

Action Upon Unsatisfactory Performance

Individuals must achieve a minimum Overall Performance Rating (see *Year-End Performance Appraisal Process*, page 24) of “Inconsistently Meets Expectations” and have complied with all CalPERS risk management and ethics-related principles, policies, and procedures to be eligible for incentive award payout.

Individuals who receive an Overall Performance Rating of “Does Not Meet Expectations” in their annual performance appraisal will be ineligible to receive any portion of the annual incentive award at any time for the year in which the unacceptable rating was received.

Individuals who receive an Overall Performance Rating of “Does Not Meet Expectations” in their annual performance appraisal will be ineligible to receive any portion of the long-term incentive award for the five-year performance period that ended the year they received the unacceptable rating.

In addition, individuals who receive an unacceptable rating and participate in the long-term incentive program will be subject to an initial long-term incentive award value of zero for the performance period that begins the year the unacceptable rating was received.

Continued Employment Requirement; Board Discretion Under Special Circumstances

Subject to the exceptions described below, an employee shall have no right to an incentive award for a fiscal year if their employment with CalPERS terminates for any reason other than the special situations outlined within the section below or is terminated for cause prior to the date on which incentive awards for such year are presented to and/or approved by the Board (generally in September following the performance period), whether or not such employee’s individual incentive award is actually presented to or approved by the Board (the “Approval Date”), or, in the case of a deferred incentive award, prior to the Deferred Payment Date. For purposes of this Policy, an employee will be deemed to have terminated employment with CalPERS if they have had a separation from service within the meaning of Treasury Regulation section 1.409A-1(h).

Notwithstanding the foregoing, a former employee whose employment terminated on or after January 1 of the fiscal year to which the award relates on account of death, disability, retirement, or involuntary termination without cause, will be eligible to receive prorated annual and long-term incentive awards, in all cases subject to approval of the Board; provided, however, an employee will not be eligible for a prorated award if the employee substantially relinquishes their primary duties prior to January 1 (without regard to whether leave credits are being used and/or exhausted). In addition, where there are compelling circumstances, the Board may approve prorated annual and long-term incentive awards for a former employee whose employment terminated on or before December 31 of a fiscal year on account of death, disability, retirement, or involuntary termination without cause. If the Board does approve any

incentive award to (or in the event of death, with respect to) such a former employee, then the term “Approval Date” shall refer to the date on which the Board approves the incentive award(s) to the former employee. In determining a former employee’s prorated award, no credit will be given for any period after the date on which the individual substantially relinquishes their primary duties. For clarity, the Board shall be under no obligation to approve incentive awards for former employees and any such approval shall be within the discretion of the Board.

In all cases, if an employee’s employment terminates voluntarily (other than retirement) or for cause prior to the Approval Date, or if applicable, Deferred Payment Date, the incentive award will be forfeited.

Time of Payment

Incentive Award payments shall be paid as soon as practicable following the Approval Date (or, if applicable, Deferred Payment Date), but in no event later than the 15th day of the third month following the end of the calendar year in which the Approval Date or Deferred Payment Date occurs or, if later, the 15th day of the third month following the end of the CalPERS fiscal year in which the applicable Approval Date or Deferred Payment Date occurs.

Special Pay

Special Within-Range Base Pay Adjustment – Investment Management Positions

The Chief Investment Officer may, at any time during the year, recommend granting a special within-range base pay adjustment of up to 15% of annual base pay to an investment management team member covered by this policy, to address retention or internal equity issues. In extenuating circumstances, the within-range adjustment may exceed 15% of annual base pay. All adjustments (up to and exceeding 15%) must be approved by the Chief Executive Officer by delegation from the Board and will be reported to the PCTMC.

