

MEETING  
STATE OF CALIFORNIA  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
BOARD OF ADMINISTRATION  
PERFORMANCE, COMPENSATION &  
TALENT MANAGEMENT COMMITTEE

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
FECKNER AUDITORIUM  
LINCOLN PLAZA NORTH  
400 P STREET  
SACRAMENTO, CALIFORNIA

THURSDAY, JUNE 22, 2023

9:00 A.M.

JAMES F. PETERS, CSR  
CERTIFIED SHORTHAND REPORTER  
LICENSE NUMBER 10063

APPEARANCES

COMMITTEE MEMBERS:

Jose Luis Pacheco, Chairperson

Mullissa Willette, Vice Chairperson

Lisa Middleton

Eraina Ortega

Kevin Palkki

Theresa Taylor

Yvonne Walker

BOARD MEMBERS:

David Miller, Vice President

Malia Cohen, represented by Lynn Paquin

Fiona Ma, represented by Frank Ruffino

Ramón Rubalcava

Gail Willis, PhD

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Matthew Jacobs, General Counsel

Michelle Tucker, Chief, Human Resources Division

APPEARANCES CONTINUED

ALSO PRESENT:

Brad Kelly, Global Governance Advisors

Peter Landers, Global Governance Advisors

INDEX

	<u>PAGE</u>
1. Call to Order and Roll Call	1
2. Executive Report - Doug Hoffner	1
3. Action Consent Items - Doug Hoffner	2
a. Approval of the June 22, 2023, Performance, Compensation & Talent Management Committee Timed Agenda	
b. Approval of the April 17, 2023, Performance, Compensation & Talent Management Committee Meeting Minutes	
4. Information Consent Items - Doug Hoffner	3
a. Annual Calendar Review	
b. Draft Agenda for the September 19, 2023, Performance, Compensation & Talent Management Committee Meeting	
c. Revisions to Implement Previous Board Direction: Compensation Policy for Executive and Investment Management Positions	
5. Action Agenda Items	
a. Annual Review: 2023-24 Incentive Metrics - Michelle Tucker; Global Governance Advisors	3
b. 2023-24 Incentive Plan of the Chief Executive Officer - Michelle Tucker; Global Governance Advisors	10
c. Revisions to the Board's Compensation Policy for Executive and Investment Management Positions - Michelle Tucker; Global Governance Advisors	12
6. Summary of Committee Direction - Doug Hoffner	30
7. Public Comment	31
8. Adjournment of Meeting	31
Reporter's Certificate	32

PROCEEDINGS

1  
2 CHAIRPERSON PACHECO: Good morning. I would like  
3 to call the Performance, Compensation and Talent  
4 Management Committee to order. The first order of  
5 business in open session would be to call the roll call,  
6 please.

7 BOARD CLERK TRAN: Jose Luis Pacheco?

8 CHAIRPERSON PACHECO: Present and good morning.

9 BOARD CLERK TRAN: Mullissa Willette?

10 VICE CHAIRPERSON WILLETTE: Here.

11 BOARD CLERK TRAN: Lisa Middleton?

12 COMMITTEE MEMBER MIDDLETON: Present.

13 BOARD CLERK TRAN: Eraina Ortega?

14 COMMITTEE MEMBER ORTEGA: Here.

15 BOARD CLERK TRAN: Kevin Palkki?

16 COMMITTEE MEMBER PALKKI: Good morning.

17 BOARD CLERK TRAN: Theresa Taylor?

18 COMMITTEE MEMBER TAYLOR: Here.

19 BOARD CLERK TRAN: Yvonne Walker?

20 COMMITTEE MEMBER WALKER: Here.

21 CHAIRPERSON PACHECO: And thank you.

22 I'd like to now move to Item number 2, the  
23 executive report. Mr. Hoffner, please.

24 CHIEF OPERATING OFFICER HOFFNER: Thank you, Mr.  
25 Chair. Doug Hoffner, CalPERS team member.

1           Today we have four items before you and the  
2 Committee. Your primary consultant for compensation,  
3 Global Governance Advisors, is both here and on the phone  
4 to present those items following up from the April Board  
5 meeting. The first is an information consent item to  
6 present the Committee with an updated policy document  
7 incorporating the compensation decisions approved in April  
8 of 2023, which includes the salary incentive ranges  
9 reflected that will become in effect July 1, 2023 per  
10 Committee direction.

11           The other three action items, which include the  
12 annual incentive metrics review, which is done every year,  
13 and then the item related to the 23-24 incentive plan for  
14 the CEO. And the final item is recommendations from  
15 Global Governance Advisors from their review of the  
16 Board's Compensation Policy for executive investment  
17 management positions and some recommendations for changes  
18 there.

