



GLOBAL
GOVERNANCE
ADVISORS

Opinion Letter

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2025-26 Chief Executive Officer Annual Incentive Plan Performance Metrics Recommendations

Prepared for:

Performance, Compensation & Talent
Management Committee

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This memo is in response to your request for Global Governance Advisors (“GGA”), in its role as CalPERS’ Board compensation consultant, to review and propose the CEO annual incentive plan measures and weightings for the upcoming fiscal year 2025-2026.

Overall Framework

As presented at the April 14th PCTM Committee meeting, GGA continues to agree with the core performance areas and plan weightings since the establishment of these measures for fiscal year 2016-17. GGA assessed the general competitive balance between Quantitative and Individual Key Business Objectives (previously referred to as Qualitative measures) for the CEO position and found that the current weightings are within GGA’s observed market norms.

As a result, GGA recommends CalPERS continue to adhere to its historic performance measures and weightings for the upcoming 2025-2026 fiscal year, with consideration of adjusted performance expectations for certain performance metrics to maintain challenging, yet fair in the expectations for the CEO while also ensuring the provision of value to CalPERS members.

While small tweaks are recommended for Fiscal Year 2025-2026, material changes may result for Fiscal Year 2026-2027 should the CalPERS Board choose to adopt a Total Portfolio Approach (“TPA”) to investing.

Proposed CEO Incentive Plan Measures and Weightings

NO CHANGE

GGA proposes that CalPERS adhere to the same Measures and Weightings used in Fiscal Year 2024-2025 while adjusting performance expectations for certain performance metrics.

Plan Weight	Measure	Assessment Type
25%	Organizational Leadership Priorities	Individual Key Business Objectives
15%	Total Fund Performance	Quantitative Objectives
20%	Enterprise Operational Effectiveness	
10%	Investment Office CEM	
15%	Customer Service	
15%	Stakeholder Engagement	

Organizational Leadership Priorities (25% Weighting)

NO CHANGE

Established from Board expectations and insight, the CEO is to provide organizational leadership in support of the following priorities from July 1, 2025 to June 30, 2026:

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

Scoring Information: A single rating will be given for the above Organizational Leadership Priorities measure, based on the following table. Payout ratio for intermediate results will be determined by interpolation.

Score	Payout Ratio
Exceptional	1.50 (150%)
Consistently Exceeds Expectations	1.25 (125%)
Fully Meets Expectations	1.0 (100%)
Inconsistently Meets Expectations	0.5 (50%)
Does Not Meet Expectations	0 (0%)

Please Note: The rating levels outlined above align with last year's levels.

Total Fund Performance (15% Weighting)

CHANGE PROPOSED

This metric is based on fund performance against the policy benchmark for the five-year period of July 1, 2021 through June 30, 2026. Payout ratio for intermediate results will be determined by interpolation.

Past 2024-2025 Metrics

Performance (bps)	Payout Ratio
+10	1.50 (150%)
+5	1.00 (100%)
0	0.00 (0%)



Proposed 2025-2026 Metrics

Performance (bps)	Payout Ratio
+20	1.50 (150%)
+10	1.00 (100%)
0	0.00 (0%)

Additional details on how GGA arrived at the proposed 2025-2026 performance expectations for Total Fund Value Add performance is provided in a separate memo titled, *Annual Incentive Plan Metrics and Additional Considerations*, dated May 30, 2025. The most material change to the performance hurdles is the higher level of performance required to earn a Target or higher payout.

Ultimately, the recommended adjustments are intended to align CalPERS closer with recognized probability levels in recent years, incent the generation of more alpha in the portfolio and make the performance expectations challenging, yet fair for eligible CalPERS team members while ensuring value is provided to CalPERS members. The upward adjustment in performance expectations also aligns CalPERS closer to typical market expectations (albeit still lower) in terms of outperformance relative to benchmark.

Enterprise Operational Effectiveness (20% Weighting)

CHANGE PROPOSED

This metric for 2025-2026 is defined as Overhead Operating Costs as a percentage of Total Operating Costs ("OOC") and is measured based on year-over-year improvement.

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

Past 2024-2025 Metrics

Score	Payout Ratio
< -1.05%	1.50 (150%)
-1.05% to < -0.55%	1.25 (125%)
-0.55% to 0.0%	1.00 (100%)
> 0.0% to 0.55%	0.75 (75%)
> 0.55% to 1.05%	0.50 (50%)
> 1.05%	0.00 (0%)



Proposed 2025-2026 Metrics

Score	Payout Ratio
< -0.80%	1.50 (150%)
-0.80% to < -0.40%	1.25 (125%)
-0.40% to 0.0%	1.00 (100%)
> 0.0% to 0.40%	0.75 (75%)
> 0.40% to 0.80%	0.50 (50%)
> 0.80%	0.00 (0%)



Additional details on how GGA arrived at the proposed 2025-2026 performance expectations for Enterprise Operational Effectiveness is provided in a separate memo titled, *Annual Incentive Plan Metrics and Additional Considerations* dated May 30, 2025. The most material changes to the performance hurdles are the higher level of performance required to start earning a payout for Enterprise Operational Effectiveness and the lower level of performance required to earn a Maximum payout for this metric (i.e., a narrowing of the performance range).

Ultimately, the recommended adjustments are intended to align CalPERS closer with recognized probability levels in recent years and make the performance expectations challenging, yet fair for eligible CalPERS team members while ensuring the provision of value to CalPERS members.

Investment Office CEM (10% Weighting)

NO CHANGE

This metric for Fiscal Year 2025-2026 is determined by CalPERS annual participation in the CEM benchmarking survey and shows how CalPERS' investment costs and return performance compares to a customized peer group over a five-year period.

Score	Payout Ratio
Outperforms US Benchmark on Net Value Added (Returns) <u>and</u> Cost by 0.1% and 8 bps, respectively	1.50 (150%)
Outperforms US Benchmark on Returns <u>and</u> Cost by .05% and 4 bps, respectively	1.00 (100%)
Outperforms US Benchmark on Cost <u>or</u> Outperforms US Benchmark on Returns	0.50 (50%)
Underperforms US Benchmark on Returns <u>and</u> Cost	0.00 (0%)

Customer Service (15% Weighting)

NO CHANGE

This metric for Fiscal Year 2025-2026 is based on two Service Dimensions:

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

Score	Payout Ratio
≥ 97%	1.50 (150%)
96% to < 97%	1.25 (125%)
95.5% to < 96%	1.00 (100%)
95% to < 95.5%	0.75 (75%)
94% to < 95%	0.50 (50%)
< 94%	0.0 0.00 (0%)

Stakeholder Engagement (15% Weighting)

NO CHANGE

This metric for Fiscal Year 2025-2026 is based on the results of the following three Stakeholder Engagement Survey questions:

- Is CalPERS sensitive to the needs of its members?
- Is CalPERS doing a good job of keeping in touch with its members and keeping them informed?
- CalPERS is effective in communicating and engaging with stakeholders (rate on scale from one to ten).

Score	Payout Ratio
≥ 80.5%	1.50 (150%)
80% to < 80.5%	1.25 (125%)
79.75% to < 80%	1.00 (100%)
79.5% to < 79.75%	0.75 (75%)
79% to < 79.5%	0.50 (50%)
< 79%	0.00 (0%)

We trust that this letter addresses your concerns on this matter and look forward to discussing it in more detail at the June PCTM meeting. If you have any questions on the contents of this letter, please let us know.

Sincerely,

Global Governance Advisors



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cc: Brittany Emmons, CalPERS