Criteria considered in support of a Special Within-Range Base Pay Adjustment include the following:

- **Performance:** Individual performance that significantly and consistently exceeds expectations
- **Equity:** Demonstrated value of incumbent and/or inequity with relevant peers
- **Retention:** To retain competent investment professionals at risk of leaving to accept offers from other money managers or employers

Special Within-Range Base Pay Adjustment – Executive Positions

There may be extraordinary circumstances that warrant a covered executive’s base pay rate be increased, in conjunction with or outside of the annual performance appraisal process, to

address unique retention or pay equity considerations. When a Special Within-Range Base Pay Adjustment is deemed necessary for an executive, the following approvals are required:

Position	Approver
Chief Executive Officer	Board (upon recommendation of PCTMC)
Chief Actuary Chief Health Director Chief Financial Officer Chief Operating Officer Chief Investment Officer General Counsel	Chief Executive Officer (by delegation from the Board)

Interim Appointment

Interim appointments to covered positions may be made in instances where it is necessary to temporarily assign a team member the full range of responsibilities in a position until a new permanent appointment is completed. Such assignments shall typically be at least 60 days in duration. Interim incumbents may be eligible for additional pay while performing the interim higher-level duties. Additional pay may be based on factors such as level of duties and the base pay range of the vacant position.

Interim appointments and temporary additional compensation require the following approvals:

Position	Approver
Chief Executive Officer	Board (upon recommendation of PCTMC)
Chief Actuary Chief Health Director Chief Financial Officer Chief Operating Officer Chief Investment Officer General Counsel	Chief Executive Officer (by delegation from the Board)
Deputy Chief Investment Officer Chief Operating Investment Officer Managing Investment Director Investment Director Investment Manager Associate Investment Manager	Chief Executive Officer (based upon recommendation of the Chief Investment Officer)

The Chief Executive Officer will report interim appointments and additional temporary compensation to the PCTMC and the Board.

Recruitment Differential

In order to attract and retain highly skilled executives and investment management professionals, a recruitment differential may be provided when hiring individuals from outside State service. It is a one-time, front-end payment upon appointment and is designated as an

incentive to accept a position. The amount of the differential is specific to each eligible individual’s personal circumstances. In no case shall a recruitment differential exceed 60% of a new hire’s annual base pay. The following approvals are required:

Position	Approver
Chief Executive Officer	Board (upon recommendation of PCTMC)
Chief Actuary Chief Health Director Chief Financial Officer Chief Operating Officer Chief Investment Officer General Counsel	Chief Executive Officer (by delegation from the Board)
Deputy Chief Investment Officer Chief Operating Investment Officer Managing Investment Director Investment Director Investment Manager Associate Investment Manager	Chief Executive Officer (based upon recommendation of the Chief Investment Officer)

The following payback provisions apply to all employees awarded a recruitment differential:

- 100% payback is required if employed less than 12 full months from appointment date
- 50% payback is required if employed between 12 and 24 months from appointment date

Any exception to the repayment schedule requires approval of the Chief Executive Officer and/or other approving authority as listed above.

Year-End Performance Appraisal Process (Incentive Awards and Base Pay Increase)

Performance Appraisal Process Overview

The year-end performance appraisal process is the basis of the payment of the annual incentive award and the individual base pay increase. The performance appraisal document is completed at the end of the plan/fiscal year and covers both individual achievement on the Annual Incentive Plan and general managerial performance as described below.

The Chief Executive Officer, with partial re-delegation to the Chief Investment Officer for the investment management positions, will approve performance appraisal outcomes and base pay increases within the established ranges for covered positions. The PCTMC completes the performance appraisal for the Chief Executive Officer.

Annual Incentive Award Determination Process

As part of the performance appraisal process, each participant must submit a year-end (2nd semiannual) status report to his/her immediate supervisor reflecting the final status of all Annual Incentive Plan measures. This comprehensive report is the basis for the annual incentive award.

For purposes of determining the annual incentive award amount, the following occurs:

- The primary evaluator assigns performance ratings (for qualitative measures) and comments, soliciting additional input if appropriate.
- Performance ratings on quantitative investment measures are determined by calculations performed by the Board's Investment Consultant, based upon investment performance data provided by the bank engaged to provide custodial services to CalPERS, as well as other relevant sources.
- Using calculations received from the Board's Investment Consultant, Human Resources aggregates the quantitative factor multipliers (ratings), adds in the impact of qualitative factors ratings, and calculates the dollar value of the annual incentive award.
- CalPERS' external auditor or other select independent advisor will review and assess the accuracy of data and processes used to calculate the results of all Organizational Performance Outcome performance achievement prior to any award being paid.

