



# Performance, Compensation & Talent Management Committee

## Agenda Item 7b

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**September 16, 2020**

**Item Name:** Board's Primary Executive and Investment Compensation Consultant Request for Proposal: Finalist Approval

**Program:** Administration

**Item Type:** Action

### **Recommendation**

1. Approve the finalist selected by the Subcommittee of the Performance, Compensation, and Talent Management Committee (Subcommittee) as the Board's Primary Executive and Investment Compensation Consultant.
2. Approve CalPERS to enter contract negotiations with the approved finalist; and if those negotiations are unsuccessful, approve CalPERS to enter contract negotiations with the next highest scoring finalist.

### **Executive Summary**

This item is for the Subcommittee of the Performance, Compensation, and Talent Management (PCTM) Committee to present the single, highest scoring finalist for the Board's Primary Executive and Investment Compensation Consultant (Board's Primary Compensation Consultant) for final approval by the PCTM Committee. Upon PCTM approval, CalPERS will enter contract negotiations with the approved finalist. If contract negotiations are unsuccessful with the approved finalist, this item also seeks approval to enter contract negotiations with the second highest scoring finalist, as allowable per the related Request for Proposal 2019-8776 (RFP).

### **Strategic Plan**

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

### **Background**

In September 2019 and November 2019, the PCTM Committee approved the release of an RFP and the process to select the Board's Primary Compensation Consultant. The RFP was released on March 17, 2020, and all seven proposals received by the May 5, 2020 final filing

date were deemed to have met the minimum qualifications and other requirements prescribed by the RFP. On July 31, 2020, under observation of the two assigned Subcommittee members, the CalPERS Internal Evaluation Team determined a consensus technical score for each proposal, which the Subcommittee adopted on August 5, 2020 as final technical scores.

At the August 5, 2020 meeting, fee scores were calculated and combined with the adopted technical scores; then the Subcommittee set a 570-point threshold to determine the highest scoring proposers who would proceed to the interview phase:

<b>No.</b>	<b>Proposer</b>	<b>Technical Score (consensus score; 200 points maximum)</b>	<b>Fee Score (based on formula prescribed in RFP; 600 points maximum)</b>	<b>Total Combined Score</b>
1.	Grant Thornton Public Sector LLC	167	518.75	685.75
2.	Domain Experts Corporation	71	600	671
3.	Mercer (US)	162	457.72	619.72
4.	Gallagher	96	498	594
5.	Global Governance Advisors LLC	188	383.08	571.08

The Subcommittee conducted interviews with the above-noted finalists at a meeting on August 14, 2020 and adopted an interview score for each one. The interview score, combined technical and fee score, and applicable preference and/or incentive points as prescribed by the RFP comprise the total final score for each finalist, listed highest to lowest as follows:

<b>No.</b>	<b>Proposer</b>	<b>Combined Technical and Fee Score</b>	<b>Interview Score</b>	<b>Preference and/or Incentive Points</b>	<b>Total Final Score</b>
1.	Global Governance Advisors LLC	571.08	1,050	60	1,681.08
2.	Mercer (US)	619.72	925	60	1,604.72
3.	Grant Thornton Public Sector LLC	685.75	900	0	1,585.75
4.	Domain Experts Corporation	671	750	81.05	1,502.05
5.	Gallagher	594	850	0	1,444

### **Analysis**

At today's meeting, the Subcommittee is presenting the highest scoring proposer from the table above, Global Governance Advisors LLC (GGA), for approval by the Committee as the Board's Primary Compensation Consultant.

Upon the Committee's approval, CalPERS will enter contract negotiations with GGA. If contract negotiations are unsuccessful, negotiations may be initiated with the second highest scoring finalist, Mercer (US).

## **Budget and Fiscal Impacts**

The budget and fiscal impact are not yet determined and will be based on the final hourly rates for services being provided, as agreed upon during contract negotiations. In their response to the RFP, GGA proposed a maximum hourly rate of \$650.

## **Benefits and Risks**

A well-managed compensation program aligned with best practices is critical for the recruitment and retention of highly qualified executives and investment professionals. Engaging with a primary compensation consultant provides access to the necessary expertise for the Committee and Board to make fully informed and value add compensation decisions. This will ensure and maintain a compensation program which meets the needs of the system and is based on sound principles and practices.

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

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Chief Operating Officer