19           That concludes my report. Happy to answer  
20 questions.

21           CHAIRPERSON PACHECO: Are there any questions  
22 from the Committee?

23           I see none. Thank you, Mr. Hoffner. I'd like to  
24 move on to Item number 3 action consent item. What is the  
25 pleasure of the Committee?

1 COMMITTEE MEMBER TAYLOR: So moved.

2 VICE CHAIRPERSON WILLETTE: Second.

3 CHAIRPERSON PACHECO: Oh, yeah. Ms. Taylor moves  
4 and Ms. Willette seconds.

5 Is there any discussion on this -- on this item?

6 I see none.

7 All in favor say aye?

8 (Ayes.)

9 CHAIRPERSON PACHECO: Any opposition?

10 Any abstention?

11 The motion carries.

12 The next item is the information consent items,  
13 Item number 4. I have not -- did not hear any requests to  
14 pull, so now, we will move on to Action Item number 5a.  
15 Thank you. And, Ms. Tucker, please.

16 HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank  
17 you, Mr. Pacheco. Thank you, members of the Committee.  
18 Michelle Tucker, CalPERS team member.

19 Item 5a is an action item. To comply with the  
20 Board's policy, incentive metrics are reviewed annually by  
21 the Committee and the Board's primary compensation  
22 consultant, Global Governance Advisors. Based on GGA's  
23 review of the existing metrics and input from the  
24 Committee at the April 2023 meeting, GGA will present  
25 their recommendations for the incentive metrics for fiscal

1 year 23-24 incentive plan inclusion.

2 Final Board-approved metrics will be included in  
3 some combination on fiscal year 23-24 incentive plans for  
4 eligible executive and investment management positions,  
5 including the CEO's incentive plan, which will be  
6 presented in Item 5b today.

7 That concludes my opening remarks and I'll invite  
8 Mr. Landers and Mr. Kelly to begin their presentation.

9 MR. KELLY: Thank yo. Thank you, Ms. Tucker.

10 As Mr. Tucker has pointed out, this is a regular  
11 procedural item that we work with your Committee to  
12 produce. This year, yet again, we like the five existing  
13 metrics that you've typically used within your incentive  
14 plan, one being fund performance, the other being  
15 enterprise operational effectiveness. The Investment  
16 Office CEM is benchmarking objective, as well as customer  
17 service and stakeholder engagement.

18 If you recall a number of years ago, we actually  
19 did historic benchmarking hurdle, assessment looking at  
20 the probability around these. We suggested some minor  
21 adjustments. We're still comfortable with the adjustment  
22 as is. The only caveat here is around stakeholder  
23 engagement. And this was flagged to us earlier in the  
24 year with regard to participation rates.

25 First and foremost, the concern was around

1 specific constituencies or stakeholder groups that were  
2 underrepresented or not participating at the same level or  
3 rate as others, which meant that a lot of the results  
4 could be overweighted by the views and opinions of  
5 specific stakeholders within the survey.

6 But then we also found out that just the overall  
7 participation has been dropping over time and the risk is  
8 that if participation continues to decrease, you could be  
9 using this objective and the data associated with it and  
10 determining correlated incentive payouts on faulty data  
11 for things that aren't actually what's happening within  
12 the stakeholder community. And so what we have proposed  
13 to do is work with your survey and engagement team to look  
14 at establishing a proper procedure in place -- putting a  
15 procedure in place that will help to mitigate this risk.

16 Our understanding is that you haven't dropped  
17 below that five percent threshold that we're proposing,  
18 but we want to make sure that if that was ever to happen,  
19 you have something in the policy that allows you to  
20 properly move forward and act accordingly.

21 So with that caveat, we're happy with the current  
22 benchmarks and the objectives that are in place. And so  
23 we would support those five key benchmarks being included  
24 in the upcoming incentive plan for the upcoming fiscal  
25 year.

1 Any questions?

2 CHAIRPERSON PACHECO: Yes. So thank you very  
3 much, Mr. Kelly. I really do appreciate this analysis and  
4 so forth. And I do have one question. Well, first of  
5 all, I'd like to see if anyone in my -- the dais -- anyone  
6 on the Committee would like to have a question, first.

7 There's no questions, so I'd like to ask about  
8 the survey. Now, this survey is done -- is it done  
9 some -- is it done in -- how is it done exactly? Is it  
10 analytical survey? Is it some sort of -- maybe if someone  
11 could elaborate the methodology.

12 CHIEF OPERATING OFFICER HOFFNER: Yeah. So it's  
13 a point-in-time survey we do sort of in the February time  
14 frame every -- this is done every year. There's a series  
15 of questions that are asked and a subset of those  
16 questions are then made up into -- there's three specific  
17 questions that roll up into this metric for an incentive  
18 opportunity and I'm happy to read them.

