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General Program Overview

Purpose

The compensation policy has been developed over years of public review, discussion, and debate. It represents the strategic decision that pay must be high enough to encourage highly qualified individuals to accept and remain in positions, but not so high as to attract candidates solely for the compensation. Moreover, compensation systems must be carefully structured to both recognize labor market forces and reinforce maximum performance through placing a substantial portion of total compensation at risk. This pay-at-risk approach places a premium on achieving objectives that are directly connected to the CalPERS Board of Administration's strategic and business plans. As a result, the recruitment and retention of highly skilled executives and investment management professionals serve as the foundation for the organization's overall success.

Program Principles

This compensation program is designed and managed to:

1. Be both internally and externally fair and equitable.
    - Base salaries and incentives should be competitively positioned at the median of the defined peer group.
    - Compensation should be aligned with CalPERS' commitments to internal diversity, equity, and inclusion.
2. Enhance the attraction and retention of highly skilled talent.
3. Enable transparency for all CalPERS Board, leadership, team members, and stakeholders.
4. Support a strong, performance-based work culture.

Rationale

The rationale for establishing a compensation policy for executive and investment management positions covered by this policy is based on consideration of the labor market conditions affecting the recruitment and retention of professionals in the fields of institutional investing, actuarial valuation, and pension administration, most of whom are recruited from the private sector. Especially in the case of investment management professionals, the civil service salary structure differs substantially from that of the for-profit sector, the primary recruitment source. Not only are these positions more highly compensated in the for-profit sector than traditional civil service pay scales can accommodate, but total cash compensation in the for-profit sector is tied to pay-for-performance and incentive bonuses in a manner that makes fixed civil service salary ranges and steps impractical for recruiting and compensating such professionals.

Authority

SB 269, enacted in 2003, amended Government Code Section 20098 to provide that the Board of Administration shall fix the compensation of the Chief Executive Officer, Chief Actuary, Chief Investment Officer and other investment officers and portfolio managers whose positions are designated managerial. The Government Code was further amended in 2007 and 2011 to include the General Counsel and Chief Financial Officer, respectively; and again in 2019 to include the Chief Operating Officer and Chief Health Director.

All covered positions, except the exempt Chief Executive Officer, shall be filled through general civil service appointments and are subject to most of the civil service provisions of existing law, including the tenure provisions governing managerial employees. The positions are not eligible to receive Merit Salary Adjustments (MSA) as provided in Government Code Section 19832. This policy describes the program components of base pay, performance (incentive) awards, and other special pay provisions comprising the compensation system for covered positions.

Compensation Administration and Management

The CalPERS Board of Administration (Board) reserves the right to rescind or modify this policy and the compensation schedules derived from them at any time.

Covered Positions

Executive Management Positions:

- Chief Executive Officer
- Chief Actuary
- Chief Financial Officer
- Chief Health Director
- Chief Investment Officer[1]
- Chief Operating Officer
- General Counsel

Investment Management Positions:

- Chief Operating Investment Officer
- Deputy Chief Investment Officer
- Managing Investment Director
- Investment Director
- Investment Manager
- Associate Investment Manager

[1] Considered an Investment Management Position for purposes of determining base pay ranges (see page 6).

Annual Incentive Plan

Elements of Annual Incentive Plan

The basis for payment of the annual incentive award is the Annual Incentive Plan, which will tie annual incentive awards to the following distinct segments of the plan:

- Organizational Performance Outcomes (e.g., Incentive Metrics, investment returns)
- Individual Key Business Objectives (e.g., business goals, leadership)

All participants will have Organizational Performance Outcomes as part of their Annual Incentive Plan. Specific Organizational Performance Outcomes may vary from participant to participant. Participants may or may not have Individual Key Business Objectives.

Organizational Performance Outcomes will be quantifiable metrics that reward for PCTMC pre-approved performance criteria in categories such as the following:

- Operational Effectiveness: Measures organizational efficiency
- Stakeholder Engagement: Measures member and/or employer perceptions
- Customer Satisfaction: Measures member and/or employer and/or employee perspectives on service received
- Investment Returns: Measures total fund and/or asset class and/or portfolio returns

Covered positions responsible for investment compliance oversight or investment financial independent check functions will not have Investment Returns as an Organizational Performance Outcome.

