

INCENTIVE PLAN | Fiscal Year 2020-21

Name: Marcie Frost

Position: Chief Executive Officer

SUMMARY OF PROPOSED INCENTIVE PLAN MEASURES AND WEIGHTS

Plan Weight	Measure
25%	Organizational Leadership Priorities
15%	Total Fund Performance
20%	Enterprise Operational Effectiveness
10%	Investment Office CEM
15%	Customer Service
15%	Stakeholder Engagement

KEY BUSINESS OBJECTIVES

Organizational Leadership Priorities (25% plan weight)

Through June 30, 2021, provide organizational leadership in support of the following priorities:

- Board Support
- Open and Transparent Communication / Building Relationships
- Efficient and Effective Organization
- Supportive and Engaged Leadership
- Customer Satisfaction Driven Organization
- Team Member Engagement

Scoring Information: A single rating will be given for the above Organizational Leadership Priorities measure, based on the following table (intermediate points are interpolated):

Score	Rating
Far Exceeds High Expectations	1.50 (150%)
Meets High Expectations	1.0 (100%)
Does Not Meet High Expectations	0 (0%)

Mid-Year Update: Organizational Leadership Priorities
<p>Board Support</p> <ul style="list-style-type: none"> - Continued to refine the Insights Project to better align committee and board meeting agenda items with an emphasis on content management for ease of searching for past agenda items and content. - The team continues to assist board members with virtual meetings, stakeholder and investor conferences in preparing talking points and speeches.

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- Implemented the changes from the Board's self-assessment work and the associated work streams.

Open and Transparent Communication / Building Relationships

- Outlined CalPERS priorities and challenges facing the system before labor, employer organizations as well as regional and statewide economic development and business associations. Delivered positive proactive messaging on Squawk Box, in Pensions & Investments and Pew Trusts Podcast.
- Successfully implemented our first ever virtual Education Forum with nearly 2,000 attendees.
- Successfully held second annual Stakeholder Forum receiving high marks from Board members and stakeholders on depth of content.
- Re-launched virtual Employer Dialogues and centralized Employer Data Requests to ensure integrity of data and transparency.
- Developed centralized Asset Liability Management content on CalPERS website for employers.
- Scheduled quarterly stakeholder meetings throughout 2021 for ALM updates.

Efficient and Effective Organization

- Revised the budget post pandemic resulting in a \$72.3 million reduction to the 2020-2021 budget previously approved by the Board.
- Continuing to expand the use of position pooling within the enterprise, aligning resources to the greatest need as well as to achieve the 5% statewide reduction.
- Pension prefunding trust was expanded to 26 employers and \$23 million assets under management. The member electronic payment process was also enhanced allowing for payments to be made through online member self-service.
- Continuing to integrate Lean principals into the culture of how we perform our work with lean projects spanning multiple business areas to find opportunities to reduce complexity, improve processes, and enhance service to members. Launched a Green Belt pilot program with 18 participants focusing on process improvement.

Supportive and Engaged Leadership

- Continuing daily huddles with the executive team to ensure cross communication and focus on organizational priorities. The pandemic had a significant impact on the organization. A COVID-19 response team was established, consisting of the Executives as well as the Chief of Operational Support Services, Chief of Human Resources, and the Chief Medical Officer. Meeting every day, we were able to quickly put into action our business continuity plan which enabled us to move 85 percent of the workforce to telework and allow us to have the remaining team members work in a socially distanced way for the programs not conducive to telework.

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- Initiated the Chief Investment Officer recruitment utilizing a global search firm to source and assess a diverse group of candidates. Worked with the Board President to establish two interview panels comprised of board members and senior team members and initiated the interview process.
- Continuing the leadership book club with the executive team as part of our ongoing leadership education.
- Kicked-off the fourth cohort of the Emerging Leader Program.

Customer Satisfaction Driven Organization

- Maintained exceptional customer service delivery, with key performance indicators meeting and mostly exceeding targets.
- Enhanced the Pension Outlook tool this year which added over 3,000 pooled plans allowing every public agency the ability to use the tool for projections of their pension plan.
- Transitioned all in person training to all virtual events, achieved record attendance and received extraordinary customer satisfaction ratings.
- Restructured Contact Center resources to address workload increases utilizing position pool to relocate positions to customer facing programs.

