MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FECKNER AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

MONDAY, APRIL 14, 2025

9:32 a.m.

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

APPEARANCES

COMMITTEE MEMBERS:

Mullissa Willette, Chair

Malia Cohen, Vice Chair

Michael Detoy

Eraina Ortega

Kevin Palkki

Theresa Taylor

Yvonne Walker

BOARD MEMBERS:

David Miller, Vice President

Jose Luis Pacheco

Ramón Rubalcava

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Deputy Executive Officer

Michelle Tucker, Chief Human Resources Officer

Robert Carlin, Senior Attorney

ALSO PRESENT:

J.J. Jelincic

Brad Kelly, Global Governance Advisors(Remote)

APPEARANCES CONTINUED

ALSO PRESENT:

Peter Landers, Global Governance Advisors(Remote)

Michael Oak, McLagan

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PROCEEDINGS

CHAIR WILLETTE: All right. Good morning. We'll call our Performance, Compensation and Talent Management Committee open session to order. If I can get the roll call please.

BOARD CLERK ANDERSON: Mullissa Willette.

CHAIR WILLETTE: Here.

BOARD CLERK ANDERSON: Malia Cohen.

VICE CHAIR COHEN: Present.

BOARD CLERK ANDERSON: Michael Detoy.

BOARD MEMBER DETOY: Here.

BOARD CLERK ANDERSON: Eraina Ortega.

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK ANDERSON: Kevin Palkki.

VICE CHAIR PALKKI: Good morning.

BOARD CLERK ANDERSON: Theresa Taylor.

COMMITTEE MEMBER TAYLOR: Here.

BOARD CLERK ANDERSON: Yvonne Walker.

COMMITTEE MEMBER WALKER: Here.

CHAIR WILLETTE: Thank you, Committee.

And with that, we'll take our executive report. Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Good morning, Madam Chair and members of the Committee. Doug Hoffner, CalPERS team member.

Today, we have several items I before you today. For Item 5a, your primary compensation consultant, Global Governance Advisors, or GGA, is here to conduct -- when I say here, I mean virtually, to conduct and educational session for the Committee around incentives in the total portfolio approach. This presentation will help set the foundation for other items today that they'll be presenting.

For Item 5b, GGA will present their annual incentive metrics review. It's being presented as an information item so the Committee can provide feedback and direction to the GGA before their return with final recommendations in June. At that point, the Committee will finalize the incentive metrics to be included in the 2025-26 fiscal year incentive plans.

For Item 5c, McLagan Partners is here and will present compensation benchmark data for statutory positions based on the Board's prescribed policy for comparator groups. GGA will then provide initial recommendations for the compensation adjustments based on updated data from -- when they return in June for final recommendations.

For future meetings in June, the Committee will receive final recommendations for actions on incentive metrics and comparisons for compensation review, if applicable.

Thank you, Madam Chair. This concludes my report. Happy to answer any questions.

CHAIR WILLETTE: All right. Thank you so much. I see no questions.

So we will move to our action consent items. I have not received any requests to pull any item from the action consent.

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIR WILLETTE: Okay. That's has been moved to approve the action consent items 3a and 3b by Theresa Taylor.

VICE CHAIR PALKKI: (Hand raised).

CHAIR WILLETTE: And it has been seconded by Kevin Palkki.

And with that, we can take a verbal vote.

All those in favor?

(Ayes.)

CHAIR WILLETTE: All those opposed?

And any abstentions?

That vote does carry. Thank you so much. And we'll move to our information consent items are there for review. Is there any report on those?

Okay. So we will move to our information agenda items. And I will turn this over to Global Governance

Advisors. Thank you, gentlemen, for joining us virtually.

BRAD KELLY: Thank you, Madam Chair.

(Slide presentation).

BRAD KELLY: And apologies for not being there in person. I guess we can all agree that this is an odd time we're in, but I can assure the Board that we're working diligently to get this rectified and we fully intend on being at the next Committee meeting in person.

So again, apologies for the situation we're in. And that -- so that being said, we'd like to start with this first information item, which was requested by the Committee Chair. Our understanding is that there's been, rightly so, a lot of conversation around the adoption of a total portfolio approach, which is something that your new Chief Investment Officer has proposed, and there have been questions or concerns about how it might impact other aspects of your operations, such as your compensation program.

So that being said, this item is just kind of a high level piece to give you an overview of what's currently in the market, what are we seeing. And we also have peppered it with some questions that we'd like your Committee to start thinking about, because as we move further and further down the road towards potential adoption of a TPA, the Board will have to start making some decisions and -- which will direct how we move forward in terms of ways in which we can test and make sure that the incentives going forward are truly incentivizing the right or the anticipated behaviors for CalPERS.

So that being said, can we move to the next slide, please.

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BRAD KELLY: And the next slide.

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BRAD KELLY: We just want to make sure that when we start, everyone is clear on, you know, what is CalPERS compensation philosophy, what are you trying to achieve in its design. Basically, it's designed to attract and retain highly qualified individuals by offering competitive pay and incentivizing performance. And rightly so, a significant portion of total compensation is placed at risk, which basically emphasizes the achievement of organizational, strategic, and business planning objectives. So making sure that part of that compensation is associated with the individual's contribution towards the overall organizational performance going forward. So we feel that that is, you know, a good positive design.

Your incentive awards are tied to organizational performance outcomes and key business objectives. And we've been working with this Committee over the last number of years to make sure that they're fair, defensible, and truly focused on value-add performance for your organization. And then also, there is for investment return metrics, there are annual incentive rewards that are calculated based on five-year performance relative to a benchmark for total fund portfolio, but then also looking at how each of the asset classes are contributing towards that -- the end result as well.

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BRAD KELLY: When looking at the adoption of a total portfolio approach, I think it's important for the Board to note that it will likely require changes to both CalPERS culture and incentive compensation going forward.

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BRAD KELLY: So when you start looking at the literature around the impact of a TPA adoption, basically, you're looking at -- and it's an inherent stickiness of the principle that the Board owns the strategic asset allocation. And it makes it difficult to move away from this strategic asset allocation based approach, when adopting a TPA. And this was highlighted in a recent piece that was just -- that was just authored by Thinking

Ahead Institute, looking at the total portfolio approach.

And in it, they talk about various changes that need to take place. So first and foremost, there will be a requirement for their to be changes around the governance in terms of how you as trustees oversee the organization going forward, having more of a dynamic approach, because in the past, as they pointed out, as Thinking Institute had pointed -- Thinking Ahead Institute had pointed out, the Board historically has always owned that strategic asset allocation process. So you go through that iteration every couple years, and then that basically stipulates, you know, how each of the asset classes get parsed out within the total portfolio.

The TPA is different -- a different approach, where your Board will not be involved in that regular cycle of establishing a strategic asset allocation, but instead, it will be more dynamically involved in investment oversight, and looking most specifically at inherent risks associated with different investments going forward. That, in itself, will also require changes to the culture and the people within your organization, basically moving away from what typically would be conceived as a -- or perceived as a siloed approach, where we're basically you have individuals that are responsible for a set allocation, for their asset class, and that doesn't necessarily change over time.

And so, this would require your investment professionals, particularly to be far more timely and responsive, and have more of a dynamic relationship internally, so that people can pivot when required. And then ultimately, this will also require changes obviously in your investment model. And together, in terms of the governance people and investment changes, it should, as, you know, intended, lead to higher organizational effectiveness. But before you even get started on this, your Board has to buy in to this new -- this new environment and that is essential going forward.

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BRAD KELLY: When you look at the adoption of a total portfolio approach, this is not new. And if you really get into the literature, the earliest roots around this is around a paper that was published in 1952 called *Portfolio Selection*, and it was written by Harry Markowitz. And basically, he was saying, you know, when looking at your portfolio, you should be looking at various asset classes and looking at the inherent risk associated with each type of investment and classify them based on highest to lowest level of risk.

That's kind of one of the foundations of this.

And then later on in 1976, Peter Drucker wrote a book called *The Unseen Revolution*. And this a book that I like to quote a lot, because it was -- went relatively unnoticed, but did actually -- it was a foundational piece to the adoption as to what later became known as the Canadian model, which, of course, Peter and I are really well versed in.

But in terms of Peter Drucker's book, he was booking at, you know, ways in which you should be looking at the associated risk, and in terms of your portfolio management. And so basically, as things kept evolving, you -- now, you start to see more and more organizations start to look at this. So in terms of, you know, current examples that are in the marketplace today, the New Zealand Superannuation Fund. They're absolutely known as, you know, one of the key pioneers in the adoption of a total portfolio approach, and having Stephen now as your Chief Investment Officer is key, because he definitely is well versed in this and understands the approach probably better than most throughout the world.

And then also, you have the Australian Superfund. Basically, you can imagine because of close proximity, they were one of the early adopters as well. They have what's called a joined up whole portfolio approach, where their Chief Investment Officer office has no set asset allocation targets, and basically works within more of a dynamic environment.

Across the border -- north of the border, the Canada Pension Plan Investment Board, they have adopted what's called their "factor lens" approach, where they're looking at various asset classes and investment opportunities and they basically assess them through various factors that they've put in place.

Also, here in Canada, the Ontario Public Service Employees Union Pension Plan, OPTrust, they have developed what they called a member-driven investing strategy, which is their own take on total portfolio approach. And mainly, they're looking at, you know, how do they maintain its -- their fully funded status going forward. And, you know, how do they make some dynamic changes going forward, based on, you know, various market changes.

And then finally, the Singapore Sovereign Wealth Fund, they have what they call a "joined-up investment framework" that enables them to focus on the fundamental value of the whole portfolio rather than just short-term changes in the price and the immediate value of their fund.

These are just a few examples that are in the marketplace today, but it's clear that a total portfolio approach is definitely gaining traction among pension funds globally, as it emphasizes holistic portfolio management over traditional asset allocation methods, in terms of, you know, the strategic asset allocation, which is basically something that has been dominating the market place for quite some time now. And it potentially leads to -- so far, we've been seeing that it leads to improved risk-adjusted returns. But again, everyone is taking a slightly different approach to this, different -- slight nuances. But again, it's kind of -- again, it's more of a dynamic approach going forward.

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BRAD KELLY: In terms of looking at the successful adoption of a TPA, it necessitates a strong organizational culture, characterized by ownership, trust, and empowered decision-making. So when you look at a TPA framework, CalPERS will definitely need to shift its focus from rigid asset allocations to a more holistic view of portfolio construction emphasizing alpha generation, which is something that you've been requesting for quite some time, and overall risk exposure going forward.

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BRAD KELLY: Moving to a TPA may necessitate changes to overall organizational structures, which definitely you need to keep in mind may be disruptive. Not everyone is good at change. Not everyone embraces change equally. But if this is definitely the direction you'd like to take, then it is something that you need to anticipate going forward.

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BRAD KELLY: And when we look at the association of the adoption of a total portfolio approach, and how it may affect or considerations you need to take going forward in relation to your incentive design, we identify 10 key elements or 10 key considerations that we'd like to raise today that will, you know, get -- hopefully get your creative juices flowing and get you thinking more about how this adjustment, or the adoption of TPA, may actually necessitate some changes on the investment or on the incentive side.

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BRAD KELLY: And again, this is very high level and this is -- again, some of these things seem, you know, quite universal, but we again want you to start thinking about, you know, how these things could be altered or should be altered going forward.

First and foremost is alignment with investment objectives. CalPERS needs to ensure that incentives align with the overall reference portfolio strategy, including risk-adjusted returns and long-term growth. And the question we would raise here is should CalPERS Compare itself to a simple reference portfolio? Would this be a way of simplifying things? Would it make things easier.