Through CalPERS' best efforts and whenever possible, Individual Key Business Objective performance measurements will be objectively based on specific, measurable, attainable, timebound, ethical, and risk weighted focal points for the participant relative to the Organizational Performance Outcome categories discussed above.

Organizational Performance Outcomes and Individual Key Business Objectives will each be assigned a weight, with total weighting per Annual Incentive Plan not to exceed 100%. Weights, like the applicability of each metric, may vary from participant to participant. Performance will be rated as outlined in *Standard Performance Levels and Definitions* (page 6).

The Discretionary Performance Modifier is an upward or downward adjustment that can be applied to all participants on an individual basis, as detailed in *Discretionary Performance Adjustments* (page 17).

Annual Incentive Plan Cycle

The Annual Incentive Plan cycle consists of the following activities:

- Annual Incentive Plan Development
- Semiannual Performance Reporting
- Performance Evaluation based upon achievement of Annual Incentive Plan measures
- Board approval, which generally occurs in or around September of each year

Development of an Annual Incentive Plan

Prior to the beginning of the fiscal year (or as soon as practical for new hires), each participant develops an Annual Incentive Plan comprised of organizational performance outcomes and individual key business objectives incentive plan measures for approval as follows:

Position	Approver(s)
Chief Executive Officer	Board (upon recommendation of PCTMC)
Chief Actuary 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 Chief Investment Officer (by delegation from Chief Executive Officer)

Organizational Performance Outcomes and Individual Key Business Objectives will be measured against approved performance criteria (e.g., benchmarks, enterprise performance targets). To ensure consistency with CalPERS long-term strategies, all measures require the review of appropriate supervisors and the Board's investment consultant as follows:

Position	Supervisor	DCIO	CIO	Investment Consultant[2]	CEO	Board
Chief Executive Officer	No	No	No	Yes	No	Yes
Chief Investment Officer	No	No	No	Yes	Yes	No
Chief Actuary Chief Financial Officer Chief Operating Officer General Counsel	No	No	No	No	Yes	No
Deputy Chief Investment Officer	No	No	Yes	Yes	Yes	No
Chief Operating Investment Officer	No	Yes	Yes	Yes	Yes	No

[2] Investment Consultant review is required for all Investment Return performance outcomes.

Position	Supervisor	DCIO	CIO	Investment Consultant[2]	CEO	Board
Managing Investment Director	No	Yes	Yes	Yes	Yes	No
Investment Director Investment Manager Associate Investment Manager	Yes	Yes	Yes	Yes	Yes	No

Status Reports and Plan Changes

Each participant must prepare status reports on their Individual Key Business Objectives at mid-year (covering July 1 through December 31) and year-end (covering January 1 through June 30). Performance data on Organizational Performance Outcomes is reported at year-end.

Mid-year status reports require performance check-in meetings with each participant's immediate supervisor, and year-end status reports require a final year-end performance review discussion. The CEO will provide mid-year and year-end reports to the board and participate in related performance discussions.

Under extenuating circumstances, changes to incentive plan measures may be accepted and require the following approvals:

Position	Approver(s)
Chief Executive Officer	Board (upon recommendation of PCTMC)
Chief Actuary 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 Chief Investment Officer (by delegation from Chief Executive Officer)

Investment Return performance measure changes also require review by the Board's investment consultant, who serves as an independent check to ensure consistency with established performance objectives, investment policies, and compliance procedures prior to approval and integration into the plan.

Incentive Awards

Annual and Long-Term Incentive Awards

An incentive award is part of an individual's total compensation: a payment opportunity based on achieving specific objectives or measures as defined in an Annual Incentive Plan or Long-Term Incentive Plan, subject to other conditions described herein.

