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

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SACRAMENTO, CALIFORNIA

WEDNESDAY, JUNE 18, 2025

9:00 a.m.

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

APPEARANCES

COMMITTEE MEMBERS:

Mullissa Willette, Chair

Malia Cohen, Vice Chair, represented by Deborah Gallegos

Michael Detoy

Eraina Ortega

Kevin Palkki

Theresa Taylor

Yvonne Walker

BOARD MEMBERS:

David Miller, Vice President

Fiona Ma, represented by Frank Ruffino

Jose Luis Pacheco

Dr. Gail Willis(remote)

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Deputy Executive Officer

Matt Jacobs, General Counsel

Michelle Tucker, Chief Human Resources Officer

APPEARANCES CONTINUED

ALSO PRESENT:

J.J. Jelincic

Brad Kelly, Global Governance Advisors(Remote)

Peter Landers, Global Governance Advisors

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PROCEEDINGS

CHAIR WILLETTE: Good morning. We will convene our Performance, Compensation and Talent Management Committee. If I can please get a roll call.

BOARD CLERK ANDERSON: Mullissa Willette.

CHAIR WILLETTE: Here.

BOARD CLERK ANDERSON: Deborah Gallegos for Malia Cohen.

ACTING VICE CHAIR GALLEGOS: Here.

BOARD CLERK ANDERSON: Michael Detoy.

COMMITTEE MEMBER DETOY: Here.

BOARD CLERK ANDERSON: Eraina Ortega.

COMMITTEE MEMBER ORTEGA: Here.

BOARD CLERK ANDERSON: Kevin Palkki.

COMMITTEE MEMBER 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 so much. I'd also like to note our Board members Frank Ruffino for Fiona Ma, Jose Luis Pacheco, and Vice President David Miller in attendance.

The first item on our agenda this morning is our executive report. For that, I will turn it over to Mr.

Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Thank you, Madam Chair. Doug Hoffner, CalPERS team member. Today, we have several important items before you. Your primary consultant GGA, Global Governance Advisors is here to present several key items to the Committee, including recommendations for the '25-'26 incentive metrics and related Compensation Policy updates, the proposed fiscal year '25-'26 incentive plan for the CEO, and then the compensation review and recommendations for statutory positions along with recommendations for adjustments that you saw in April. These items will be coming before the Committee for action and then as a follow-up from the April items.

Happy to answer any questions you may have.

Thank you.

CHAIR WILLETTE: Thank you.

Any questions from the Committee.

All right. Seeing none, appreciate that report.

We will move to our action consent items. The first item is our June 18th, Performance, Compensation and Talent Committee timed agenda. Pleasure of the Committee.

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIR WILLETTE: Move approval from President Taylor.

ACTING VICE CHAIR GALLEGOS: Second.

CHAIR WILLETTE: And seconded by Ms. Gallegos. Thank you so much.

All those Committee members in favor?

(Ayes.)

CHAIR WILLETTE: Any opposed?

And any abstentions?

All right. That does pass. We now move to the approval of our April 14th Performance, Compensation and --

COMMITTEE MEMBER TAYLOR: You can move those together.

CHAIR WILLETTE: Okay -- and Talent Management Committee meeting minutes.

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIR WILLETTE: Moved approval by President Taylor.

ACTING VICE CHAIR GALLEGOS: I'll second.

CHAIR WILLETTE: And it's been seconded by Ms. Gallegos. All those Committee members in favor?

(Ayes.)

CHAIR WILLETTE: And any opposed?

And any abstentions?

All right. That does pass as well. Thank you, Committee.

We have our information consent items, our annual calendar review and the draft agenda for our September 16th, 2025 Committee meeting. I have not received any requests for discussion. Any at this time?

Okay. Thank you for those.

We will now move to our action agenda items, the first of which is 5a, or annual review of the 2025-26 incentive metrics and Compensation Policy updates. And I will turn it over to Ms. Tucker.

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

Item 5a, is an action item. To comply with the Board's policy, incentive metrics are reviewed annually by the Committee and the Board's primary compensation consultant, Global Governance Advisors. Based on GGA's review of the existing metrics and input from the Committee at the April 2025 meeting, GGA will present the recommendations for the incentive metrics for fiscal year '25-'26 incentive plan inclusion and related Compensation Policy updates for executive and investment management positions. Final Board-approved metrics will be included in some combination on fiscal year '25-'26 incentive plans for eligible executive and investment management positions, including the CEO's incentive plan, which will be presented in item 5b today. That concludes my opening remarks. And I'd like to invite Mr. Landers and Mr. Kelly to begin their presentation.

