERS adopted the salary structure and implemented the long-term incentive plan in 2019-2020 to reward

for absolute total fund performance over a five year period. The long-term incentive plan was implemented for all annual incentive plan participants in the investment office, other than the CIO.

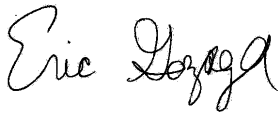
Assessment

Grant Thornton has reviewed the proposed annual incentive plan metrics for 2020-21, and believes that the metrics continue to be consistent with the intent of the plan at its inception. The plan metrics remain consistent with 2019-20, measure appropriate dimensions of CalPERS mission and strategy, and continues to encourage teamwork by tying all of management to a consistent set of metrics.

Going forward, particularly in light of the current economic and pandemic environment, CalPERS should continue to monitor the degree of challenge for the various annual incentive plan metrics, as well as to consider expanding participation in the long-term incentive plan to include the CIO, and potentially the non-investment office executives.

If you have any questions or require additional information, please feel free to contact us at (612) 677-5336.

Sincerely,

A handwritten signature in black ink that reads "Eric Gonzaga". The signature is written in a cursive, flowing style.

Eric Gonzaga
Principal
National Compensation Consulting Leader



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200 South Sixth Street, Suite 1400
Minneapolis, MN 55402-1434

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CAVEATS

This memorandum address certain U.S. Federal income tax issues only and does not address state, local or other foreign tax issues. Our discussion is based on the Internal Revenue Code of 1986, as amended, the Treasury Regulations promulgated thereunder, and other relevant authorities. These authorities are all subject to change, and such change could have retroactive effect. Any such changes could thus have effect on the validity of our conclusions. Unless specifically requested, we will not update this Memorandum for subsequent changes or modifications to these authorities. Further, this memorandum is based on interpretation of these authorities; another knowledgeable party (such as the IRS or court hearing the same facts) might reach different conclusions.

The advice expressed in the Memorandum is not an opinion as to the tax consequences of the transaction. We would need to perform a more thorough review and analysis before we could render an opinion. Our conclusions are limited to the issues addressed in this Memorandum, and are based on facts, assumptions, documents and representations we have received from you, and on any assumptions stated herein. We have neither independently investigated nor verified these facts, representations or assumptions, although we have considered their reasonableness. If any of the facts, representations or assumptions reflected in the Memorandum are not accurate, our conclusions are not applicable.

DISCLOSURE PURSUANT TO IRS CIRCULAR 230

The information contained in this document is not a tax opinion. This document was not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding penalties that may be imposed on any taxpayer.