And if you're looking at performance, what is most important to you? Is it relative performance or absolute performance going forward? Right now, you do have relative performance in terms of your short-term incentive. You're looking at your performance in comparison to a reference portfolio -- or, sorry, to reference indices. But when you look at your long-term incentive, you're looking at, you know, what is the actual return that you're bringing over that five-year period?

So right now, you have both elements in your incentive design. But going forward, how do you want to reward performance? How do you want to incentivize performance? What is the actual direction you want to take?

These are important questions to ask going forward.

PETER LANDERS: And if I can just chime in quickly, Brad. This is an area where, for example, CPP, when they look at their incentive program, one of the things they look at is they actually benchmark their relative performance to a reference portfolio that's made up of equities as well as bonds and things like that.

So that is an example of where you might want to change how you measure relative performance going forward away from what you're doing reasonably. There's other funds that have said, we are more focused now just on absolute returns over relative. And they have, you know, either increased waiting or moved completely to only absolute performance in both sets of sort of the annual and longer term incentive plans. That's another avenue you might want to move in. So just bringing that up as examples of, you know, where some of these things have been -- changes have been made. And maybe it's something that you transition to over time, so you don't necessarily do everything at once, but you can definitely try to phase these things in as you adopt the TPA model over a multi-year period. So I just bring that up as an example of one way to -- you could look at things.

BRAD KELLY: Thank you, Peter. The next consideration is looking at risk-adjusted performance metrics, because again, this is going to be more of a dynamic environment, more of a dynamic model, and it will heavily, heavily be weighted on the associated risks associated with various investment initiatives or, you know, potential investment opportunities.

So basically, you need to make sure that you're encouraging a balance between the returns that you want, the alpha generation that you're looking for and making sure that it's within that risk management environment or your risk appetite framework, as Peter and I would like to call it, going forward.

So if you're again going to bring in risk more fully into the process, questions you could raise is, you know, should CalPERS consider other metrics like a Sharpe Ratio, which is looking at the correlation between investment opportunities and anticipated volatility, or a Sortino Ratio, which looks at investment opportunities associated with -- or higher level investment opportunities associated with increases in incremental unit changes in downward risk volatility, or just a risk-adjusted return on capital, which is looking at potential returns associated with kind of a standardized return projection.

All of them have different values or benefits, weaknesses. This would definitely be up to Stephen and his team to look at, you know, the values of each -- the benefits to each and then the adoption of something like this, so that you can again apply this as part of the element -- one element or one of the considerations going forward on the -- on the incentive design.

PETER LANDERS: And if I can chime in here. This is an area where I would say we don't see as much maybe adoption, haven't seen as much use of these risk-adjusted metrics, but there are different ways of looking at the volatility of your portfolio and things like that, that again -- and this would be again I think working with Stephen to figure out what are the key areas that you're measuring, a look at the success of your total portfolio approach, and if, you know, some level of risk-adjusted performance, some specific metric is that -- you know, is deemed as being like a good indicator of that, that is something that you may want to consider adding into the incentive program. But I would say this one is, you know, where we see a lot more variability in terms of, you know, adopting it within an incentive program.

BRAD KELLY: Thank you, Peter.

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BRAD KELLY: The next one to look would be the alignment with investment objectives. Or sorry, looking at long-term horizon and strength of your fund going forward. Here, you're looking at, you know, the structure of your incentives over a long-term horizon, making sure that they're promoting long-term thinking in the decision-making process. Here, the question we would raise is, you know, is a five-year performance -- rolling performance period still the right time frame for CalPERS? Would you feel that there's benefit in moving towards a seven year, ten year, three year, all of which are utilized in the marketplace, alf of which have different strengths and weaknesses, all of which, you know, Peter and I are happy to model out going forward.

But ultimately, it will be up to your Board to determine whether or not you feel that -- you know, that the given performance period is significant enough that it does again focus attention on long-term sustainability of your fund and long-term growth and performance, but is also again incentivizing the right behaviors going forward.

PETER LANDERS: And this is an area where, like if -- again, if you look at like a CPP, they continue to use a five-year performance window. So again, just because, you know, we bring up the question, it's not to say that what you're doing is wrong currently. It's just something to, you know, revalidate and make sure that yourselves, as well as Stephen and the team, are comfortable that, you know, this is the right time period to look at and there isn't a different time period that we should also be looking at.

And I know we've shared this in the past, you know, there are some different ways of measuring investment performance. It doesn't necessarily have to be all based on five-year performance. It could be like a mixture of five year and one year, or something like that. So again, these are just questions to asking. It's not to say that what you're doing is wrong. It's just to revalidate that it's still correct and appropriate under a TPA model moving forward.

BRAD KELLY: Thank you, Peter.

Next, would be the diversification and asset allocation considerations going forward, always remembering that the diversification of your portfolio helps the hedge risk in many different ways. And so, in this situation, you want to make sure that you're regarding decisions that enhance portfolio diversification and optimize asset allocation and avoid overconcentration in high-return, high-risk assets.

In this dynamic environment, adopting a total portfolio approach, investment opportunities will be assessed, or should be assessed, based on the merits of their strengths against other potential investments, but then also looking at how it fits within the total portfolio, and how the risk profile fits within the total portfolio.

Again, it's more of a dynamic process. But again, you want to make sure that you're not just mobilizing assets or focusing asset concentrations in higher return opportunities that increase your overall risk profile going forward.

So in this situation, we would ask, you know, should CalPERS consider less quantifiable metrics around asset allocation as part of the incentive program. In this case, you'd be looking at things like speed in which your employees are able to pivot, and move, and make decisions to adjust their portfolios to give up assets or to liquidate assets to get them off into other asset classes. Again, these are things that would be more subjective, but would also be impactful going forward in terms of the adoption of a TPA.

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BRAD KELLY: The next one would be benchmarking and performance measurement, making sure that you're establishing a relevant -- a relevant reference portfolio that reflects CalPERS total fund objectives and are simple to understand. And the simplicity is key here. We have a lot of clients that question their -- the indices -- the tailored indices that are often created for them. And so here in this case, the question would be would it be more beneficial to have a simple reference portfolio going forward?

And so, you know, these are -- these are things that the Board definitely will have to consider going forward, and again, it will be up to Stephen and his team to direct you in terms of what he feels is the most appropriate going forward.

PETER LANDERS: Yeah. And even outside of a pure TPA, you're just seeing a general look at, you know, how do we simplify how we look at performance. And I know like a group like CalSTRS has been wrestling with this decision as well over the last couple years in terms of, you know, making their portfolio simpler to benchmark performance against and looking at ways in which they can move to more of a simplified, you know, reference portfolio.

So this is something that regardless of, you know, TPA, something that I think you'll want to look at as part of, you know, simplifying how you look at performance and how you can understand performance relative to where the market is heading. So this is definitely a key area to look at moving forward

BRAD KELLY: And the next consideration is definitely, you know, a standard one for all pensions in terms of making sure that they're -- that you're matching the liquidity needs of your organization against the capital constraints, so making sure that your incentives encourage the alignment with the capital needs of your organization, because again, you need to have cash on hand annually so that you can pay out your benefits. You know, that's the ultimately purpose of your fund. And so you need to make sure that always have adequate cash on hand. And so, that will help dictate or allocation where your investments are going to make sure that you can get access to that cash when required.

And so the question here would be, you know, should capital preservation and liquidity requirements be considered in the incentive program and how would we do that? And so, this would be a question that we raise to the Board. And if this is a priority of your Board and your -- of this Committee, then, you know, you'd be directing Peter and I to figure out, you know, how can this be properly and adequately placed into the incentive plan to make sure that you're making -- maintaining your Liquidity requirements of CalPERS.

PETER LANDERS: And definitely an area where I think the Board and the PCTM will want to, you know, work with Stephen to see like is this -- under a TPA model, is there a major concern here that you need to be looking at? Is it a key sort of performance indicator to -- you know, to indicate again the success of the TPA model that you're going to be looking at? And, you know, as long as there's comfortability, maybe there isn't a need to, you know, add in a specific reference or a metric in this area. But again, it's something that you want to just again validate as part of, you know, the review of the plan and how it might align with a TPA approach.

BRAD KELLY: Next slide, please.

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BRAD KELLY: The next consideration would be alignment with stakeholder interests, making sure that you're designing your incentives that ensure that you're aligned with the best interests of your fund. This seems standard, but this going forward, when you look at the increased autonomy that your investment professionals should have, the question here should be, you know, should CalPERS incorporate and enhanced due diligence consideration in the incentive program? So some funds out there that have provided enhanced autonomy for their investment professionals have a very, very rigid internal due diligence process that basically ensures that by the time it gets to the senior leadership team or by the time it gets to the Board, ultimately, they -- every step has been followed and that is an expectation, of course, of all of the investment professionals going forward within your organization.

The next would be the cost efficiency and fee structures. You want to make sure that you're still -- you're -- because part of your investment activities are internal and part of your investment activities are external, when you are looking towards an investment opportunity, you want to make sure that you're always looking at, you know, what is the cost of this opportunity, what are the fee structures -- underlying fee structures, especially if you're using external asset managers or external money managers, making sure that you're not exposing your fund to excessive fees, because again, they ultimately would eat away at your returns going forward.

So the question here would be, you know, should consideration of operating or investment costs being also included within your incentive program to incentivize your investment professionals to find, you know, lower ways to get higher returns or lower cost opportunities to get higher returns.

We can say that even some of the most transformed funds out there that exist globally still have various investment opportunities or asset groups that are managed externally for, you know, various reasons. Maybe they don't have the internal expertise or maybe they found an organization that has better opportunities that can give them higher returns, even on top of the fee structures that are in existence. But these are all considerations that your Board would have to -- have to take into consideration and figure out is this something you want to incentivize your staff to pursue going forward?

PETER LANDERS: And I know there's been, you know, some operating costs put in currently into the current incentive program on an annual basis. You have a cost number that also looks at costs relative to the results of the CEM benchmarking results. And so again, I think as part of a TPA exercise, the Board, and understanding again what are the key things that, you know, Stephen and the team are going to be reporting on the success of TPA is -- you know, are the current measures that are being used in the incentive program still good to be used under a TPA to model out and to look at, you know, your cost efficiencies and things like that, or are there different metrics from a cost perspective, whether it's on the operating cost side or the investment cost side that should be considered under a TPA model.

So again, it's about validating, you know, are the metrics that we have in place currently still valid or is there something different and a different way we maybe need to look at how we measure, you know, our cost efficiency and things like that.

So that's again why we bring this up. It's not to say again that what you're doing is incorrect, but it's revalidating whether you have the right metrics in place under a TPA model.

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BRAD KELLY: Thank you. And the last two considerations. One is the behavioral considerations associated with unintended consequences. You always want to make sure you're avoiding incentives that promote excessive risk taking or moral hazard through establishing appropriate safeguards. So again, this is making sure that you're functioning as a policy driven board and you want to make sure that you have safeguards in place.

And so, the question here would be, does CalPERS require additional administrative policies and/or procedures that govern the incentive program, that provide, you know, additional safeguards or different -- additional goal posts within the program itself.

And again, until there isn't more detail in materials of how Stephen wants to move forward and what he's proposing, we won't be able to opine on this until we know more detail going forward. But this is just to get you -- to get you thinking about do you feel that you currently have adequate safeguards in place? And if moving towards a TPA requires you to get you a bit worried about things and you feel that there may be a need for additional policies or procedures to be put in place, again, this is something that will help to shore up the incentive program going forward, and make sure that you're protecting against any sort of associated risk within your organization, making sure that -- again, that you're incentivizing the right behaviors going forward for your organization.