Team Member Engagement

- COVID necessitated more routine communication across the organization about the latest health and safety guidance, impacts to the organization, our return to office plan, the emergency telework policy. This was done through daily email updates and then a weekly live webchat was added to provide direct communication to the team members and allowing them to ask questions during the live broadcast. The webchat has now transitioned to a twice a month live format based on input from the team members.
- Launched COVID-19 Response Survey to gain insights on how team members feel CalPERS is responding to the COVID-19 pandemic. The results were very positive – with the majority of respondents “Strongly Agreed” or “Agreed” with the statements in the survey, most notably that they feel CalPERS is supporting customers during the pandemic. All responses rated more favorably than Perceptyx benchmark which included responses from over 550,000 people across 89 organizations.
- Conducted the fourth Enterprise Engagement Survey, with an 80 percent team member participation rate, which was a 1 percent increase from 2018 and 10 percent increase from 2017. Employee engagement was 85.7 percent which exceeds the third-party benchmark by almost four percent. Our employee experience or net promoter score was 43, which exceeds last years score by 9 points and the benchmark by 30.9 points. Our top three strengths include: **Clarity of Direction:** Team members have a clear understanding of our organizational goals and objectives, and they know what is expected of them. They also feel the senior leadership team keeps them informed of CalPERS matters. **Pride in Organization/Engagement:** Team members are proud to say they work for CalPERS. They have a sense of personal

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accomplishment from their work and plan to remain at CalPERS for at least the next 12 months.

Manager Relationships: Team member and team leader relationships are very positive. Team members feel their team leader keeps commitments, cares about them as a person, and are comfortable discussing concerns with them.

- This year we also asked optional questions related to ethnicity, gender identity and sexual orientation to ensure we recognize the needs of each individual in our diverse workforce.
- Action plans are being developed to focus on areas of opportunity related to:
Employee Empowerment: Team members want to feel more involved in decision making processes that affect their work. **Growth and development:** team members feel their team leader supports both their skill and career development, and they would like to additional career opportunities at CalPERS. **Teamwork and collaboration:** team members believe their teams work well together and want to see more communication between divisions
- Continue to host monthly “Midday with Marcie” CEO lunches with team members across the organization

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INCENTIVE METRICS

Total Fund Performance (15% plan weight)

The Total Fund Performance Metric is measured based on fund performance against the policy benchmark for the five-year period of July 1, 2016, through June 30, 2021. Payout ratio for intermediate results will be determined by interpolation.

Variance (bps) from Benchmark	Payout Ratio
+35	1.50 (150%)
+30	1.41 (141.7%)
+20	1.25 (125%)
+5	1.00 (100%)
0	0.76 (76.3%)
-15	0.05 (5%)
< -15	0.00 (0%)

Enterprise Operational Effectiveness (20% plan weight)

The Enterprise Operational Effectiveness Metric for 2020-21 is defined as Overhead Operating Costs as a percentage of Total Operating Costs ("OOC").

- Total Overhead Operating Costs ("OOC") identify all administrative costs not mapped directly to Product and Service Delivery Operating Costs ("PSDOC"); excludes Board and Third-Party Administrator Costs
- $OOC = OOC / (OOC + PSDOC)$

Score	Payout Ratio
< -1.1%	1.50 (150%)
-1.1% to < -0.6%	1.25 (125%)
-0.6% to 0.0%	1.00 (100%)
> 0.0% to 1.0%	0.75 (75%)
> 1.0% to 1.5%	0.50 (50%)
> 1.5%	0.00 (0%)

Investment Office CEM (10% plan weight)

The 2020-21 annual participation in the CEM benchmarking survey analyzes CalPERS' investment costs and return performance over a five-year period against a customized peer group.

Score	Payout Ratio
Outperforms US Benchmark on Net Value Added (Returns) and Cost by 0.2% and 5 bps, respectively	1.50 (150%)
Outperforms US Benchmark on Returns and Cost by .001% and 1 bps, respectively	1.00 (100%)
Outperforms US Benchmark on Cost or Outperforms US Benchmark on Returns	0.50 (50%)
Underperforms US Benchmark on Returns and Cost	0.00 (0%)

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Customer Service (15% plan weight)

The Customer Service Metric for 2020-21 is based on the following two Service Dimensions:

- Benefit Payment Timeliness: Percentage of benefit payments issued to our customers within established service levels
- Customer Satisfaction: Customer satisfaction with CalPERS services as measured by surveys and other methods

Score	Payout Ratio
≥ 95%	1.50 (150%)
94% to < 95%	1.25 (125%)
92% to < 94%	1.00 (100%)
90% to < 92%	0.75 (75%)
88% to < 90%	0.50 (50%)
< 88%	0.00 (0%)

Stakeholder Engagement (15% plan weight)

The Stakeholder Engagement Metric for 2020-21 is based on results of the following three Stakeholder Engagement Survey questions:

- Is CalPERS sensitive to the needs of Stakeholders?
- Does CalPERS do a good job of keeping its stakeholders informed?
- On a scale of one to ten, how would you rate CalPERS being effective in engaging and communicating with stakeholders?

Score	Payout Ratio
> 83%	1.50 (150%)
> 81% to 83%	1.25 (125%)
> 79% to 81%	1.00 (100%)
> 77% to 79%	0.75 (75%)
> 75% to 77%	0.50 (50%)
≤ 75%	0.00 (0%)