Annual Incentive Award Ranges

The Board, upon recommendation of the PCTMC, sets the incentive award ranges for all covered positions. The incentive award range represents the percentage of base pay available to be earned based on the level of achievement (threshold, target, or maximum) on the Annual Incentive Plan measures. The "target award" for any given annual incentive award range is set to two-thirds of the incentive award range maximum.

Current annual incentive award ranges are displayed in the table below. Annual incentive award ranges will be periodically reviewed by the PCTMC, and any change to established incentive award ranges must be approved by the Board. Maximum annual incentive opportunities may never exceed the ranges outlined below, but ranges may vary by position based on differing roles and responsibilities within the organization, as determined by the CEO and to ensure alignment between peer positions.

Position	Annual Incentive Award Range	Annual Target Award
Chief Executive Officer	0 - 150%	100%
Chief Actuary	0 - 105%	70%
Chief Financial Officer	0 - 105%	70%
Chief Operating Officer	0 - 105%	70%
General Counsel	0 - 105%	70%
Chief Investment Officer	0 - 270%	180%
Deputy Chief Investment Officer	0 - 180%	120%
Chief Operating Investment Officer	0 - 135%	90%
Managing Investment Director	0 - 165%	110%
Investment Director	0 - 120%	80%
Investment Manager	0 - 75%	50%
Associate Investment Manager	0 - 60%	40%

Annual Incentive Award Computation

Annual incentive awards are computed using the following formula:

Performance Measure Weight	X	Level of Achievement (Multiplier)	X	Target Award	=	Incentive Award

Annual Incentive Plan Performance Periods

Quantitative performance measures tied to investment returns will generally be based on five-year, multi-year performance against relevant benchmarks, utilizing an award schedule approved by the Board. The purpose of the schedule is to align the investment award schedules for individuals with the long-term sustainability objectives of the organization.

Quantitative performance measures other than total fund or specified asset class performance (if applicable) will generally be based on annual performance, whether internal performance improvement objectives or relevant benchmarks.

Individual Key Business Objectives will generally be based on annual performance.

The performance measurement periods and the provisions of the instructions for calculation are effective July 1, 2016 and will remain in effect until the issuance of a replacement schedule by the Board.

Annual Incentive Award Calculation (Investment Returns and Metrics)

The annual incentive award for any investment return metric will be calculated based on five-year performance, relative to benchmark, based on the fiscal year a participant began employment in a covered position. The incentive award for all other Organizational Performance Outcomes will be calculated based on annual performance. Below are sample award calculations for Organizational Performance Outcomes.

Sample 5-Year Investment Return Payout Table (payout ratio for intermediate results will be determined by interpolation):

Variance (bps) from Benchmark	Payout Ratio (Multiplier)
+10	1.50
+5	1.00
0	0.00

Sample Incentive Metric Payout Table:

Sample Scores	Performance Level	Payout Ratio (Multiplier)
> 70%	Maximum	1.50
> 65% to 70%	One Up from Goal	1.25
> 60% to 65%	Goal	1.00

Sample Scores	Performance Level	Payout Ratio (Multiplier)
> 55% to 60%	One down from Goal	0.75
> 50% to 55%	Threshold	0.50
≤ 50%	Below Threshold	0.00

Rating Scale for Key Business Objective Measures on Annual Incentive Plans

The following scale describes an individual's level of achievement on Individual Key Business Objectives and the corresponding multiplier used when computing the annual incentive award:

Rating Scale for Key Business Objective Measures	Rating/Multiplier *(Intermediate points are interpolated)*
Exceptional	1.5
Consistently Exceeds Expectations	1.25
Fully Meets Expectations	1.0
Inconsistently Meets Expectations	0.5
Does Not Meet Expectations	0

Definitions for the Performance Ratings above are as outlined in *Standard Performance Levels and Definitions* (page 6).

Long-Term Incentive Award Opportunity

Initial long-term incentive (LTI) award values are based on the lower of:

i. A participant's actual annual incentive attributable to the first year of the five-year performance period, or

ii. A participant's annual incentive range target in the first year of the performance period.