PETER LANDERS: And this is -- this is also where the Board can probably take some, you know, guidance or some feedback from, you know, HR, on do they feel like there's anything they need to, again, you know, from a procedural perspective, from a policy perspective, govern the incentive program under a TPA model. So I think, you know, there is some feedback you can definitely get from HR that can help in terms of, you know, what do they need to properly do things under a TPA model, so again, there can be a collaborative approach there as well.

BRAD KELLY: And finally, the tenth consideration that we've identified is looking at your regulatory and compliance considerations. Obviously, you want to continue to adhere to industry regulations, fiduciary responsibilities and ethical guidelines, and appropriate disclosure, but moving towards the adoption of a total portfolio approach, the question here is, you know, does

CalPERS require further enhancements in the transparency of its current incentive program? Would you feel comfortable providing more details in your report in terms of performance realized associated with the payouts that were granted to your senior leadership team and investment professionals.

There are different ways of looking at this. You know, some pension funds have adopted more of a private sector approach, getting into higher levels of detail. And others still feel that just providing that -- the higher level organizational performance attainment and the association with the payouts is adequate enough. But again, we would look to the Board to say do you feel that what you're currently communicating to your stakeholders and community is sufficient enough to make sure that they understand why you're paying what you're paying, and how people are earning the incentives that are being paid out.

PETER LANDERS: Yeah, definitely, you know, if you just look at say a CPP annual report, you'll see the level of detail they provide in terms of their CEOs, sort of pay and performance, some of the information they share on their incentive program, and how investment performance is measured. And again, not to say that CalPERS feeds to or has to go that far, but it is an example of, you know, the type of transparency and disclosure you could provide on the incentive program moving forward.

So again, just something to revalidate and figure out how comfortable are you in terms of where you want to go in terms of your level of transparency on the program itself and the outcomes from a performance perspective.

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BRAD KELLY: Thank you.

So -- and next, we just thought it would be beneficial to provide some high level thought around, you know, potential compensation policy adjustments going forward, things that you might want to take into consideration going forward. And the first -- the next slide, please.

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BRAD KELLY: The first thing that we like to highlight again is that your long-term incentive is already focused on a five year absolute total fund performance. So you are incentivizing a total portfolio or total fund objective here, which means that you aren't reinventing the wheel. We're -- we don't have to completely change your incentive structure, because you already are focused on a -- more of a total portfolio or total perform -- total portfolio performance benchmark going forward.

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BRAD KELLY: But when we look at your annual incentive, again, this is kind of serendipitous. When Peter and I first started working with CalPERS, we were saying it's great that you're warding that total portfolio or the total fund objective, but it would be great to look at your various asset classes. And moving toward to a TPA, that would make things a bit more difficult.

So it's great that we didn't -- you didn't take our advice and you didn't move along that path.

But that being said, you know, again, we'd like to remind you that the current annual incentive plan does not include asset class benchmarks, but they'll need to be some sort of updates in the policy to better reflect, you know, the principles of the TPA. And this may be, as we mentioned earlier, a bit more subjectivity in the plan that promotes that unified approach in managing the entire portfolio, making sure that people are all working together as a cohesive team to obtain that ultimate objective on an annual basis.

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BRAD KELLY: So in terms of the actual, you know, potential adjustments that we think that CalPERS might want to consider going forward, first is refocusing the incentive metrics. You might want to consider incorporating incentive metrics that direct -- directly align with achievement of total portfolio goals, and risk factor management, which is, you know, something new, and collaborative success. And we would have to identify what are ways in which we can reward, you know, working with a -- within a risk-mitigated framework or an adequate risk framework, and then also, you know, again how people are work collaboratively within their team and within -- and within the whole organization itself to make sure that you're achieving the goals that you've set out to achieve.

The next would be rewarding collaboration. Should the Compensation Policy be revised to include stronger initiatives or incentives for teamwork and collaboration, and look -- and potentially reducing the emphasis of individual performance metrics. And this is something that the Board's going to have to weigh going forward, particularly because, again, you want to make sure -- as Peter and I have been saying for a number of years now, you want to make sure that you're rewarding the achievement of the goals for the whole organization. Ultimately, to be sustainable, you have to meet that minimum threshold in terms of your, you know, actuarial targets, but at the same time you want to make sure that individuals are being recognized for above and beyond contributions, or above expected performance contributions that they're making.

Your high performers need to be identified, rewarded, recognized for the contributions that they're making, and that's just an intrinsic thing that we have. And when Peter and I are teaching about incentive design, that's a universal element of all incentive plans is that you need to find a way to recognize people for their performance, because people intrinsically would want that.

But that being said, you also don't want to create an organization where there are nonperformers are still being rewarded at the same level as your high performers, because then that would ultimately lead to moral issues where you're disincenting your high performers because they're saying I'm doing such a great job, but I'm not actually being recognized for it. And then unfortunately, what Peter and I typically see in the industry is that your high performers, if they haven't been recognized or aren't being recognized accordingly, they tend to get discouraged and they may start looking elsewhere for other opportunities other organizations that may value their contributions at a higher level.

So again, these are -- these are all things that need to be taken into consideration going forward. We're not providing you any direction right now until there's further details about the direction and the specifics that Stephen would like to implement and the specifics that you're comfortable moving forward with on the adoption of a TPA.

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BRAD KELLY: Next is looking at agility incentives. You know, as we mentioned before, should CalPERS explore ways to incentivize employees for dynamic decision-making and timely adjustments to the portfolio based on market conditions? There is strength in moving quickly and there's also risk moving quickly and you want to make sure that you have a nice balance between the two. And so therefore, it's going to take some time and some consideration on how you make sure that you're incentivizing people to work at the right pace and work within that holistic team environment as well.

PETER LANDERS: And this is -- this is an area where, you know, you can't really cover that as part of sort of the organizational-wide metrics, but it's something that, you know, HR will have to work to figure out how do we build this type of assessment, which tends to be probably more qualitative into that individual portion of the -- at least on the annual incentive, the individual portion of the incentive and how does that impact that weighting and that impact on the incentive?

So that's less something that you can really set an organizational-wide level, but more something that will have to be put into the individual performance assessments and those ratings that are given to people on that -- on that individual side of the incentive plan.

BRAD KELLY: The next is strengthening the long-term alignment making sure that you're focusing on that alpha generation and the longer term sustainability of CalPERS. And we understand and we recognize that you do have the long term, and you're a pioneer in this field within the United States, in terms of a adopting a long-term incentive. You have that. You have had one in place for a number of years now. But the question we would ask here is could CalPERS benefit from further aligning their compensation with long-term success of your CalPERS fund under this new TPA framework through the adoption of additional performance measurements looking at different time periods. And there are some organizations that basically have a time period -- a rolling time period -- performance period for their long-term incentive and then a slightly differing time period for their annual incentive.

These are things and considerations that need to be taken into con -- into play going forward. But again, there's strengths and weaknesses. And we won't know until again, and we have further details in what this TPA would possibly look like for CalPERS. And then we would be happy to work with this Committee and with Stephen and his team to look at, you know, what are the strengths and weaknesses of differing time periods and is it -- does it make sense, is it appropriate for them to be considered as part of that incentive program going forward?

BRAD KELLY: Next slide.

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BRAD KELLY: And then this next one again is something that has always been a discussion point for CalPERS in terms of the incentive design, which is, you know, balance between that quantitative and qualitative measures. You do have a nice balance right now between objective measures of the organization and key business priorities and objectives for individuals. And so, you know, they have been -- typically been categorized quantitative and qualitative measures. But going forward, will there be a need for an increased focus on these various factors looking at more qualitative elements such as collaboration dynamism, the need to adjust the balance between quantitative and qualitative performance measures? In your plan going forward, this may need to be reconsidered or revisited looking at how you're looking at changing the overall work environment and the practices of your investment team going forward.

PETER LANDERS: Yeah. And that includes your CEO under your purview, but also others within the incentive program as well to make sure that you are balancing those two considerations out appropriately. And again, it's not to say again that what you have right now is the wrong balance between the two, but it's revalidating whether that balance is correct moving forward or if it needs to be tweaked at all.

BRAD KELLY: And finally, the last adjustments that you might want to take into consideration is looking at, you know, how you are assessing the performance of your total fund going forward. In this case, instead of using more of a tailored index going forward, there could be value in having kind of a simple reference portfolio.

And this -- if you were to consider the simplicity here, it's very similar to how economists have kind of a standard basket of goods and the prices associated with each of those goods, and that's how they look at, you know, inflationary levels and things like that.

So that being said, there might be -- you know, and again, it's up to Stephen and his team to consider what would be appropriate and your Board to also consider if what he's proposing is appropriate. But moving towards a simple reference portfolio might be a simplified way of moving forward that again helps standardize the measurement of performance. And how your relative performance is being -- is being measured on an ongoing basis.

PETER LANDERS: And the other thing I'll say on this is, you know, this very much should not be the tail wagging the dog. So it's not about the incentive program driving the TPA objectives. It really -- and this is why, you know, we're not in a position right now to really give definitive answers to these questions is it really comes down to how is CalPERS going to be measuring the success of the TPA from an investment perspective? And once those parameters are align -- are set up, it's about then taking those parameters and seeing how do they align with the incentive program and making sure that the incentive program is then aligning to those measures of performance that Stephen and the team have identified under a TPA model.

So again, we're throwing these very valid considerations out there, but ultimately it comes down to aligning it with the objectives that you, as a Board, working with Stephen have set out relating to investment returns, the level of risk appetite you're comfortable with. And once you have those definitive answers, then we can work to develop any tweaks and changes that need to be made to the incentive program. But it all starts foundationally at the TPA, and the objectives, and the goals of TPA, and then we work to, you know, design the incentive program to align with those goals of TPA.

Next slide.

[SLIDE CHANGE]

BRAD KELLY: Thank you.

For the majority of this conversation, Peter and I have been talking about kind of the broader design objectives and elements of your incentive plan going forward, but also we want to make sure that you're looking at individual elements as well, making sure that individual performance, individual contributions are being assessed and included as part of this ongoing assessment process that you have within your organization. So in terms of looking at the potential adoption of a total portfolio approach, some other elements, and we've, you know, peppered the conversation throughout, around some of these things.

We think that there are three additional things that you might want to consider on the individual side. First and foremost is looking at the inclusion of peer reviews. How are peers viewing their colleagues' contributions in terms of, you know, providing feedback and collecting feedback and feeding into that decision-making process, making sure that they are collaborating, openly communicating, and are willing to share, again is breaking down that siloed approach to make more of a dynamic work environment investment opportunity -- or investment environment where you're able to pivot when required and people are able to work together, and share what needs to be shared, and work together as required.

Next, would be just information sharing and communication. Are people proactively sharing what they're seeing in the market and the research that they're coming across. Associated risks that might be inherent with some, you know, potential investment opportunities. Are they sharing that first and foremost with their team, but are they also sharing that with other asset groups as well, so that everyone has clarity moving forward, because again you want to make sure that any investment opportunity coming in fits the needs at that -- at that various juncture in time for, you know, the objectives of your fund and within the risk parameters that you've identified.

And then finally, and looking at flexibility, adaptability, and speed at which people are able to, you know, quickly adjust their strategies and work with other team members, and to make changes to their portfolio and their portfolio's objectives, liquid -- as I mentioned earlier liquidating assets or taking any dry powder that many have and transferring that to another asset group.