19 Is CalPERS sensitive to the needs of  
20 stakeholders?

21 CHAIRPERSON PACHECO: Um-hmm.

22 CHIEF OPERATING OFFICER HOFFNER: Does CalPERS do  
23 a good job of keeping the stakeholders informed? And on a  
24 scale of 1 to 10, how would you rate CalPERS being  
25 effective in engaging and communicating with stakeholders?

1           So there's a broader set of questions. You're  
2 going to hear the stakeholder review session in the July  
3 off-site. But this is the data that rolls into that for  
4 this one metric and measure. The really -- the point of  
5 this is that we want to make sure we have statistically  
6 valid data, which we have, and we do again this year. I  
7 think the point that the consultants are making, should it  
8 drop below that five percent when we do the random  
9 sampling of the surveys that go out to the membership at  
10 the broadest sense, that if it was to drop below that, we  
11 would want to make sure that we spread this opportunity  
12 across the other metrics. And that's something that's  
13 sort of proactive thinking from that perspective.

14           CHAIRPERSON PACHECO: And this -- and it goes out  
15 randomly to all 2.1 million, is that correct?

16           CHIEF OPERATING OFFICER HOFFNER: Not to all 2.1  
17 million, but a very large subset of that. It's a random  
18 sampling to get statistical validity in terms of --

19           CHAIRPERSON PACHECO: Oh, I see.

20           CHIEF OPERATING OFFICER HOFFNER: -- how we  
21 measure. I've done it on an annual basis. Again, this is  
22 point in time, and you may be getting responses from  
23 individual members that have had no business with us, not  
24 engaged with us.

25           CHAIRPERSON PACHECO: Um-hmm.

1 CHIEF OPERATING OFFICER HOFFNER: They could, you  
2 know, so -- versus the other surveys that we do  
3 post-engagement with individuals on the retirement,  
4 setting up accounts, those kinds of things, which are then  
5 getting a very response, typically in the 90 percent  
6 positive rating. That's based upon their engagement and  
7 experience with us. So one is a subset of a point in time  
8 and one is on an ongoing active engagement with us.

9 CHAIRPERSON PACHECO: And as I mentioned -- as  
10 you mentioned, this is -- this trend of fewer and fewer  
11 responses over time. Is this survey only done in English  
12 or is it done in Spanish or other languages? I'm just  
13 curious.

14 CHIEF OPERATING OFFICER HOFFNER: Let me -- let  
15 me inquire about that.

16 CHAIRPERSON PACHECO: Thank you.

17 CHIEF OPERATING OFFICER HOFFNER: We'll get back  
18 to you. I'm not sure specifically on that if it's  
19 multiple languages. But it is point in time. Every --  
20 you know, sort of that February time from each year in  
21 terms of response rates. As we mentioned before, they  
22 have continued to decline over time, right?

23 CHAIRPERSON PACHECO: Um-hmm.

24 CHIEF OPERATING OFFICER HOFFNER: But they --  
25 they're statistically valid. I think the general question

1 is can we learn more about why that may be occurring?  
2 We're doing some additional outreach and stakeholding on  
3 that. So that's a part of the discussion in the off-site.

4 But again, with many things, are people being  
5 overwhelmed? Are they -- you know, why is it they aren't  
6 engaged? And I think that's a tough nut to crack in terms  
7 of we're seeing it in a couple other areas as well, and I  
8 don't think it's really just applicable to CalPERS,  
9 frankly. I think it has to do with probably a broader  
10 socio and demographic type of issues potentially.

11 CHAIRPERSON PACHECO: Thank you, Mr. Hoffner.

12 I appreciate that. Are there any question from  
13 the Committee?

14 I see none, so I would like to consider -- I  
15 would like to entertain motion to move 5a.

16 COMMITTEE MEMBER TAYLOR: I make the motion.

17 CHAIRPERSON PACHECO: Ms. Taylor makes the  
18 motion.

19 Is there a second?

20 COMMITTEE MEMBER PALKKI: (Hand).

21 CHAIRPERSON PACHECO: Mr. Palkki seconds it.

22 Any discussion?

23 I see no discussion.

24 All those in favor say aye?

25 (Ayes.)

1 CHAIRPERSON PACHECO: All those in opposition?

2 I see none.

3 Any abstention?

4 None. Motion carries.

5 I'd like to go now to number 5b.

6 CHIEF OPERATING OFFICER HOFFNER: Let me --

7 before we get there, I just was told that it is only in  
8 English. So I -- the team was very quick to respond to  
9 that.

10 CHAIRPERSON PACHECO: So very good then. So I  
11 would like to have some committee direction on exploring  
12 that, if that's -- even if that's a possibility to perhaps  
13 make it in the -- in the other various languages. Perhaps  
14 that may help increase the participation rate, especially  
15 it's a random sample. We don't know who they are. So  
16 thank you.

