



Performance, Compensation & Talent Management Committee

Agenda Item 6a

November 18, 2020

Item Name: Incentive Compensation Recommendations for the Chief Investment Officer Position

Program: Administration

Item Type: Action

Recommendation

Approve or provide direction on the addition of the Long-Term Incentive Program for the Chief Investment Officer position compensation package.

Executive Summary

This item is for the Board's Primary Compensation Consultant, Grant Thornton, LLC (Consultant) to present a recommendation to add a long-term incentive component to the total compensation package for the Chief Investment Officer position, effective for fiscal year 2020-21. In September 2019, the Board adopted a Long-Term Incentive Program (LTIP) for all other investment management positions within the Investment Office, which became effective for fiscal year 2019-20. In November 2019, the Board adopted the LTIP for the Chief Executive Officer position, effective beginning fiscal year 2020-21.

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 June of 2018, the Consultant presented comparator group compensation data for the CIO position and a recommendation for revised base pay and incentive ranges. To offer a compensation package aimed at targeting highly qualified candidates to fill the position, the Board adopted a revised base pay range at the 75% percentile of the comparator group. The Board also adopted a revised incentive range to align the total cash opportunity for the CIO position between the 50th and 75th percentile of the comparator group.

In December 2018, the Consultant led a discussion, and the Performance, Compensation, and Talent Management Committee (Committee) agreed on a pay philosophy for all other investment management positions. In February 2019, the Consultant presented comparator group market data related to total compensation for the same positions, and the Committee approved new base pay and incentive ranges aligned with the pay philosophy and market data. The recommendation included a long-term incentive component. In June and September 2019, the Consultant presented details on and recommended the LTIP for all investment management positions within the Investment Office, which the Board adopted, effective fiscal year 2019-20.

In November 2019, the Board approved the Consultant's recommendation to add the LTIP to a revised compensation package for the Chief Executive Officer position. At that time, as well as in prior meetings, the Consultant recommended the CIO position compensation be reviewed for the addition of the LTIP component, as well.

In August 2020, the CIO position became vacant. A recruitment is now underway to fill that position, making it an opportune time for the Board to consider the addition of the LTIP to the total compensation package for the position.

Analysis

At today's meeting, the CalPERS team will review the Overview of the Board's Compensation Decisions (Attachment 1). The consultant will then present their recommendation (Attachment 2) to add LTIP to the compensation structure for the CIO position. The recommendation maintains the base pay range previously approved by the Board, adjusts the annual incentive range, and adds the LTIP component. Attachment 2 outlines earning opportunities in comparison to market.

Budget and Fiscal Impacts

If the Board approves the Consultant's recommendation to maintain the current salary range, reduce the annual incentive range, and add the LTIP to the compensation structure for the CIO position, CalPERS may realize a marginal reduction in annual incentive payouts until after the first five-year rolling LTIP cycle for the CIO is completed in which board-approved absolute fund performance thresholds are met or exceeded. At that time, an LTIP payout would result in an associated increase in total incentive costs for this position. Anticipated future costs will be accounted for during budget planning for future fiscal years. LTIP payout will only occur when fund performance meets or exceeds the board-approved thresholds for absolute returns.

Benefits and Risks

Approving the addition of the LTIP to the compensation package for the CIO position will align the compensation structure with all other investment management positions within the Investment Office, as well as with the Chief Executive Officer position. Alignment across these positions helps fulfill the "one team," "one fund" approach, which supports the long-term sustainability of the fund.

Attachments

Attachment 1 – Overview of the Board's Compensation Decisions

Attachment 2 – Consultant's Recommendation

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