These are all things that will definitely impact the overall success of a TPA adoption, so we need to find out how this is going to be designed and to make sure that these elements somehow are included in their, so that you're getting the best out of this approach that your members and your fund can benefit from.

PETER LANDERS: And the only thing I'll add here is, you know, this is something that you, as Board members, won't have obviously as much eyesight into in the sense that you're not there day to day obviously working in the Investment Office working with the broader team. And so this is something that I think is something that, you know, Marcie, as CEO, as well as Stephen as CIO, working with HR just need to make sure that when they're doing those, you know, individual annual evaluations how are we evaluating and including these types of considerations in those annual evaluations. And some of it you might already be doing, and Marcie and Steve are already on top of, and there might be a few things that you need to tweak.

So definitely understand this part of the equation is definitely something that you, as a Board, won't necessarily have as much hands-on with, but it is something that Marcie, and Stephen, and HR will need to work on to make sure that they're incorporating these types of things in those individual performance evaluations that, of course, are tied to things like salary adjustments as well as potentially incentive awards.

So I just wanted to clarify that, because this is something that you won't necessarily be as involved in given you're more of an oversight role, not day-to-day working within the organization.

BRAD KELLY: Now, last slide, please.

[SLIDE CHANGE]

BRAD KELLY: Thank you. So again, as requested, this presentation, this education session, is -- it's primarily focused on just getting your creative juices flowing around this, getting your -- getting you thinking about how this may impact the compensation design going forward, things you may want to keep in mind going forward, changes you may want to make. But then also, we want to make sure that we're adhering to a realistic time frame, so that everyone is clear on, you know, a realistic path forward.

So in terms of potential next steps that Peter and I have seen here or what we anticipate, your Board needs to continue to evaluate the merits of a total portfolio approach and ultimately will need to decide on a path forward. It is our understanding that you're looking at potentially the November 2025 Board meeting to make this final decision, getting ready for the upcoming fiscal year.

And then in terms of depending on the decision that's made at that November meeting, we, or whoever may be coming in, will work with your Committee, with the PCTM, and the CalPERS leadership team to analyze potential changes in the incentive program going forward. And this would be done between the decision made in November and February of 2026, and ultimately, be presented at the February 2026 PCTM meeting.

Next, would be looking at, you know, potential updates to performance metrics, weightings within the CalPERS incentive program going forward, getting prepared for the upcoming fiscal year. So this should be done by the April 26th Committee meeting, PCTM meeting. And then finally, receiving feedback from that April meeting, we would look towards making some adjustments or whatever needs to be done, getting you prepared for that upcoming fiscal year. So making sure that any updates are made to the policy, and the incentive design, and making sure that everyone is comfortable with what's being proposed and what's going to be implemented, and make sure that that's in place, and that ultimately will be discussed at the June 2026 PCTM meeting.

With that, I'll -- we'll open that up -- open it up to questions and happy to field any questions you may have at this point. You may have a lot of questions. You know, we don't know.

CHAIR WILLETTE: Thank you so much. Really appreciate that thorough presentation and all the information presented.

At this time, we do not have any questions from the Committee.

All right, they're coming.

VICE CHAIR COHEN: Good afternoon -- or morning. Still morning. Good morning.

I wanted to know what's the sequencing going to be to adopting -- going to be with the adoption of TPA? So is the Board going to -- the Board is going to want to see how the TPA is going -- is going to be managed and how culture has been adopted before putting new compensation structure in place. I just wanted to see what your thoughts were on that.

PETER LANDERS: So I'll start, and Brad, if I miss anything, feel free.

I think that's why we did put this sort of path forward. And so, you know, this is something obviously we can't do in one specific meeting, so it's going to involve multiple meetings in terms of the sequencing. I think, you know, once in November comes around, assuming a decision is made at that point, I think it's -- you know, that's where a lot of the heavy lifting will be done on this. We'll probably have to canvass Board members, PCTM members, get your thoughts on, you know, what you would like to potentially see changed in the program. We'll also look, of course, at market practices, as well to sort of see what's -- you know, what's -- what are common things that we've seen done under TPA approach.

And so that first, I think, sort of, you know, information gathering, analyzing potential changes, bringing forth some potential solutions probably will start being socialized at that February PCTM meeting, potentially if the full Board wanted to hear about it, we could probably participate as well in the fully Board meeting. Also around that time frame or it could be done in, you know, maybe some interim updates at a January Board meeting, or what have you.

We're just working within the sort of currently structured PCTM structure. And then I think really it's about taking feedback from that meeting about potential solutions and really trying to put a little bit more meat behind it, in terms of coming back at an April PCTM with, you know, here are the changes, if any, to the metrics, here are potential weighting adjustments between different metrics or quantitative, qualitative, obviously justification of, you know, how this aligns with the market, how it aligns with the objectives of TPA.

And then I think it's really about gathering additional feedback during that meeting. And then -- you know, really, again, as we said in our path forward, taking that feedback and trying to address those changes, you know, for the June meeting, so that they can be put in place as of July 1, 2026, which would be again - and this is just going to the timelines we understand - when a TPA investing approach would, you know, formally be -- start being adopted, sort of that July 1, 2026.

We would try to, as much as possible, align the incentive program with the -- you know, with the adoption of the TPA, so the timing would sort align. But we would obviously have multiple check-in points along the way to talk through, you know, what those adjustments will look like and then gather feedback from this Committee and potentially from the full Board.

VICE CHAIR COHEN: So I do have a follow-up question. So why should we wait an entire year for this to take place?

BRAD KELLY: Sorry, for the adoption of TPA --

VICE CHAIR COHEN: Yes.

BRAD KELLY: -- or you --

VICE CHAIR COHEN: Yes.

BRAD KELLY: -- just to the incentive program?

VICE CHAIR COHEN: Both, I guess.

(Laughter).

BRAD KELLY: So as Peter mentioned earlier, you know, by no means are we proposing, you know, to have the tail wagging the dog here. So, in terms of our role, our role is focused on your compensation, your compensation design. And we won't be able to do anything until we have the details from Stephen and decisions made by your Board to say we're comfortable with this moving forward, we're comfortable with the adoption of a TPA. We're comfortable with the way that Stephen has proposed to implement it.

And then now, Peter and I will have more detail to say, okay, we're ready to look at how does this impact or impact the current incentive design, or how should the current incentive design be augmented to again, as we always say, incentivize the right behaviors. So that being said, this slide 22 here, our timing is predicated on the Board's decision to adopt it. What happens between now and November is solely up to the Investment team, the leadership team, and the Board. And we're ready to jump in at any juncture to start making structural changes or recommendations going forward, stress testing where needed.

But at this point, again, it's up to the internal process within your fund in terms of how quickly do you want to get through the design elements of the TPA, how comfortable are you with that, and if you do want to move forward. And then once we have that green light, or maybe it's a red light. Maybe, maybe there isn't an appetite in your Board to adopt a TPA. In that case, we would, you know, continue to work with your current incentive structure.

But if you do want to pivot and you do want to make those changes, then, you know, from a timing perspective, we're ready to jump in as soon as those decisions are made.

VICE CHAIR COHEN: Thank you.

PETER LANDERS: The only thing I'll add to Brad's point is, yeah, we sort of you predicate on a November decision. If this Committee, or the full Board, feels like you require additional education, additional information, you know, we do have scheduled to -- you know, we're scheduled to be there at a June meeting.

There's also a September meeting as well around performance valuations. So we can definitely -- you know, if there's additional education or material required, we're obviously open to doing so, but really, you know, in terms of doing a lot of the heavy lifting in terms of the implementation -- not the implementation, but figuring out what the recommended design should look like, it really starts in earnest once a decision is made by the Board to move forward on TPA.

So, yeah, if you were to make a decision in June or September, we could obviously start the process sooner, but to Brad's point, you know, we don't -- the tail can't be wagging the dog. It really needs to be this Board agreeing that TPA is the way to go moving forward. And then us, you know, again aligning the programs to align with that new approach.

CHAIR WILLETTE: Thank you. Thank you for the question. We also have Board Member Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. And thank you, Chairwoman Willette, and thank you, Peter and Brad, for your elegant presentation.

I'd like to go back to your -- potential compensation for policy adjustments. As you mentioned, CalPERS's long-term incentive packages already focus on a five-year absolute total fund performance. And then as your -- you propose, we don't have a current structure with respect to asset class benchmarks to reflect -- to reflect the principles with respect to total -- the total portfolio approach. I'm just curious, what are your thoughts on how you would visualize that in terms of policy, if you can elaborate on that?

PETER LANDERS: So I'll start, Brad, and if --

BRAD KELLY: Sure.

PETER LANDERS: -- feel free.

So this was -- this was where we were making the thing that, you know, under the traditional sort of asset allocation model, it's very common to have sort of a total fund and asset class benchmarks for asset class professionals, so -- you know, and having certain weightings between total fund investment performance and asset class investment performance. But what's interesting is you haven't adopted that historically, even though you had this, you know, the more traditional strategic asset allocation model. But if you were to move to a TPA model, what's interesting is, is that more of that model is to actually tie mostly everything to total fund performance, so there is less sort of less weighting or less emphasis on sort of asset class performance, because everyone is working towards those overall total portfolio objectives, whether it's a certain level of alpha generation over a reference portfolio or whether it's a certain level of absolute return over a time period.

And so actually, a lot of the visualization is less so tweaking, you know, asset class, and how are they doing relative to their asset class benchmark, but more towards, you know, how are they working as a team towards team or departmental objectives that advance the TPA model. So it becomes a bit -- a little bit less quantitative in terms of how did you do relative to your asset class benchmark and more about other sort of team or departmental objectives that feed into the overall total portfolio approach, and the success of the total portfolio.

So it's -- it is a little bit of a different way of looking it, but it's less about did you beat your asset class benchmark and more towards what are you doing, as an asset class, as a team, as a department, that feeds towards the overall success of the total portfolio.

COMMITTEE MEMBER PACHECO: Thank you very much.

I -- so basically, it's tying back to the first slide you brought up, which was the impact on the governance, the governance model, the people, and the investment model all tying together. Is that -- is that my understanding?

BRAD KELLY: That's correct. That's correct.
COMMITTEE MEMBER PACHECO: Excellent. So I just -- I just wanted to figure that out. Thank you very much for that comment. And thank you, ma'am.
BRAD KELLY: And just to follow up with that. So basically, when you -- when you look at it, you know, historically, the Board has been responsible for that strategic allo -- strategic asset allocation exercise and the ultimate approval of that asset allocation structure going forward.
In this case, it's more of a dynamic environment, just to be clear. And so you're giving up the responsibility that you have around that strategic asset allocation process, but you're a bit more involved in terms of making sure that risk adherence is being properly met, which changes your focus a bit. Some funds, what they do is they have, you know, a higher due diligence process in place at the investment professional level. And based on their policy, the Board doesn't get involved or the Board does get involved in specific and individual investment decisions, if it's beyond a certain dollar threshold, or if it is involves -- there's one fund that has a dollar threshold or if there's potential reputational risk associated with it.
Those are conditions that the investment

professionals are given to bring things up to the Board. If they don't impact, or surpass that threshold, or impact the reputational -- the reputation of the fund, then there's no need for it to go up to the Board. So the questions is would you be comfortable with a policy and a process like that. We don't know. But until we know -- again, once we know more details, then we can start bringing some of these recommendations forward for you to opine on

COMMITTEE MEMBER PACHECO: Just a follow-up question on that. Thank you, Brad. With respect to that, is that one -- is that the OPTrust, one of the -- one of the examples you brought up?