Current long-term incentive award ranges are displayed in the table below. Long-term incentive award ranges will be periodically reviewed by the PCTMC, and any change to established incentive award ranges must be approved by the Board. Maximum long-term incentive opportunities may never exceed the ranges outlined below, but ranges may vary by position based on differing roles and responsibilities within the organization, as determined by the CEO and to ensure alignment between peer positions. The opportunity levels outlined below are based on an incumbent's base salary at the start of the Long-Term Incentive performance period and not the incumbent's base salary at the end of the Long-Term Incentive performance period.

Position[3]	Long-Term Incentive Award Range	Target Long-Term Incentive Award
Chief Executive Officer	0 - 150%	100%
Chief Investment Officer	0 - 270%	180%
Deputy Chief Investment Officer	0 - 180%	120%
Chief Operating Investment Officer	0 - 135%	90%
Managing Investment Director	0 - 165%	110%
Investment Director	0 - 120%	80%
Investment Manager	0 - 75%	50%
Associate Investment Manager	0 - 60%	40%

Long-Term Incentive Award Performance Measurement

LTI awards are measured on a five-year performance period based on absolute Total Fund returns calculated using the compound annual growth rate ("CAGR") or annual returns throughout the performance period.

Payouts occur at the end of the performance period, with payouts occurring annually for each overlapping performance period thereafter, if certain conditions are satisfied.

Long-Term Incentive Award Determination

Target/goal performance levels for the entire performance period are based on the Board-approved expected rate of return (actuarial assumed rate of return) in the first year of the performance period. These board-approved performance levels must be achieved for payout to occur.

Threshold and target Total Fund return levels are set at the same value, meaning there will be a 0.0 payout multiplier for all returns below target/goal, and a 1.0 multiplier if the target return is achieved. Maximum performance levels are set 120% above the target/goal performance level, unless otherwise determined by the Board.

Payouts at the end of the performance period can range from 0% to 150% of the initial LTI award value based on Total Fund performance and Board-approved performance levels. Payouts for Total Fund performance between target/goal and maximum levels will be linearly interpolated.

[3] Long-Term Incentive eligibility applies to the CEO and investment management positions within the Investment Office.

Sample Long-Term Incentive Payout Table:

Performance Level	5-Year Total Fund Return Level	Payout Ratio (Multiplier)
Maximum	8.16%	1.5
Target/Goal	6.8%	1.0
Below Target/Goal	Less than 6.8%	0.0

Discretionary Performance Adjustments

Discretion can be exercised to adjust an individual's incentive award in the following situations:

- An annual incentive award can be adjusted upward to any percentage (not to exceed the maximum of the individual's associated incentive range) based on extraordinary qualitative individual contributions.
- An annual incentive award can be adjusted downward to any percentage, or eliminated altogether, based on unsatisfactory individual performance, violation of CalPERS' policies, and/or unsatisfactory demonstration of CalPERS Leadership Competencies or Core Values. (For example, in situations of non-adherence to CalPERS' risk management principles, policies, processes, or procedures, an annual and/or long-term incentive award can be reduced by either 50% or eliminated entirely, based on the severity of non-adherence).

These adjustments will be made based on the annual performance evaluation process and will take into account qualitative factors such as performance relative to CalPERS' culture and values; leadership; extraordinary contributions, efforts, or results; development and successful implementation of business or stakeholder imperatives; or strategic workforce activities involving succession planning, retention and flight risk, or talent supply or development.

Discretionary Performance Modifier adjustments will be administered as follows:

Position	Approval Authority
Chief Executive Officer	Board (upon recommendation of PCTMC)
Chief Actuary 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)

Discretion exercised by the Chief Executive Officer must be disclosed to the PCTMC as part of the annual incentive award determination process.

Pro-Rata Awards

Annual and long-term incentive awards may be prorated based on months of service for participants who are appointed on or before December 31 of the fiscal year and meet the continued employment conditions (page 22). The recommendation for a pro-rata incentive award will be based on the nature of the performance measures, the level of progress in their achievement, as well as overall performance.