17 I'd like to move on to 5b please.

18 HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank  
19 you. Michelle Tucker, CalPERS team member.

20 Item 5b is presented annually as part of the  
21 regular incentive plan cycle required under the Board's  
22 Compensation Policy for executive and investment  
23 management positions. Recommendations for the Chief  
24 Executive Officer's fiscal year 23-24 incentive plan will  
25 be presented by the Board's compensation consultant,

1 Global Governance Advisors, and has been provided in  
2 Attachment 1 to the item.

3 Based on the Committee's earlier discussion and  
4 action on the Agenda Item 5a, the annual review of  
5 incentive metrics, the CEO's an annual plan for fiscal  
6 year 23-24 will be updated to reflect the approved  
7 incentive metrics and scoring thresholds.

8 And I'll not turn it over to GGA for their  
9 presentation.

10 MR. KELLY: Thank you, Ms. Tucker.

11 Again, this is an annual procedural item.  
12 We've -- we again support the structure as is, with the  
13 caveat that Ms. Frost, her incentive plan, has an  
14 additional 25 percent weighting on her organizational  
15 leadership priorities as CEO of CalPERS, and the remaining  
16 75 percent is weighted against the five key objectives  
17 that we had just discussed.

18 We began with the -- with the adjustment of the  
19 performance hurdles. We are comfortable with this. We  
20 think the weighting is sound. And again, we would support  
21 the plan as is going forward in the upcoming fiscal year.

22 CHAIRPERSON PACHECO: Thank you, Mr. Kelly.

23 Is there any discussion on the Committee?

24 Again, I -- again, I like -- I appreciate this --  
25 and similarly I believe this is a similar process with

1 respect to the survey. It's randomly -- for that part?

2 I'm just curious.

3 MR. KELLY: For -- which part, the survey?

4 CHAIRPERSON PACHECO: Sorry, for the -- I'm  
5 getting confused with the other. Sorry.

6 MR. KELLY: Okay.

7 CHAIRPERSON PACHECO: I apologize. No, this  
8 is -- this is fine. So I'd like to entertain a motion  
9 to -- for 5b.

10 VICE CHAIRPERSON WILLETTE: I'll move.

11 COMMITTEE MEMBER TAYLOR: Second.

12 CHAIRPERSON PACHECO: Ms. Willette first --  
13 motions the 5b item, Ms. Taylor seconds it.

14 Is there any discussion in the motion?

15 None.

16 I'd like to -- all those in favor say aye?

17 (Ayes.)

18 CHAIRPERSON PACHECO: Any opposition?

19 Any abstentions?

20 Motion carries.

21 Now, we -- let's go to 5c. Ms. Tucker again.

22 HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank  
23 you, Mr. Pacheco.

24 Item 5c presents recommendations from the Board's  
25 primary compensation consultant, GGA, on proposed

1 revisions to the Board's Compensation Policy for executive  
2 and investment management positions.

3           Periodic review allows for revisions to ensure  
4 policy provisions remain aligned with CalPERS strategic  
5 goals and Board priorities. GGA conducted an in-depth  
6 review of the policy and gathered input from Board  
7 members.

8           They will present their recommendations today as  
9 a follow-up to prior presentations at the June 2022  
10 meeting and the November 2022 workshop. Proposed changes  
11 are displayed in Attachment 1 with key topics for the  
12 Committee's consideration in red text. Other revisions  
13 are included, which are considered non-substantive or  
14 administrative in nature, for the purpose of adding  
15 clarity for program administration, participants, and  
16 stakeholders. These revisions are displayed throughout  
17 Attachment 1 in green text. A full tracked changes  
18 version is included in Attachment 2.

19           It should be noted that we identified an  
20 out-of-date date -- incorrect date after the materials  
21 were posted. We will update the introductory statement to  
22 the salary ranges shown on page nine to reflect an  
23 effective date of July 1st, 2023, not 2020.

24           The Committee may choose to adopt all or some of  
25 the revisions based on your discussion. And that

1 concludes my opening remarks and I'll invite Mr. Kelly to  
2 begin piss presentation.

3 (Thereupon a slide presentation).

4 MR. KELLY: Thank you, Ms. Tucker.

5 So as Ms. Tucker had -- has outlined, this is  
6 part of an ongoing review of the Compensation Policy. And  
7 so -- and it's also in response to the interviews that we  
8 conducted with all of you last fall, as well as some of  
9 the requests that were made in previous Committee  
10 meetings.

11 I'm sorry. Technical difficulties. My  
12 apologies. It wasn't plugged in. There we go.  
13 Excellent. Thank you very much, very much.