BRAD KELLY: That specifically is OMERS. OMERS has a policy where the Board doesn't get involved unless it's beyond, I believe, a billion dollar investment, and it has to also have some sort of reputational risk associated with it.

If not, they have a very rigid structure in place for their professional -- their investment professionals to go through to determine whether or not an investment opportunity fits the portfolio, fits their risk framework, and is going to give them the returns that they're looking for in the long term.

COMMITTEE MEMBER PACHECO: Thank you. And thank you very much, sir.

CHAIR WILLETTE: All right. Thank you so much. Everyone, thank you for the presentation.

I also just want to highlight on this slide, page 22 of 23, potential next steps. As a Committee, we can -- we can look at these potential next steps with or without TPA, regardless of the Investment Committee decision on that, in terms of potential changes to incentive program, the performance metrics and weightings, et cetera. So I think that would -- that's really helpful to have that long-term view for this Board -- or this Committee.

With that, we'll move on to item 5b, which is our annual review, and I'll turn it over to Ms. Tucker.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you, members of the Committee. Michelle Tucker, CalPERS team member.

Item 5b is an information item. To comply with the Board's policy, incentive metrics are reviewed annually by the Board's primary executive and incentive compensation consultant, Global Governance Advisors. GGA will present their initial analysis and observations on the incentive metrics for the Committee's consideration and discussion today.

Based on the Committee's feedback, they'll return in June 2025 with final recommendations for implementation in fiscal year '25-'26. Final Board-approved metrics will be included in some combination on incentive plans for eligible executive and investment management positions. That concludes my opening remarks and we can invite Mr. Landers and Mr. Kelly again to begin their presentation.

PETER LANDERS: Thanks, Ms. Tucker. Really appreciate that.

And I'll start off by sort of saying when doing this incentive metric review, we've done this for the last several years. And typically, you know, we've been doing this under, you know, relatively normal, you know, strategic asset allocation approach to investing and things like that.

What we found ourselves in review -- in, you know, producing this letter and this review this year is we're in a bit of a gray area, because you're sort of -- yes, you're still under a strategic asset allocation model. You're potentially moving to the TPA approach in the next say six months or so. And so, you know, this letter is a little bit different in terms how we structured it this year. And I think really there's two key takeaways for you, as a Committee and as a Board.

And one was, you know, we had heard some questions, and it had been a few years, since we looked at the total fund value-add performance levels. We'd made some pretty material changes to two or three years back, in terms of, you know, the performance expectations, both for a minimum threshold level of performance, as well as sort of on that top end, to really make sure that, one, you're aligning closer to typical market norms, but also to make sure that, you know, the value-add hurdles at that point were seen as still being challenging, but reasonable for people to at least have a reasonable expectation to be able to achieve certain levels of performance.

And, you know, it's a very common practice to, you know, review. You made those changes two or three years ago. Let's relook at it. We've gone through a few more cycles. What do -- what do the performance levels look like. So we've done that in this analysis. We also had heard there are being some questions around the operating cost measure in terms of your, you know, operating efficiencies. And again, were those expectations, you know, in line with historical performance levels, should they be included moving forward, and things like that.

And then one other last piece that we were asked about was, and this was something that you, as a, you know, Board, will have to approve from a policy perspective, but is really something that HR is the one that actually administers is, we have this five-year investment performance piece, incentive programs, for, you know, CEO and for other incentive-eligible staff that have that condition, how do we integrate that in for someone who is newly joining CalPERS, someone who's been newly promoted from a position that maybe wasn't eligible for incentive before or that didn't have total fund performance in their incentive before to someone that now does have it in there?

And so we've opined and provided some feedback on sort of market trends we've seen in this area and quite frankly our preferred approach moving forward. So I sort of set the table. And there's a lot of detail in this letter that we've sort of added for additional sort of reference, and, you know, understanding of how we got to where we are. But I sort of set the stage with that in mind that there's really three key areas we were, you know, specifically asked to look in and that we've done.

Ultimately though, when we've looked at the market as a whole, you know, we saw that, you know, you have those five main buckets that you look at from a corporate -- or an organizational perspective, total fund performance, operational effectiveness, which is that operating cost measure, Investment Office results versus CEM, customer service and stakeholder engagement. We've done a lot of, you know, tweaks and adjustments to each of those metrics in terms of expectations and how that is looked at.

But when you look at it as a whole, especially given we're in this sort of a gray area, in terms of we may be adopting a TPA approach and that we're of the view that right now I think for this upcoming year, it still make sense to include all of these metrics in the -- in the metrics, obviously in different, you know, weightings, depending on the individuals, but these five metrics still stake sense. They still generally align with market practice. They still generally align with some of the strategic goals that you as an organization have set out.

But what I will say is when we come back next year, especially if you choose to adopt a TPA model, that is where we'll probably have some more material and more -- larger adjustments in terms what the metrics might look like, how they're measured, the weightings on these things. And so, next year is probably where we'll see a lot more movement and heavy lifting on this.

This year, I think it's more about making a few tweaks to make sure we're, you know, aligning with historical performance, where the organization wants to go, but also dealing with certain, you know, administrative issues and clarifying certain things there. So this year is more of a tweak and modified next year is probably where we're going to be doing a lot more heavy lifting in terms of some material changes potentially to the incentive program.

I'll quickly take you to -- and sorry for my scrolling through here. And I don't know if this can be shared on the screen, because it's a Word file not a PowerPoint presentation, but I'll take you to page 10 of 19 in the memo itself, in the opinion letter. And again, if that can be shared on the screen, great. If not, it should be in your -- you know, on your Board books and that. And it's labeled Appendix C, "Investment Performance Expectations, a 10-year Performance Lookback Analysis." And I just wanted to, you know, while you're sort of scrolling to get there, just speak to, you know, what we found.

When we look back at the last 10 years of performance, we assessed it against that 10 -- 0, 10 -- 0, 5, 10 variance from benchmark expectations. And I'll remind you as well that when we look at historical probability of attainment, we like to say that a threshold level of performance should be hit about 80 percent of the time, so eight out of 10 years. A target level of performance should be hit about six out of 10 years, and then a maximum, or that sort of superior level of performance should only be hit about two times every 10 years.

And so what's interesting is when you look at the analysis, is that, you know, the threshold being set at zero, that's a -- quite a standard market practice to be setting sort of that minimum expectation that you don't -- you only earn an incentive when you started beating the benchmark. You know, that was hit about 60 percent of the time. Interestingly, it's been hit all three years since we, I think, put in the new 0, 5, 10 approach to things? So being hit a little wit below target. Target being hit right on about 60 percent of the time. But more so on that top end, that maximum level, you're seeing over the last 10 years, it's been hit 50 percent of the time. And so what that says is is that potentially this hurdle of 10 basis points to get that 1.5 payout might be set a little bit too low.

And that's where, you know, we're going to take another look at this and come back in June with some potential tweaks and potentially making that level of overperformance, that 10 basis points maybe increasing that a little bit, which not only aligns with historical performance, but I think also generally aligns with a common belief that you obviously want to be incenting more potential alpha generation from the portfolio on a go-forward basis. So it would align with those two key things. So again, we'll be coming forth in June, but I just wanted to sort of summarize what the key takeaway is on the investment side of things.

As well, I just want to also point you to page -- this would be page 15 of 19 of the letter, which is Appendix E, "Enterprise Operational Effectiveness, Eight Year Performance Lookback Analysis." I'll give you a second to look at that.

And what we did again was look at the last eight years, because we only had eight years of performance since you've really started to track this metric. And we looked at again what the current hurdle rates are and how does that relate in terms of, you know, the expected levels of performance. And what you're seeing here, again using that 80-60-20 model, is that you have a threshold that is being hit a little bit more than the desired level of performance, and you have a maximum that's being hit slightly below, so not hitting that two out of 10 years, only the one out of eight, in terms of that maximum hurdle rate.

So again, this is something that when we come back in June, we may be coming back with some tweaks to that lower and that upper range in terms of, you know, that enterprise operational effectiveness to sort of make sure that we're aligning again with that 80-60-20 rule more likely and using that historical performance to really guide some of our decision-makings on this. And then it would be pretty standard to do that on a regular basis.

And then the last thing that I'll speak to is this whole idea of integrating investment performance in. So that's actually pages 11 to 13 of 19 in the report. We basically highlighted three potential approaches of how you can integrate investment in. One is you phase in the time period that someone was in. So, for example, if someone has just joined, they're in year one of their role at CalPERS, you would literally measure that individual on one year's investment performance. In the next year, now that they've been here for two years, they would look at it -- you'd look at performance over two years, then three years, then four years. Then finally, once they've been in the role for five years, you would finally be measuring them against five-year performance.

And that's something that we've seen some organizations do in the marketplace, but it is something that is very administratively burdensome, because you're obviously not tracking -- you know, you're tracking the five-year performance, but you're also having to track, well, okay, this person has been there for a year. They're under one year. This person's been there two years. It can be quite administratively burdensome.

It also can lead to different results for different people, depending on those time frames. So if you had really good performance over the last two years, but not good performance over the last five years, all of a sudden the people that are in five years are getting penalized and the people that are, you know, only there for two years and have the higher level of performance are getting an incentive payout. And so there can be some inequities in terms of the team there.

The positive to this, and this is why this is something that's adopted, is there is a view philosophically that says, well, no, well, we should only be rewarding people based on the time period they're able to actually influence results. So if someone has only been in the job for a year or two, why should they be rewarded or penalized based on decisions that were made before they were in the role? And so that's sort of the -- you know, again playing the pros and cons, that's, you know, where that comes up. I would say that's used a little bit of the time.

The next approach is the immediate adoption of the desired performance period. So what that means is someone joins CalPERS, they go through a year, they are automatically measured on the five-year performance, even though they weren't here for four of the five years. This is obviously, you know, a lot easier to administer, because everyone is being measured under the same time period. It obviously -- you know, everyone is then receiving the same results, because everyone is being measured over the same period, so everyone is getting that same multiplier, at least on the investment side of things.

But, the counter to that is to say, you know, is someone being overly penalize or rewarded for performance they didn't help influence, and that's sort of the key, you know, con I guess you could say to it. But I will say, especially in the U.S. marketplace from our observation in reading through the policies of, you know, a lot of your different pension fund peers and others, this tends to be the most common approach that has been followed in the marketplace.

In speaking with your HR group, you historically have used more of the Alternative 1 approach, which is HR is actually phased in, you know, based on someone's length and time in the roll and that, up to five years. So you've historically used one. Number two is sort of the more common approach. But there is a third one, and I would say this -- you know, we've seen this used, but not as often, and this is to say that someone is in the role for a year or two, they will be measured for that one or two years based on actual performance, and then you will assume a target level of performance for all other years, leading up to that, so year three, four and five. So you're still measuring five year performance, but you're essentially putting in artificial plugs of target performance in those years they weren't at the organization.

And again, you know, there are positives to this in terms of it is still more aligned with someone's ability to influence decisions, and that type of thing. However, I think what it can be -- on the con side of things can potentially be is you're sort of plugging in artificial numbers for the years they're not in there. And so you're not actually using actual performance to determine that. You are sort of mixing in actual and an assumed level of performance. And so, you know, that can sometimes open you up to criticism and things like that. And so again, just wanted to, at a high level, point that out.

And so, you know, in sort considering everything, our initial recommendation, and obviously this is an information item, so we'd be looking for any feedback that you, as a Committee, have. You know, we're of the opinion that, you know, align closer to market practice, you know, make things a little bit more administratively easier to administer, but also for people to understand, and move more towards that immediate adoption, so everyone is on the five-year performance right away. That would be our professional sort of opinion and recommendation, but again this is an information item. We, you know, open it up to any feedback that, as a Committee, have and then we can work with HR to tweak or not tweak any of the current policy language for that June meeting coming out of this.