PETER LANDERS: Thank you, Ms. Tucker. So, I believe, you know, you all have this in your packets. It's a memo that we put together revolving around the 2025-26 incentive metrics. We looked at your current list of metrics. So there's five specific metrics. And I think to sort of set the stage for, you know, our review, I think what we do was given, you know, some of the discussions right now going around -- going on around TPA and the total portfolio approach and the potential adoption of that in the months, we really took more of a let's try to tweak the existing program and less so making material adjustments at this time, given you're at this sort of gray zone of potentially moving to a transformational approach to your investing.

And so, you know, what we've done is really come forward with just some tweaks around the metrics. When we looked at the five metrics in particular, none of them stood out that -- to say that they were way outside of the market. We still feel they are all very valid, still make a lot of sense, especially in different weightings for different individuals in terms mixing in both investment performance, as well as certain non-investment or, you know, more operational things, such as member satisfaction, things like operating costs and things like that. So we're pretty comfortable with the buckets.

And really, the spirit of really these recommendations are really just tweaking and making sure that we're continuing to make sure that all of the hurdles that are set are fair or challenging but still somewhat attainable. And they don't -- they're not perceived as being sort of impossible for people to achieve, but also making them again more in line with what we see in the marketplace, but also make them challenging and driving the types of behaviors that you're looking for.

And so I'll point your attention to two specific metrics that we are suggesting and recommending there be some slight tweaks to. One is your total fund investment performance metric. Right now, that is at a 0, plus 5, plus 10 basis point level. And we are recommending a 0, 10, 20. So an increase in the performance expectations for that metric. And the rational for that is a few different things. One is when we looked at your historical results, we looked at sort of the past 10 years or so of those rolling five year numbers. It actually supported adjusting those performance expectations upward. Because again in the spirit of aligning with being challenging, but fair, reasonable, but still attainable, we think that, you know, the new 0, 10, 20 hurdles do that.

The second thing is we know that there is a desire to incent and to motivate people to generate more alpha in the portfolio. So setting these objectives a little bit higher also works in terms of aligning from that perspective.

And thirdly, although we haven't moved things all the way there, it also moves you further in line with the typical sort of value-add hurdle rates that we see in the marketplace.

And so for all those reasons, we think this is a very prudent move. This is a slight tweak in terms of looking at performance. And so, you know, that's why we recommend that one.

The other one that we are suggesting some changes to are the enterprise operational effectiveness metric. So this is the metric that looks at operating costs. And it's sort of a measure of efficiency of how you're running your overall operations here at CalPERS. And again, we looked back at some of the historical performance levels, again over the last several years. And that supported making the adjustments that we did. And what we found when we looked at, you know, back the last few years was the lower bound hurdle, that sort of minimum expectation to start earning an incentive, that was actually set a little low.

And on the consequence, on the top end actually, that level of performance that got sort of a maximum level of payout for that specific metric was actually set quite high and was not really being hit at an optimal level. And so in the spirit of sort -- and we've talked about this with this Committee before, the sort of 80, 60, 20 rule. So try and hit that minimum threshold about 80 percent of the time, hit target about 60 percent of the time, and really only hit that maximum about two times out of every 10 years.

In the spirit of that and making sure again that those metrics and those hurdles are set at a fair, reasonable, but also somewhat attainable level, but still changing, we suggested moving that minimum threshold level of performance up a little bit, bringing that maximum level down a little bit, so taking a wider performance sort of range and narrowing it.

And we think that this does a good job of again balancing out sort of making sure that they're still challenging for people to achieve, but also still reasonable and people can still strive that they feel like it is possible to hit that maximum end of the spectrum. So we think we've done a good job in terms of balancing that out.

The last thing I'll point you to, which is less directly related to the metrics, but is something that came up as a question was when we look at this five-year investment performance and we have new people joining the incentive plan or we have people that are promoted from a different level into the incentive plan that might have, you know, been operate -- might have been incented by difference metrics in the past, how do we grandfather those people? Do they sort of get all five years of that trailing five years included in their sort of first year incentive or do we sort of grandfather in where we sort of stagger it to say, you know, in the first year you're based on one year performance, second year you're based on two year, third year three years, and so on and so forth.

And when we looked at, you know, historical practices in the marketplace, some of the historical practices here, and just reflected on what is fair and what's sort of -- make sure that everyone one is, I would say, you know, rowing in the same direction, that everyone is treated fairly and equitably, we've come forth with a recommendation that you actually once someone joins, no matter if they're new or if they're just promoted into a role, they automatically are always based on that rolling five years. So you're not grandfathering anyone in.

You're just simply looking at, you know, a full rolling five years.

Everyone then, from the person that's been here 10 years to the person that's been here one year will be treated equitably and all treated on the same sort of five-year period. Because we feel like if you start grandfathering people, one, that can be administratively burdened -- burdensome, but also it can lead to inequitable outcomes. So some people are getting unfairly penalized or unfairly rewarded, based on being here for a shorter amount of time.