An individual appointed on or after January 1 of the fiscal year will not be eligible to receive prorated annual and long-term incentive awards for that fiscal year and will not become eligible to receive annual and long-term incentive awards until after completion of the following full fiscal year, providing continued employment conditions are met (page 22).

An individual who vacates a covered position within six months of appointment shall not receive an annual or long-term incentive award for that fiscal year.

An individual who is promoted from the CalPERS Investment Officer classification series to a covered position during the fiscal year would be eligible to receive incentive awards based on the incentive plans and annual base salaries of both positions (as pro-rated to reflect the mid-year appointment), subject to the applicable policy provisions and calculation processes outlined in the respective Investment Officer and Executive and Investment Management Positions policies. Partial year awards shall not be granted to an individual who has served fewer than a combined six months in both positions during the fiscal year.

Authority to Defer, Reduce, or Eliminate Incentive Awards[4]

Payment of incentive awards shall be subject to and conditioned upon all of the following (among other conditions described herein):

In the event that Total Fund for a performance period is negative, and such negative return exceeds the benchmark for the period, then the Board will have the discretion to reduce, defer or eliminate all or a portion of an incentive award that would otherwise have been made. In the event the Board elects to defer payment of an award to a future date (a "Deferred Payment Date"), the deferred incentive award shall remain subject to forfeiture until the Deferred Payment Date and shall be conditioned upon the employee continuing to perform services for CalPERS up to the Deferred Payment Date, as described below. Where in the event that the Board elects to defer payment of an award to a subsequent fiscal year, payment of the award may be deferred up to 115 days beyond the end of the first subsequent fiscal year in which the

[4] The terms "disabled," "disability," "retired," "retires" and "retirement" throughout the policy are used as defined in California Public Employees' Retirement Law sections 20026, 20027 and 20060.

one-year absolute return on the Total Fund exceeds zero percent (0%). To the extent payment is deferred for more than 120 days after the end of the fiscal year for which the incentive award is payable, the incentive award shall be credited with earnings that approximate the absolute return of the Total Fund for the deferral period as determined by the Board, but not in excess of 15% annually. The Board shall not be obligated to treat all employees eligible to an incentive award alike in determining whether to defer, reduce or eliminate an incentive award, how large a portion to defer or reduce, and when to pay the deferred or reduced incentive award.

a) An employee will be eligible to receive an incentive award for any period only if the employee has complied with all CalPERS policies applicable to the employee, and regulatory requirements throughout the period, as determined by the Board in good faith. A policy or regulatory violation in a prior period shall be treated as a continuing violation in each subsequent period through the date as of which the Board determines that the violation was adequately remedied. All references to the Board in this subsection and the following subsections also refer to the Board’s delegate or CalPERS staffing on behalf of the Board, and all references to “employees” in these subsections refer both to current employees and former employees.
b) If the Board believes an employee is not entitled to an incentive award due to a policy or regulatory violation, it will notify the employee in writing by certified mail or personal service on the employee. If the employee disputes that finding, the employee must so notify the Board in writing within 15 days of receiving the Board’s notice. If the employee does not timely notify the Board, the employee will be deemed to have admitted the violation. If the employee admits or is deemed to have admitted the violation, the employee will forfeit the incentive award in question. If the employee timely denies the violation, the Board will conduct such further investigations as it deems appropriate ("Investigation"). The Investigation must be completed within 90 days of the date the incentive award would otherwise have been paid but for the violation. Within 60 days after the Investigation has been completed, the Board shall determine whether the violation occurred. Its good faith determination shall be final and binding. The incentive award shall remain subject to forfeiture if and until the Board makes a final determination that it should be paid, and no amount shall be paid pending that determination. If the Board determines that there was no violation, the employee will receive the incentive award plus interest at the annual rate of 6% interest for the period of late payment in excess of 60 days between the date the Board makes its final determination following the Investigation and the date the incentive award would otherwise have been paid. This payment will be made by the earlier of (1) 30 days after the Board’s determination following the Investigation, or (2) December 31 following the Board's determination.