14 --o0o--

15 MR. KELLY: So we've been your advisor for a  
16 while now, so you can be assured that every opportunity we  
17 have to further inform and educate both your Board and  
18 stakeholders, we will take that opportunity. And so when  
19 you look at the policy itself, I think it's important to  
20 again review why you have this policy and what is its core  
21 function and purposes. So when you look at your role as  
22 fiduciaries of this Board -- on this Board, this policy  
23 serves a very important person -- very important purpose,  
24 and one is it's meant -- it's meant to align your mission,  
25 vision, and values with the strategic objectives and the

1 activities of your system. And once you get that  
2 alignment, it helps you to determine who you need and what  
3 you need in place to make this happen. And then -- so  
4 then it looks at the talent management, and performance  
5 management, and execution of your strategy and it's  
6 enabling policy that's in place.

7 --o0o--

8 MR. KELLY: So when we look at some of the  
9 revisions and recommendations that we're making here, one  
10 is that -- one thing that we recognize is that on an  
11 up-front -- up front in the policy, it didn't actually  
12 clearly articulate what the principles of your  
13 compensation structure and program are. And so we had  
14 conversations with all of you last fall. And this is the  
15 result of those con -- those conversations.

16 So you'll see on the first page of the policy or  
17 page three with -- the policy itself, we've recommended  
18 four key principles. One is that the program be both  
19 internally and externally fair and equitable. The other  
20 is to enhance the attraction and retention of highly  
21 skilled talent within your system, enable transparency for  
22 CalPERS Board, leadership, team members, and stakeholders.  
23 And finally, support a strong and performance-based work  
24 culture throughout your organization.

25 That again is the culmination of all the

1 conversations we had with everyone, and it's one of the  
2 key substantial -- substantive changes that we're  
3 recommending be implemented in the policy.

4 --o0o--

5 MR. KELLY: Any questions with regard to that  
6 specific recommendation?

7 CHAIRPERSON PACHECO: I see none. Continue.

8 MR. KELLY: Excellent. Excellent.

9 Next is discussions that we have had -- numerous  
10 discussions that we've had around the peer group and more  
11 clearly articulating what this peer group should be  
12 comprised of. Again, we like the two-thirds, one-third  
13 weighting for the investment positions, two-thirds being  
14 weighted against public pension funds of a specific size  
15 and scale, and the other remaining third being benchmarked  
16 against private sector organizations, again at a specific  
17 size and scale.

18 One thing that was missing in policy is the  
19 actual size and scale of the private sector organizations.  
20 And we feel that a one-third to one and a quarter times  
21 multiple is a fair range. When you benchmark, you always  
22 want to make sure that you have ample organizations that  
23 are below your size and scope, and above your size and  
24 scope. That way you can kind of calibrate where you are  
25 in that middle group.

1           You are one of the largest, if not the largest in  
2 the nation, so it's difficult, but on the private sector,  
3 there are a number of large scale organizations that you  
4 could include. And that's why we would recommend one and  
5 a quarter times. It wouldn't be -- it wouldn't be foreign  
6 to have one and a half times on the upper end, but we fell  
7 one and a quarter times is sufficient for benchmarking  
8 against CalPERS staff. Any questions with regard to that?

9           And then in terms of the executive --

10          CHAIRPERSON PACHECO: I have -- there is one  
11 question.

12          MR. KELLY: Oh, sorry. Yes.

13          CHAIRPERSON PACHECO: There is one question.  
14 Sorry, Mr. Kelly. Let me -- Ms. Taylor.

15          COMMITTEE MEMBER TAYLOR: Thank you. So the one  
16 and -- 33 percent to one and a half -- one and a quarter  
17 measurement against us for the private sector, what  
18 would -- what are you going -- what is the -- how do I say  
19 this? How much is the pay in comparison in the private  
20 sector versus the public sector that you're weighing this  
21 against?

22          MR. KELLY: You'll see those actual --

23          COMMITTEE MEMBER TAYLOR: Numbers?

24          MR. KELLY: -- numbers or those -- the breakout  
25 within the McLagan survey. They typically will show you

1 each of the peer group groups --

2 COMMITTEE MEMBER TAYLOR: Oh, that's right.  
3 Okay.

4 MR. KELLY: -- and then the aggregate. And so  
5 that -- you'll see the differential there, but you will  
6 notice that there is a considerable difference in the  
7 private sector versus the public sector, but a two-thirds,  
8 one-third weighting should help to correct that.

9 The whole issue here is that especially on the  
10 investment side and you're trying to build out your  
11 investment, your internal capability. And by doing so,  
12 you oftentimes are competing against the private sector  
13 for a lot of these professionals. And so therefore, it  
14 would be irresponsible to not include at least a portion  
15 of that benchmarking against the private sector to make  
16 sure that you understand what that sector is currently  
17 offering, so that you can be at least within that ballpark  
18 attract and retain the talent you want and need.