So with that, I'll sort of open it up. I'm sure there are some questions that have come up, but open to any questions you all might have.

CHAIR WILLETTE: All right. Thank you so much for that presentation. I don't have any questions from the Committee. I do have public comment though.

So I'm going to ask J.J. Jelincic to come up for public comment. You will have three minutes.

J.J. JELINCIC: J.J. Jelincic, beneficiary.

I think the Board needs to look at the management salary structure, but it also needs to reconsider what it incentivizes through the bonus structure. You get what you reward. Operational effectiveness is measured by the ratio of unallocated overhead to total operational cost. If that ratio is below a negative 1.05, the bonus is 1.5 times the target. Let me remind you that that ratio is affected by cutting overhead or increasing total costs. Higher management -- in fact, higher salaries, and bonuses, and the increased use of outside vendors increases the denominator.

I would point out that the ratio is negative if, and only if, the overhead or the total costs are negative, either of which would be a neat trick. For those who are incentivized to pay benefits, they currently get 150 percent of the target, if only three percent of the benefits are paid not just late, but later than established service levels.

Paying benefits on time is a core function and is highly automated. Is paying only -- is paying only 97 percent of benefits on time outstanding performance? Those who are incentivized for stakeholder engagement, they currently get 150 percent of the bonus, if only 19.5 percent of the customers are unhappy. Are those levels that define success?

The Board needs to discuss what is success and figure out how to incentivize that definition.

Thank you.

CHAIR WILLETTE: Okay. We have no other questions from the Board. So at this time, we can take a 15 minute break and we will reconvene at 11:20.

Thank you.

(Off record: 11:05 a.m.)

(Thereupon a recess was taken.)

(On record: 11:20 a.m.)

CHAIR WILLETTE: Okay. Thank you, everyone. Welcome back to our Performance, Compensation and Talent Management Committee.

Our next item on our agenda is Item 5c, our compensation review and recommendations for statutory positions. Ms. Tucker, if you'd like to begin.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you, Chair Willette and members of the Committee. Michelle Tucker, CalPERS team member.

Item 5c presents compensation survey data for classifications covered by the Board's Compensation Policy for executive and investment management positions, including the Chief Executive Officer, Chief Actuary, Chief Financial Officer, Chief Operating Officer, General Counsel, Chief Investment Officer, an all investment management positions.

Michael Oak of McLagan, is here today to present a review of CalPERS compensation data in comparison to the Board's defined comparator groups for executive and investment management positions.

Following McLagan's presentation, the Board's primary compensation consultant, Global Governance

Advisors, has reviewed their survey date, and Brad Kelly and Peter Landers will be back with us to provide their initial observations to aid the Committee in determining next steps.

The goal of this item is to review the data and discuss gaps in compensation where applicable. Based on the Committee's direction, GGA will return in June 2025 with refined recommendations on compensation ranges for covered positions.

That concludes my remarks and I can invite Mr. Oak to begin his presentation.

(Slide presentation).

MICHAEL OAK: Great. Thank you.

[SLIDE CHANGE]

MICHAEL OAK: So this review covers the positions that are listed. A footnote at the bottom is that the Chief Health Director is a relatively unique position at CalPERS and the McLagan financial services data isn't a good database for that, so we could have, you know, pulled something that wasn't a great match and made it up, but we think the better approach is to find actual relevant positions. And I think GGA has done that for you in their work. So just all the positions here were covered minus that one.

We will look at the market 25th, 50th, and 75th percentile. So as a reminder, you know, the 50th is the midpoint, 25th means 25 percent of the population is paid less than that and, 75th means 25 percent of the population is paid more than that. So these ranges that we look at -- look at will basically cover the middle 50 percent of the market. And we break it out a number of different ways for you. So we look at base salary alone, base salary plus cash incentives a couple different ways, and then base salary plus long-term incentives. And then just as a note, this is looking at what we would just consider pure direct compensation. It doesn't include benefits, retirement, health, et cetera, et cetera.

[SLIDE CHANGE]

MICHAEL OAK: So our methodology is relatively consistent with prior years. Although, we did refine the peer group definitions based on work that you did with GGA. So for executive positions, there's effectively three groups that we then do an equal weighting for. So the first group is leading U.S. and Canadian public funds. The second group is California-based agencies. That data is provided to us by CalPERS staff. And then the third is private sector firms, which are asset managers, banks, insurance companies -- asset managers, but then banks and insurance companies. And again, those are equally weighted, one-third, one-third, one-third in the final number, but the individual breakouts are also included in the appendix for you.

Invest management is a slightly different peer group. We look at -- it's a two-thirds, one-third weighting. So two-thirds to large, complex institutional investors, so that's U.S. and Canadian public funds as well as leading universities and corporate plan sponsors. And then for private sector organizations, we look at a slightly broader market here of investment advisory firms, insurance companies, and banks. And that's scoped assets of one-third to 125 percent of CalPERS.

Any questions on peer groups before we move into the actual data?

[SLIDE CHANGE]

MICHAEL OAK: Great.

[SLIDE CHANGE]

MICHAEL OAK: I'll go a little bit slow on the first slide, just in case this format is new to you and then the rest of them are just repeating the same format. So there are four Columns of data. The first is just base salary alone. So in this case, we're looking at the Chief Executive Officer. The midpoint of your range is 503,000. The market median is 513,000. You're right at -- your midpoint is right at market.

When we look at salary plus target cash bonus, so if the bonus was paid exactly at target plus the base salary, we get to basically a million dollars at CalPERS, the market is 1.5 million. So your salary plus cash bonus is basically closer to the 25th percentile of 936 than it is to the median. And then if we say, okay, well, what about if we look at your salary plus Maximum bonus, where does that land? And again, that would bring you to 1.2 million for CalPERS midpoint and 1.5 million as the market median.

So if you look at that CalPERS range, you know, if the incumbent was paid at the -- at the maximum range of CalPERS, meaning their salary was the 629, and that throws through, they'd be paid 1.5 million, which is a little bit closer to the market median. So salary right on market. Total cash compensation, as we define it, you know, you're closer to the -- between 25th and 50th, depending on which metric you're looking at there.

And then the last column here is when we add long-term incentives. So for CalPERS, this would be your long-term incentive plan valued at its target. And then for the market this would be restricted stock, mutual fund deferral, stock options, et cetera. If it's performance based, also valued at target. If it's just time based, it would be valued at grant date value. So the value of award at the time that it was granted, not the value that it ultimately pays out at.

So again, here, your midpoint would be 1.5 million. The market is about a million dollars ahead of that on a total comp basis. And you can see the size of these bars. So, you know, you have obviously these tight bands that you're -- or they're generous bands, but tight relative to what you see here on the screen. They look tight. The market has a wide range of pay, especially for the more senior executive positions. And then again, just as a reminder, the other thing to mention is that 50 percent of the market is missing from this page. So 25 percent would be paid kind of below that bottom graph, and then just 25 percent paid above.

And the visual here -- so the white break in the bar is the midpoint for CalPERS and the median for the market. And the bar represents -- the bottom of the bar would be the 25th percentile and top of the bar would be the 75th percentile or the minimum/maximum for CalPERS.

Any questions on either this data for the CEO or the format of the data?

CHAIR WILLETTE: Yes. Thank you. We do have a question.

COMMITTEE MEMBER ORTEGA: Thank you. Just a question on the total -- salary, plus target, total comp on the market side, that gap you were describing, would that -- is that largely driven by the inclusion of the bank and insurance industries --

MICHAEL OAK: Absolutely. Um-hmm. For sure.

COMMITTEE MEMBER ORTEGA: -- in the comparator groups? Thank you.

[SLIDE CHANGE]

MICHAEL OAK: So for the CFO, again, I'll just kind of point that your salary of 312 is pretty close to the market of 337, a little bit below, but not terribly. Salary plus target, cash incentive, 530 versus 542. Salary plus max, 640 versus 542. And then there's no LTI for this position, so the market long-term incentive -- the market total comp is 716 at median.

[SLIDE CHANGE]

MICHAEL OAK: General Counsel, 335 base versus 317 market. Salary plus target cash is 570 versus 565, so right at median there. And then your salary plus max of 787 versus the median of 565 or the top quartile of 682. And then the total comp for this position on the market would be 705.

[SLIDE CHANGE]

MICHAEL OAK: Chief Actuary. Salary, 275 is a bit below market of 302. If we add the entire -- if we add the target incentive, you get 468 versus 497. Incentive at maximum would put you at 564. And then the market total comp with long-term incentives is 622.

[SLIDE CHANGE]

MICHAEL OAK: Chief Operating Officer. Your mid -- median -- your midpoint happens to be to the dollar the market midpoint, 335. If we add that target incentive, we get CalPERS at 570, market at 561, at maximum, CalPERS would be at 687 versus the market of 561. And again, the market with a long-term incentive would be 714 at median.

[SLIDE CHANGE]

MICHAEL OAK: Any questions on these executives before moving on to the investment positions?

Great.

[SLIDE CHANGE]

MICHAEL OAK: So this format, very similar in terms of what we're looking at, but each page is basically a pay element. So this is the base salary only for all the positions. Bars represent the same thing, 25th, 50th, and 75th. So you can see here, you know, the Associate Investment Manager, your base is 167. Market salary of 180, so on and so forth. I don't -- I don't want to use up your time reading numbers to you on the page, but you can see here that you're not too off for market in most positions -- most places for base salary and obviously there's a couple positions that you might be a little bit higher, a little bit lower.

[SLIDE CHANGE]

MICHAEL OAK: If we then add in target cash, kind of a similar positioning here that you are -- you kind of visually just look where those white lines are. The white -- the white and the blue bars are pretty close to that white line in the gray bars. And that's again your midpoint verse the market median.

[SLIDE CHANGE]

MICHAEL OAK: So now this is at -- let's see, make sure, salary, total cash, max total cash. All right. So this is your cash bonus paid at maximum and you see here, as we would -- or as we would expect, that those white lines are raising up a little bit in the blue bars. The market data stays the same in terms of total cash. So if you were to maximize your incentive, most positions would be somewhat above median.

[SLIDE CHANGE]

MICHAEL OAK: And then if we look at total compensation. So again, this is base salary, plus cash bonus, plus long-term awards at target. And then the market again, same situation. You see here that the Associate Investment Manager, Investment Director, Managing Director are all kind of right at the midpoint as well as the CIO. The COIO is a little bit below and the

Deputy CIO is a little bit above.

[SLIDE CHANGE]

MICHAEL OAK: Any questions on this data?

Did you care to look at in the appendix really deep down there's a list of -- a list of the public funds and a summary of the private sector. Happy to kind of share those in case there's any questions on what's included or who's included, but if not, I don't need to take up your time.

CHAIR WILLETTE: Yeah, if you don't mind going through them. Thank you.

MICHAEL OAK: Sure. So bear with me, I think there's like 50 pages to -- all the pages I'm skipping over were to the question earlier, so this, for example, is just public fund data, just California data, just private sector date, so you can kind of see that, if you care to kind of compare what's in the sausage, if you will.

Do you have control there? Sorry, the clicker seems to have given up. I just want to forward to the -- yeah, back one side.

[SLIDE CHANGE]

MICHAEL OAK: So here, the color code -- and if I name a come wrong, I apologize. I'm color blind, but it's supposed to be blues and grays. So if a row is blue, that means that it's been added since the prior analysis. So it could be that they -- I think there were some that they were -- initially, weren't in the survey when the prior peer group was determined. And there's some that now meet the, you know, newly refined criteria that you all worked with GGA to refine.