Final approval of incentive awards is defined as shown in the *Performance Appraisal Approval Process* section of the policy on pages 25 and 26.

Base Pay Increase and Overall Performance Rating Scale

The general assessment of managerial performance and the Overall Performance Rating is the basis for consideration of a participant's base pay increase. Base Pay Increases are administered separately and apart from the Annual Incentive Plan. At the end of the plan/fiscal year (June 30), all participants prepare a year-end Summary of Accomplishments highlighting their most noteworthy achievements not covered in the incentive plan. The primary evaluator completes the assessment of the individual's general managerial performance and assigns an Overall Performance Rating.

The Overall Performance Rating, as indicated in the *Standard Performance Levels and Definitions* (pages 5 and 6), is the basis for consideration of a base pay increase as defined in the matrix on page 9.

Performance Appraisal Approval Process

The following depicts the primary evaluator and final approver for all performance appraisal outcomes:

Position	Primary Evaluator	Provides Input	Approver(s)
Chief Executive Officer	PCTMC	Board members not on PCTMC	Board (upon recommendation of PCTMC)
Chief Actuary Chief Financial Officer Chief Health Director Chief Investment Officer Chief Operating Officer General Counsel	Chief Executive Officer	PCTMC and other Board members (optional)	Chief Executive Officer (by delegation from the Board)
Deputy Chief Investment Officer	Chief Investment Officer	Chief Executive Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of Chief Investment Officer)
Chief Operating Investment Officer	Deputy Chief Investment Officer	Chief Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of Chief Investment Officer)
Managing Investment Director	Deputy Chief Investment Officer	Chief Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of Chief Investment Officer)
Investment Director	Managing Investment Director	Chief Investment Officer Chief Operating Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of Chief Investment Officer)
Investment Manager	Investment Director	Managing Investment Director Chief Operating Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of Chief Investment Officer)
Associate Investment Manager	Investment Manager	Managing Investment Director Chief Operating Investment Officer	Chief Executive Officer (by delegation from the Board; based on recommendation of Chief Investment Officer)

Revision History

This policy has been approved as follows:

Effective Date	Approved by	Description of Changes (if needed)
7/1/2019	Board of Administration	Addition of Chief Health Director and Chief Operating Officer positions Updated base pay and incentive ranges (effective 7/1/2019) Other revisions related to policy administration (e.g., base pay Merit Matrix, tax section, award calculation based on employee's start date in covered position)
7/1/2019	Board of Administration	Updated base pay range for General Counsel position Addition of Long-Term Incentive Program
9/18/2019	Board of Administration	Addition of Deputy Chief Investment Officer position
7/1/2020	Board of Administration	Updated base pay range for Chief Executive Officer position
11/18/2021	Not applicable	Document made accessible
7/1/2022	Board of Administration (6/15/2022)	Refined treatment of prorated awards, continued employment requirements, and Board discretion under special circumstances (e.g., retirement, death, disability, or involuntary termination without cause) Other revisions related to policy administration, including: base pay upon appointment, elements of annual incentive plan, status reports, sample investment return payout table, long-term incentive award opportunity, discretionary performance adjustments, recruitment differential, and treatment of base pay increases in situations of promotion within the last six months of the fiscal year
7/1/2022	Board of Administration (1/17/2023)	Updated base pay ranges for Chief Actuary, General Counsel, Chief Financial Officer, and Chief Health Director (effective 7/1/2022)
11/30/2022	Board of Administration (11/30/2022 and 2/13/2023)	Added weightings to comparator groups Revised Salary Adjustment Matrix and Standard Performance Levels and Definitions
<u>07/01/2023</u>	<u>Board of Administration (04/18/2023)</u>	<u>Revised base salary ranges for Chief Actuary, Chief Financial Officer, Chief Health Director, Chief Operating Officer, General Counsel, Chief Investment Officer, Chief Operating Investment Officer, and Associate Investment Officer.</u> <u>Revised annual and/or long-term incentive ranges for all executive and investment management classifications; removed Chief Health Director incentive eligibility.</u>