19 COMMITTEE MEMBER TAYLOR: We tend to be in the  
20 median range, correct?

21 MR. KELLY: Median against the entire group, not  
22 median against that -- the private sector.

23 COMMITTEE MEMBER TAYLOR: Right, which is really  
24 difficult for a public entity to meet.

25 MR. KELLY: Exactly.

1 MR. LANDERS: Exactly. Exactly. And the only  
2 thing I'll add to Brad's point is when you -- when you  
3 look at the data, you know, it's a -- it's sort of an  
4 evolution. You'll see that, you know, the -- generally,  
5 the public sector agencies will, you know, be on the lower  
6 end. For conservative range of pay, private sector will  
7 generally be on the higher end. And then your public  
8 pension fund will generally end up somewhere in between  
9 those two ranges. So that -- I just wanted to point that  
10 out.

11 And I think the other piece that I wanted to just  
12 mention is, you know, McLagan will provide you with that  
13 data. It's, you know, in the April documents you'll see  
14 are -- it might have been the February ones, you'll see  
15 that differential. But, you know, again, the wanting to  
16 sort of be at the median and a reasonable blend between  
17 public funds, agencies, and private sector, and, you know,  
18 this type of methodology would be quite aligned with what  
19 a lot of your peer pension funds are doing in the United  
20 States, where they have a certain weighting on public  
21 agencies, public pension funds, and then they -- usually a  
22 lower weighting on private sector, but still shall  
23 weighting on the private sector to reflect, as Mr. Kelly  
24 mentioned, some of those competitive market realities  
25 especially for the investment management staff.

1           COMMITTEE MEMBER TAYLOR: Okay. Alright, thank  
2 you. I'm sure we'll -- I'll have more questions as we  
3 move on. Thanks.

4           CHAIRPERSON PACHECO: I see no other questions.  
5 Continue, Mr. Kelly.

6           MR. KELLY: Excellent. And so one of the key  
7 differentials between benchmarking of the investment  
8 positions within your organization in contrast to just the  
9 executive management positions, we like the one-third,  
10 one-third. The inclusion of public agencies within that  
11 makeup. And so we like the one-third for public pensions,  
12 one-third for public sector agencies, and then one-third  
13 for private sector organizations as well.

14           Any questions with regard to management -- yes.

15           CHAIRPERSON PACHECO: Just a minute.

16           Ms. Ortega.

17           COMMITTEE MEMBER ORTEGA: Thank you. I do have a  
18 question. I'm not sure if this is the right place to ask  
19 it, but I'll ask it anyway, because it's related to the  
20 actual draft change in the policy on page eight on the  
21 public fund inclusion --

22           MR. KELLY: Um-hmm.

23           COMMITTEE MEMBER ORTEGA: -- and the reference to  
24 oversee a diversified portfolio of assets that include a  
25 sizable portion invested in alternatives. And just a

1 question about, is there any way to -- or should we be  
2 more specific about what a sizable portion means, mostly  
3 because the other two bullet points are very specific --

4 MR. KELLY: Um-hmm.

5 COMMITTEE MEMBER ORTEGA: -- so it just feels a  
6 little broad.

7 MR. KELLY: You're absolutely right, Ms. Ortega.  
8 Basically, the reason why we've kept it relatively vague  
9 there is because this is a growing phenomenon that you're  
10 seeing within the U.S. pension community. So for the  
11 longest time, pension were typically comprised of, you  
12 know, a 60/40 split, 60 percent equities, 40 percent fixed  
13 income. Now, with the inclusion of alternatives, such as  
14 real estate, private equity, infrastructure, that requires  
15 a whole additional level of difficulty and skill. And so  
16 therefore, this is something that is slowly but evolving.  
17 And so if we were to have an actual benchmark there, that  
18 would be changing. We would have to be updating it over  
19 time, because I think the overall proportion of a  
20 portfolio in alternatives is going to continue to move.

21 But what we'd like to see, because there's an  
22 added skill required, and it's going to be more difficult  
23 to attract or retain people with that skill level, we feel  
24 that at least making sure that whoever you're benchmarking  
25 against in the pension world has that added complexity in

1 their portfolio is a good indicator that you're comparing  
2 what we would say apples so apples.

3 COMMITTEE MEMBER ORTEGA: Yeah. I think -- if I  
4 may, Mr. Chair.

5 CHAIRPERSON PACHECO: Of course.

6 COMMITTEE MEMBER ORTEGA: I think that makes  
7 sense. I don't have any concerns about the inclusion.  
8 And maybe we're not at a place where we can say what that  
9 percentage ought to be right now.