So, you know, the current peer group you can see. There were 11 organizations with the median assets of 182 billion. Now, there are 16 organizations with the median assets of 184 billion. And obviously, we didn't show all the forms that are smaller. We just wanted to demonstrate that in our survey, LACERA would be the next largest organization that participates, and then everyone -- them and everyone else below would be too small to include.

And you see here again this is a mix of Canadian and U.S. funds with significant -- with significant internal management and similar size.

Questions on this page?

Great.

[SLIDE CHANGE]

MICHAEL OAK: California based agencies are listed here.

[SLIDE CHANGE]

MICHAEL OAK: This is just --

VICE CHAIR COHEN: Can you go back?

MICHAEL OAK: Sure.

VICE CHAIR COHEN: Just go back.

MICHAEL OAK: We're not able to show kind of our name by name in the private sector, but we can only summarize it for you. So the banks -- and again, just to clarify this is the investment division within a bank, so Morgan Stanley Investment Management, JP Morgan Asset Management, Goldman Sachs, et cetera, not the CEO of the bank or so forth -- of the investment management division, and same with the insurance companies. So at median, the banks were 325 billion, insurance companies 114 billion. And that's that for them.

[SLIDE CHANGE]

MICHAEL OAK: And then for investments, the leading institutional investors, it's basically that same group we saw for executives, but now we're adding in corporate plans sponsors, like Lockheed Martin, and then leading endowments kind of the $10 billion plus group starting at UTIMCO and going down to Wash U.

[SLIDE CHANGE]

MICHAEL OAK: And again, a similar table for investments here, investment management firms, those are investment advisory firms, the investment division within banks, and then within insurance companies. And just in case, just to make it clear, because it's not explicitly stated here, but alternative firms are excluded, so private equity, hedge funds, et cetera are not included in this data. And I think that's it.

CHAIR WILLETTE: All right. Thank you so much.

Any questions from the Committee?

Okay. No questions. I think we go to our consultant, Global Governance Advisors for the same item.

(Slide presentation).

PETER LANDERS: Sorry about that. I was just on mute.

So, yeah, you would have received obviously Michael and McLagan's information. And this is, you know, definitely the best source of data for the U.S. market. And, you know, I just wanted to provide a little bit of background of, you know, how we got to where we. Obviously, Michael listed all the positions that were reviewed in our data. It also includes the Chief Health Director.

I think it's important though to step back and say that there was a lot of material changes that were made, and, you know, that had to be made two years ago when we last did this study. There hadn't been necessarily adjustments made to the incentive levels for many, many years. Certain salaries hadn't been adjusted in several years. And so this Committee and the full

CalPERS Board, I think, recognized at the time that you needed to close a lot of the gaps to market that were, you know, coming up at that time. And I think what, you know, McLagan's analysis has shown is that for the most part all of those good changes have led to you being still relatively well positioned for most roles.

And it's not uncommon that when you start getting into a regular rhythm of, you know, reviewing things every two years, there are going to be certain roles that, you know, naturally will start to have a little bit of gaps to the market. And it's very reasonable and very common to, you know, just, on a regular basis, just be tweaking certain rules and making certain adjustments to just make sure that they stay in line with market as opposed to not making any adjustments and waiting -- you know, in this case, you wait another two years -- four years to make changes or even longer than that. That's where you start to get into these situations where, you know, you have to make these more material changes to pay that, you know, obviously the Board really has to think through and is, you know, concerned about, the optics of it. So it's good to get into this regular review cycle, and then get into the rhythm of making certain, you know, routine adjustments where gaps come up.

And that's really the spirit of a lot of the findings that we had when we looked at the data and also some of the preliminary recommendations that we are bringing forward to the Committee.

I would say, and we'll get to it in a second, the one position that shows the largest gap -- and this is not unexpected, because there was a really large gap noticed two years ago. We definitely filled a big portion of it two years ago, but we knew at the time that there was still a pretty material gap to market for the rule, but it was -- you know, we didn't want to make all of that humongous change all at once. So we sort of said let's make this one change for now, and that is the CEO position.

So you will see in the data that the CEO position shows the largest gap remaining to market, and that's both from -- not so much from a salary perspective, although there's a -- there's a slight tweak we can make there, but more so on the short- and long-term incentive side of things. And so we've brought forth a, you know, preliminary recommendation. We assume there will be some good discussion around the recommendation we brought forward.

But when you look at some of these other adjustments, we would say, you know, most of them are, you know, pretty routine in nature and to be expected. And, you know, you'd want to just keep making these tweaks along the way as opposed to just deferring and deferring until the next sort of cycle.

So we'll go through it very quickly. Highlight the gaps that we noticed and some of the rationale and then we can get into some of the preliminary recommendations.

Are the slides up on the screen? Sorry, I can't see from my vantage point.

CHIEF OPERATING OFFICER HOFFNER: Yes, they are.

BRAD KELLY: They are, Peter.

PETER LANDERS: So if we can move beyond page three to page four, I guess.

[SLIDE CHANGE]

PETER LANDERS: The big thing on page four that we want to note, it's in the blue box, is that we are not recommending any adjustments to anyone's actual salaries at this point. This is just adjustments that would be made to the ranges for those salaries.

And so, again, that's important to keep in mind. We're not recommending any individual receive a salary increase. It's more about the ranges and making sure that those ranges are competitive with the competitive market, so I just wanted to clarify that for everyone.

Michael talked about this already in terms of the peer group makeup, and it -- you know, generally, if you look at both groups -- Sorry. This is on the next slide, slide five.

[SLIDE CHANGE]

PETER LANDERS: It's a combined peer group with a 33 percent weighting on private sector and a 67 percent weighting on pension funds and/or California agencies which we've sort of lumped together as public sector or what we sometimes call quasi public sector, the one exception being the Chief Health Director. You know, that role, as Michael pointed out, is not really -- is not an investment related role. It's a fairly unique role. And so we've worked with the HR group similar to two years ago to identify similar not -- there's no perfect match for the Chief Health Director for role at CalPERS, but relatively similar California-based health organizations. And again, we are looking to align to the median. So all of our findings, our recommendations are in relation to the median of these marketplaces, and that's where you want the midpoint of the salary range and the midpoint target total compensation to generally align with the median of the market. And, you know, Michael spoke about the difference between total cash and total compensation, but it's there just to remind you.

If we can move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: Next slide.

[SLIDE CHANGE]

PETER LANDERS: So we'll start off with executive position. And so what I want to highlight here is all of the boxes that are highlighted in green indicate roles that are generally competitive with the market. And that competitiveness is generally saying you're within 10 percent of the median. And so when we say that 10 percent, that's saying the midpoint salary, the midpoint target total cash, the midpoint total compensation is within 10 percent of the market median, or salary target total cash and target total compensation.

And you can see, when we did this two years ago, there was a lot less green on the page. And so the adjustments that have been made two years ago have kept you generally competitive. There are some -- a few tweaks that we would suggest to get you even closer to the median, but you can see relatively, that you're doing well. I want to highlight the CEO position. That is the one role that is, you know, on a total cash and total compensation basis, not as competitive, not within a 10 percent. And that's for the reasons that I mentioned earlier. And again, we have some recommendations on how you can potentially fill that gap.

The other one I want to point out is for those four roles, CFO, General Counsel, COO, and Chief Actuary, that they are also not within 10 percent on a total compensation basis. And the reason for that, again this is similar to two years ago, is you, as a Board, have made the conscious decision to not make these positions eligible for long-term incentive currently, and, you know, for various reasons.

There definitely is, when you compare them to a CEO, less of a gap due to the long-term incentive than say the CEO position. But I think it's important to realize that the reason you are competitive on a total cash basis, but not as a competitive on a total compensation basis, can largely be attributed to the lack of a long term incentive for these roles. And the data will show that again, at the midpoint target, total cash versus the target total compensation of the market. That is where the gap is coming from.

Now, going back to an earlier theme when we talked about TPA, we talked about the incentive metrics. You're in a bit of a gray zone right now. You haven't necessarily made the decision to go forward with TPA officially yet. But I would suggest that for now, we would probably leave things the way they are in terms of the structure of pay for these roles. But it is something that, assuming you were to adopt a TPA position, assuming -- looking at the objectives you have for long-term performance and things like that, this is an area where you may want to consider, as an adjustment, making these roles in the future eligible for long-term incentive. And therefore, you wouldn't necessarily have to adjust the salaries of these roles or the annual incentive opportunity levels. We could simply add in a long-term incentive eligibility and fill that gap for those roles.

But again, for now, you'll see in our preliminary recommendations, we're keeping things as they are, until we sort of have some more clarity on where you're going with TPA. You know, we would suggest just leaving it the way it is for now as a bit a stopgap.

If we could move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: This slide is really just taking that green and sort of light shaded and turning into actual numbers. And so you can see numerically what those differences are, and again, the biggest difference being for the CEO. That's, you know, negative 33 percent in total cash, negative 26 on a total comp bases. And then you can see for the other roles quite competitive, within two or -- two percent or so of market, but then falling by about 20 percent or more. And again, that's due to that long-term incentive.

And the one thing I did want to clarify, while definitely, you know, that total compensation gap is driven, you know, a lot by the private sector portion of the peer group, there would be, within your pension fund peer group, certain leading Canadian funds. And I'm not sure how McLagan collects the data for some U.S. funds, but, you know, there are -- those funds would also have long-term incentives for many of these rules, whether it's an OMERS, whether it's a CPP.

And so, you know, that also is driving some of that gap to market. It's not solely the private sector data. It's also some of these leading pension funds that have adopted a long-term incentive.

If we can move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: So we did the same exact analysis for investment management positions, so CIO all the way down to Associate Investment Manager. And again, comparing this table to the one from two years ago, there's a lot more green on the table. We did a lot of you, and you did a lot of heavy lifting in terms of making the necessary adjustments to annual and long-term incentive opportunities to get into a more market competitive position. You do -- you know, I do note CIO a little low on salary. And then the Chief Operating Investment Officer, that was role also that had a bit of a gap that we didn't fill all the way last time, so that also is driving some of these changes.

But overall, again, quite competitive for the most part. And really, what you'll see in our recommendations is just a few tweaks along the edges to make sure you remain, you know, competitive with market.

If we can move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: And so the next slide again is just quantifying some of the gap to the market, again highlighted in those red boxes, in terms of slide 12. And you can again see the areas where there might be a few more tweaks needed.

If we can move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: So that brings us to your recommendations. And again, this is really made in terms of making sure that the gaps to market that are observed are filled to a large part, that we're aligning with the marketplace, ultimately adjusting incentive opportunities, where required, to position roles more competitively. So our adjustments are not just to salary levels, but it might be to certain incentive opportunity levels. And again, as I mentioned earlier, while, you know, there is prevalence of long-term incentive for most executive roles, we really have refrained from recommending any immediate changes to eligibility at this time.

But this is something moving forward, assuming you adopt a TPA, and some of the, you know, goals and objectives you might have, you may want to consider making these rules, you know, eligible for long-term inventive on a go-forward basis afterwards.

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PETER LANDERS: So for the executive management positions, I think some of the rationale is make sure you're aligned competitively with the median of your peer group, make sure that your base salary ranges and the midpoints are competitive with the peer group, make sure that a meaningful and competitive amount of compensation is placed at risk through performance driven incentive. We're big proponents of tying as much as possible pay to at-risk performance-driven incentives as opposed to just through salary adjustments.