10 MR. KELLY: Yes.

11 COMMITTEE MEMBER ORTEGA: But when this policy is  
12 revisited, sometime in future, I think we ought to be more  
13 specific, because I think the flip side of that is that  
14 then the funds that are included in the comparison shift.  
15 And I feel like that gives an impression that this is the  
16 issue that came up when we talked about where did the  
17 comparison list come from and when had it last been  
18 revisited. And so having more transparency around who  
19 you're comparing to, I think is important. So if it's not  
20 spelled out here, then it allows that list to shift, and  
21 then kind of calls into question why -- why one fund, one  
22 time, and another fund another time. So I just think it's  
23 something to keep an eye on.

24 MR. LANDERS: I think I would agree, Ms. Ortega.  
25 And I think, you know, as we go to the next -- you know,

1 in a year or two from now when the next sort of salary  
2 survey is conducted, as per the policy, I think, at that  
3 point, we can also probably, you know, be maybe a little  
4 bit more specific and define who that -- you know, what  
5 that percentage looks like at that time.

6           What I will say at a high level is if you look at  
7 the public fund selection criteria that -- as listed here,  
8 you know, we don't -- we don't have any concerns. The  
9 list that would have been used in the February review,  
10 generally that makeup of funds would generally hit all of  
11 these three specific criteria. So to your concern about,  
12 you know, the peer group of pension funds changing too  
13 much, I would suggest that, you know, when we were to run  
14 this a couple years from now for the next go-around, I  
15 wouldn't expect too much shifting using this criteria from  
16 what the peer group was back in February. There'd  
17 obviously be some tweaks here or there, but I don't see,  
18 you know, following this criteria any large material  
19 changes in the makeup of peers in a couple of years' time.

20           COMMITTEE MEMBER ORTEGA: Thank you.

21           CHAIRPERSON PACHECO: I see no more questions.  
22 You can continue, Mr. Kelly.

23                               --o0o--

24           MR. KELLY: Excellent. Thank you.

25           So moving on with the public pension criteria.



1 recommendation that we've made here.

2 Any questions?

3 CHAIRPERSON PACHECO: Continue on.

4 --o0o--

5 MR. KELLY: In terms of salary adjustments, one  
6 of the key things that the majority of the Board members  
7 mentioned in our fall interviews was that there is a hope  
8 that at one point your staff would be more focused on the  
9 performance results and the incentive payouts than on the  
10 annual COLA adjustments, meaning that there's more of a  
11 material benefit around their performance and the  
12 achievement of certain objectives than an annual  
13 adjustment on their base salary.

14 And so one thing that we wanted to do is make  
15 sure that your organization was calibrated in a way that  
16 the overwhelming majority of your staff would really be  
17 hitting target and not above target. And that within your  
18 organization, that you truly were identifying your top  
19 performers in contrast to just your regular performers and  
20 your underperformers.

21 And so therefore, the recommendation here is that  
22 we add in yet another administrative step to really flag  
23 to your managers that if you are to denote someone on  
24 their staff as exceptional, or fully meets, or beyond  
25 fully meets expectations, you need to justify it in some

1 way. And we're hoping that this will help to again  
2 further delineate the top performers, from your regular  
3 performers, from your underperformers.

4 If you recall this year, there were a number of  
5 calibration requests that Ms. Frost had made to try and  
6 get a better distribution within your organization. And  
7 we hope that this will just further help to get you along  
8 that path.

9 CHAIRPERSON PACHECO: We have a question.  
10 President Taylor.

11 COMMITTEE MEMBER TAYLOR: So I think we talked  
12 about this before, but the -- putting in the extra step, I  
13 just want to make sure that as it is implemented, that  
14 we're not running into the management's unwillingness to  
15 take that extra step, even though the person may deserve  
16 it, right? And I've heard that from my own management  
17 team, because that -- get -- that happens in the State of  
18 California already. I think we do have to have this in a  
19 lot of our positions, some sort of written explanation why  
20 you're going above and beyond and doing exceeds.

21 MR. KELLY: Um-hmm.

22 COMMITTEE MEMBER TAYLOR: So how do we make --  
23 put the carrot out there, because there's -- there are  
24 definitely people who go above and beyond. And we should  
25 know -- we should be recognizing them.

1           You want to go ahead Marcie.

2           CHIEF EXECUTIVE OFFICER FROST: Yeah. Thank you,  
3 Ms. Taylor. I don't -- I don't really sense that as an  
4 issue with our investment team. And I know we have Dan  
5 here who helped me with this calibration last year.  
6 Managers are accustomed to doing fairly deep analysis as a  
7 part of doing their day-to-day job of investing, so  
8 analytical skills are not something that our managers over  
9 there are lacking. And my sense is they really do want to  
10 reward and recognize the team for the performance that's  
11 been delivered.