And we do make the one note, there was a conscious decision made based on how the role is compensated in the market and just the nature of the role to make the Chief Health Director not eligible for incentives at CalPERS. And that aligns with similar positions in the marketplace.

So, our recommendations there will be for salary only and there will be no adjustments on incentives. And again, the recommendations were recognized that there is certain roles that are not eligible for long-term incentive at this time. And we're sort of keeping that as is for now.

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[SLIDE CHANGE]

PETER LANDERS: So first off, in terms of salary adjustment, we did note a few. And again, you'll notice most of these are tweaks. The CEO, just making sure that we're aligned with the median of the market for that, given there is gap to market. The CFO you'll see we made a slight tweak in the midpoint, about $8,000. The Chief Actuary showed a bit a gap from a salary perspective. So we look to fill that up as well. And then the Chief Health Director, and again, this is a role is that salary only, so not eligible for incentive. We did see the need, based on the market data, and again, using a similar group as last time, and the need to adjust that salary midpoint up forward.

So again, these aren't recommending adjustments to anyone's actual salaries. This is just adjusting the bands themselves to be that much more aligned with the median of the market.

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PETER LANDERS: On the incentives side, you'll see we're not suggesting any adjustments on incentives for any of the roles except for the CEO. And so, the CEO is where, again, there is that material gap to market. So we have adjusted these incentives accordingly to position the role more competitively in the market. And again, you'll see we've made adjustments -- or again, initial recommendation to adjust those targets upward by a material amount. And again, this is a more aggressive move to get the CEO position more competitively positioned in the marketplace, but we definitely are open to feedback from you after this presentation on, you know, some of the feedback you have on these initial recommendations.

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[SLIDE CHANGE]

BRAD KELLY: Sorry, Peter, just one thing, if I can add.

PETER LANDERS: Yes.

BRAD KELLY: When you look at your CEO compensation, because of the adjustments that have been made on the base level salary in the past bringing it closer to market, and because of the work that we had done on the incentive design, making sure that we were focusing CalPERS on performance realization of, you know, strict performance targets, making sure we're focused on value-add, and not negative value-add performance. This is a risk-mitigated way of making an adjustment on the compensation side, because just by increasing the incentive level, again, it's 100 percent predicated on performance. And so therefore, if Marcie does not perform in her role, or against the objectives that you put forward, then she does not realize this level of compensation.

So we see it as a risk mitigated way forward, and probably a more ideal way of making adjustments, because again you're focusing on performance and contributions made towards advancing CalPERS. And so therefore, we see it as again a risk mitigated way of making that adjustment forward.

PETER LANDERS: Thanks, Brad. That's a great clarification.

So, yeah, if we can go back to slide 19. What I wanted to show here is just the dollar impact of these recommendations. So you can see below the CEO level from a total cash perspective, everyone, you know, within two percent of the market median, so quite competitively paid with certain adjustments. And you can see that we've taken a gap that was I think in the 30 percent range or so down to, you know, about a 14 percent difference on a total cash basis, and down a little bit, about 19 percent down, on the total comp basis.

And so what we did was, you know, we said to ourselves, okay, that's the midpoint of the market, but let's just look at it from, you know, Marcie has been a relatively high performer, her salary has been adjusted accordingly. So if we move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: If you actually look at Marcie, based on her currently salary, and not to say that in the future when you have a new CEO, they might have a lot different salary, but we have -- we gain comfort in this recommendation, because it would position Marcie right away pretty much in a competitive level, given her current of salary in the marketplace. So again, this is something that you if chose to adopt this recommendation in June, you would be essentially positioning the incumbent quite competitively in the marketplace for their role.

And so again, I bring that up as some additional data and data points, as you are considering this in -- you know, today and then the months ahead before June.

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PETER LANDERS: So we did the same exact thing for investment positions. A lot of similar rational in terms of be competitive with the median, ensure base salary ranges are still competitive. Obviously, drive things through more at-risk incentive pay where oriented. And then just make sure that the mix between salary incentives aligns with current market practices.

Next slide, please.

[SLIDE CHANGE]

PETER LANDERS: So you can see here there's three positions in particular, CIO, COIO, and Associate Investment Manager where we are recommending some adjustments in salary.

I'll note for the CIO that, you know, this one position, the midpoint salary exactly near perfectly at the median of the market. But when you factor in the long-term incentive opportunity that that role is eligible for, we're comfortable in just making this small tweak to the CIO. The other two, I think, the data sort of shows that those adjustments generally position them pretty close to the median. But you can see again, we're not talking about wholesale changes. We're talking about three of the roles and just making some slight adjustments there to widen the market. And I will note for the COIO position, that is a role that did show a gap even after last time's recommendations. So this is just a furtherance of trying to make sure we get that role a little bit more competitively paid in the market to address some of the gap even from last time that was observed.

If we can move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: You can see again from an incentive opportunity perspective, generally unchanged outside of the COIO role, where there was evidence in the market data suggested that adjustments to the incentive opportunity taking it up at target level by 10 percent, from 90 to 100 percent, was warranted to get the role more competitively positioned in the marketplace.

If we can move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: And you can see here, at the end of the day, through all the adjustments that we recommended, whether it's salary adjustments or that one tweak on incentive opportunities, all roles now are quite competitive. The COIO is still slightly low and met negative nine, but within that 10 percent range that we talk about. And so we were comfortable that it was still competitively positioned. So you can see again just making some tweaks along the way to get those roles more in line with the marketplace. And again, a lot of the heavy lifting done two years ago, so we're not having to do nearly as much of an adjustment in incentives and like that, that we did two years ago.

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PETER LANDERS: So in terms of next steps, this would be something again to consider. We'll obviously take feedback. And then we'll be coming forward at the June meeting with -- you know, for approval, any final required adjustments the salary ranges to position CalPERS more competitively. We're also going to come forward with recommendations -- final recommendations on what to adjust to annual and long-term incentive opportunities. I'd also talk about the CEO position and, you know, how you want to address back out to market.

And then lastly, we would work with CalPERS HR to reflect any changes in incentive opportunity levels within the formal policy document. And that would come forward for approval at the June meeting assuming the recommendations are approved.

And next slide, please.

[SLIDE CHANGE]

PETER LANDERS: And I just wanted to quickly highlight on this slide, here are all the organizations that we looked at this time around, in terms of evaluating the Chief Health Director role. You can see pretty much the same list as two years ago. We added one other suitable plan, which was the Conta -- Contra Costa Health Plan, but overall very consistent terms -- in terms of the organizations looked at and the roles identified. So again, I think very comparable to look, you know, two years ago versus now.

If we can move to the next slide, please.

[SLIDE CHANGE]

PETER LANDERS: And just these are the ranges that we found in terms of when we looked at all those different organizations, put them in an array, you can see that median being in that 453 range. And then we do note that, you know, you have viewed Covered California as probably the post comparable organization for the CHD role. So we have shown that separately, just like we did last time. And what's interesting is, and this is just the way the data shook out, because Covered California we include them in the broader California organization cut, their salary right now actually ends up being at the median of that California organization group. So again, that gave us comfort that moving the midpoint to that level was generally justifiable for the Chief Health Director.

I don't think we need to spend any other time on any of the other slides. They're really just, again, providing additional detail on the peer groups that McLagan used, which Michael already went through.

But I would say -- the only thing I will say on peer groups that maybe wasn't mentioned by Michael is there was feedback provided two years ago. There was questions around did we include New York funds? Did we include Florida and things like that, and we tried to address that. Also though, making sure that those organizations fit the criteria that the Board and this -- the PCTM had agreed to two years ago as well, in terms of what those peers should be doing from, you know, internal investment management, sized, and things like that.

And so, you know, when it was looked at, you know, the New York funds and the Florida fund met that criteria. And so we've tried to address that feedback from two years ago, and adopt it in terms of analyzing the peer group levels.

So with that, I'll sort of finish my initial observations and initial recommendations and open it up to any questions that anyone might have, or feedback.

CHAIR WILLETTE: All right. Thank you for that presentation. We do have feedback. And just for our stakeholders, and those listening at home for transparency, these recommendations will be again received and voted on at our June PCTM meeting. So the Board is not taking action today.

And with that, we'll go to their questions.

Boar Member Ortega.

COMMITTEE MEMBER ORTEGA: Yeah. Thank you. I had a question about the comment on the CEO salary and just wanted to clarify that the observation is that the actual salary being paid is within the market range that we're looking for, but the -- I'm just unclear on the recommendation. The recommendation would be to change what's available in the future or -- so I guess the way we think about that is changing the band or the range that's available, because it sounds like what you're saying what's actually being paid is competitive.

PETER LANDERS: Yeah. So, yeah, to, clarify, we are just recommending a slight -- I wouldn't say it's a huge, but a slight adjustment to the midpoint of the band. So 503 to 513. But, yes, based on what, you know, the current CEO is being paid currently, she's paid at the -- you know, the upper end of the band. That is -- you know, that is definitely -- would be considered competitive in terms of what the CEO is actually being paid. This is more about again setting the ranges to be competitive, so that regardless of who the incumbent is in the role, that the midpoint of those ranges are competitive.

COMMITTEE MEMBER ORTEGA: Okay. Thank you.

CHAIR WILLETTE: Okay. I don't see any other questions. So we do have public comments. With that, I will ask J.J. Jelincic to come forward.

And you will have three minutes.

J.J. JELINCIC: Thirty minutes?

CHAIR WILLETTE: Sorry, three minutes.

(Laughter).

J.J. JELINCIC: I actually couldn't use 30 minutes.

(Laughter).

J.J. JELINCIC: J.J. Jelincic, beneficiary. I think the Board needs to look at the salary -- management salaries and structures and the peer groups. A little background, the PERL allows the Board to hire an executive officer and that's what the Board did for years. When Dale Hanson became the executive officer, he became much more political and spent much more time traveling around the country. He complained to the Board that nobody knew what an executive officer was and asked the Board to change the title to Chief Executive Officer. There was no change in duty, just a title change.

The executive officer, unlike a CEO, is not responsible for major plan decisions and setting strategic goals. Those are the function of the Legislature and the Board. Like a CEO, the executive officer oversees the system's operations. Jeff Macomber, the head of the Department of Corrections and Rehabilitation oversees a State agency with 60,000 employees and makes $333,000 a year. Kim Johnson oversees 33,000 employees and makes $251[SIC] a year, as the head of the Department of Health and Human Services. The executive officer of CalPERS oversees a State agency of less than 3,000 employees and makes a base salary of $578,000 plus bonuses.

I think the Board needs to reexamine the structure and the peer group. And I think you need to put more emphasis on other California public agencies. We are not a public company. We are a State agency.

Thank you.

CHAIR WILLETTE: All right. No other public comment.

Thank you, everyone, for those presentations. And the next item on our agenda was summary of Committee Direction. I didn't take any.

CHIEF OPERATING OFFICER HOFFNER: I didn't either.

CHAIR WILLETTE: I have no additional public comments.

So with that, I will adjourn the meeting and shall we start Finance or would you like to go to lunch

COMMITTEE MEMBER TAYLOR: Lunch.

CHAIR WILLETTE: Okay. So we will go to lunch and we will be back at 12:50?

COMMITTEE MEMBER TAYLOR: Yeah, that sounds good or one o'clock.

CHAIR WILLETTE: Okay. Perfect. Or one o'clock. One o'clock. Okay. We'll be back with Finance and Administration at one o'clock.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee open session meeting adjourned at 12:06 p.m.)

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Performance, Compensation & Talent Management Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 22nd day of April 2025.

James F. Peters

JAMES F. PETERS, CSR
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