12           COMMITTEE MEMBER TAYLOR: Okay.

13           CHIEF EXECUTIVE OFFICER FROST: So I don't sense  
14 that in the culture in talent management whatsoever.

15           COMMITTEE MEMBER TAYLOR: Okay. Yeah, I just  
16 want to make sure that's not adding stuff that precludes  
17 people from getting what they --

18           CHAIRPERSON PACHECO: So, Ms. Taylor, your mic  
19 was turned off, if you can -- something happened.

20           COMMITTEE MEMBER TAYLOR: That's okay.

21           CHAIRPERSON PACHECO: Yeah, it's -- you're back  
22 now.

23           COMMITTEE MEMBER TAYLOR: Alright, I just want to  
24 make sure that the people are getting what they deserve  
25 and aren't being road blocked from that. So I do

1 appreciate it. Thanks.

2 CHAIRPERSON PACHECO: Thank you.

3 No other questions. Please move on.

4 MR. KELLY: When you look at a situation like  
5 that from a higher philosophical level, you can always  
6 apply on a kind of a Machiavellian philosophy around it  
7 and saying that managers should be self-interested in  
8 attracting and retaining top talent within their team,  
9 because that performance will reflect the team's  
10 performance, which will be basically recognized within  
11 their own performance as a manager within the  
12 organization. And so I would hope that managers would  
13 understand and, it sounds as though they absolutely do,  
14 that recognizing top performers aids in that retention  
15 within their team -- that performance within their team  
16 and helps to further motivate these performers.

17 So again, it's just an added step, but if they  
18 truly are focused on their team's performance, and the own  
19 their performance of themselves as managers, then they  
20 would definitely be incentivized to do -- to recognize  
21 these individuals within this process.

22 Okay.

23 --o0o--

24 MR. KELLY: And that brings us to the end. The  
25 rest are just minor changes in terms of added

1 clarification, added precision within the policy itself.  
2 But those were the key substantive changes that we're  
3 recommending. The major one that will require your  
4 approval is the inclusion of the policy principles up  
5 front.

6 CHAIRPERSON PACHECO: Any other questions?

7 I just want to, first of all, say, Mr. Kelly, I  
8 really do appreciate the work you've done on this policy.  
9 I feel like it is moving us forward. And I think it's  
10 going to -- as -- I think in one of the comments, it says  
11 here, it will help support a strong and performance-based  
12 work culture. So in the long run, I feel that this policy  
13 in place right now will move us forward to that. And I'm  
14 looking forward to -- for its implementation.

15 Right now, I would like to entertain a motion  
16 to -- for 5c, revisions to the Board Compensation Policy  
17 for executive and investment management position. What's  
18 the pleasure of the Committee?

19 COMMITTEE MEMBER TAYLOR: I'll make the motion.

20 CHAIRPERSON PACHECO: Ms. Taylor, makes the  
21 motion.

22 COMMITTEE MEMBER PALKKI: Second.

23 CHAIRPERSON PACHECO: Mr. Palkki seconds it.

24 Any discussion?

25 I see none.

1 All those in favor say aye?

2 (Ayes.)

3 CHAIRPERSON PACHECO: All those in opposition?

4 Any abstentions?

5 The motion carries. Thank you.

6 The next item on the agenda is summary of  
7 Committee direction. Mr. Hoffner.

8 CHIEF OPERATING OFFICER HOFFNER: Thank you, Mr.  
9 Chair. The one I received was looking -- for us to look  
10 into additional languages for the annual stakeholder  
11 survey. We will look into that and talk with our  
12 Stakeholder Communications team, as they're the ones that  
13 do that work, but -- so it may come back in a different  
14 channel, I guess, but we will circle back with you on  
15 that.

16 CHAIRPERSON PACHECO: So channel in terms of  
17 Committee channel, or just informational item, or...

18 CHIEF OPERATING OFFICER HOFFNER: Yeah, and how  
19 we -- we'll get this information back to the -- I would  
20 say to the Board, I would imagine.

21 CHAIRPERSON PACHECO: To the Board. Very good.

22 CHIEF OPERATING OFFICER HOFFNER: Yeah. Thank  
23 you.

24 CHAIRPERSON PACHECO: Thank you.

25 Any -- I see -- is there any public -- now, the

1 next item is public comments?

2 I see any -- there's no public comments that I  
3 see here. Is there any on the telephone?

4 There are no public comments on the telephone.

5 So I would like to now adjourn the meeting at  
6 9:36. And I would -- I think the next meeting would be  
7 the Board of Administration. So we would like to start at  
8 9: 40 -- let's say 9:50. That would be good. Alright,  
9 very good then. Thank you.

10 (Thereupon the California Public Employees'  
11 Retirement System, Board of Administration,  
12 Performance, Compensation, & Talent Management  
13 Committee open session meeting adjourned  
14 at 9:36 a.m.)

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