So those were the three specific items that, you know, we had specific recommendations on. For those other metrics that we looked at, we thought that still they were reasonable, the hurdle rates in terms of the performance levels were also, you know, fair, defensible, challenging. And so, you know, we're recommending no change to those three metrics.

And then I know in your decks as well, if you are to adopt these changes, you know, there are certain policy language adjustments that will automatically sort of be flown through into the policy document that flow out of these recommendations. So, with that, I -- you know, I open it up if anyone has any questions. Happy to address them.

CHAIR WILLETTE: Thank you so much. Thank you for that work and the presentation. We do have questions. I'll go to Ms. Gallegos.

ACTING VICE CHAIR GALLEGOS: So the recommendations that you're making today are one step in the changes that we might see as we move towards potential adoption of the total portfolio approach, is that correct?

PETER LANDERS: That is correct. So again, this is more of a -- we're suggesting, because you're in this bit of a gray zone, this is more tweaks. And definitely, you know, assuming that this Board in the coming months were to adopt a TPA approach, I think that warrants, as part of the '25-'26 work plan, some greater discussions amongst the Board in terms of, you know, based on the new TPA approach, are there any adjustments in terms of what the performance is you're looking to achieve, do we change to maybe a simple reference portfolio as opposed to the current approach to the total fund benchmark?

So these are all discussions I think that are important discussions to have, in the event that you adopt a TPA in the coming months. So, yes, I would suggest at this time next year, we'll probably be bringing forth more material changes to the overall incentive program.

ACTING VICE CHAIR GALLEGOS: Great. Thank you.

CHAIR WILLETTE: Thank you. Any other questions or comments from the Committee or guests?

All right. Seeing none, we'll go to public comment. The first we have is Mr. J.J. Jelincic.

J.J. JELINCIC: J.J. Jelincic, RPEA.

If a rank-and-file employee does their job, they get a check and maybe an MSA, if they're not topped out. If the General Counsel does their job, they get their pay, plus a 70 percent bonus, plus a raise, and the Board has made it a practice that if they're topped out, they will expand the range to avoid that. If the CEO does their job, they get their check, a hundred percent bonus, plus a raise. And since that turns out to be not enough, there's a future motion that you're going to adopt to increase that hundred to 150 percent.

This is not particularly good for morale and this is coming from a Board that has a history of opposing excessive compensation and being concerned about the relationship between the CEO and the average worker.

The metrics I have a few comments on. Metric 1, total fund, really ought to be split in two. Part of it ought to be based on the discount rate, because that gets to the question of whether you're increasing the unfunded liability or decreasing it, and part of it ought to be on performance, but the -- relative to the market, but that needs to be risk adjusted. You should not got rewarded simply because you took more risk. You should not be penalized for taking less risk.

Metric 2, the enterprise effectiveness, you can adjust that by changing the numer -- or denominator by simply having more allocated overhead costs. And you get rewarded even if that metric goes down, although they have made some improvements on that.

On Metric 4, customer satisfaction, I think that, you know, if 97 percent satisfaction is outstanding, you've got a problem. I'm sorry, this is the payments being late. If the -- if three percent of the payments are late, my members are going to be furious. That's not outstanding performance. And if only 5.99 percent of the payments are late, you're still going to get a bonus, and my members are going to be screaming for heads.

Stakeholder engagement. Again, I think the standards are too low. That's number 5. You know, an 80 percent satisfaction rate should not be considered outstanding. And a, you know, 79.75 to 80 percent should not be considered normal. So I think you really need to tighten up the ranges. And I thank you for your time.

CHAIR WILLETTE: Our next public comment is Elnora Fretwell.

ELNORA FRETWELL: Good morning. Elnora Fretwell, State retiree. This is more clarification, so hopefully

I'm not asking at the wrong forum. I wasn't sure what he was talking about annual review, one year to five years. If you're there just one year, you'll get the same pay as somebody that's five years or do it get prorated or something like that. So just more clarification on that. I was a little confused if I started the first year and somebody was there five years, when you all do that, I get the same amount of money or not? So like I said, more of a clarification question than anything. Thank you for your time.

CHAIR WILLETTE: All right. Thank you to our public commenters. Any other discussion or questions from the Committee?

Mr. Landers, did you want to make any additional comments?

PETER LANDERS: The only thing I will try and clarify it. So, yeah, when someone joins, they're eligible for the same level of incentive opportunity, as presented just salary. And what the recommendation is, is that when measuring the investment performance portion of their incentive, that would be based on the rolling five years of performance, the same as everyone else. So in that sense, how the performance is measured would be the same as everyone else, as well as the incentive opportunity they're eligible for would also be at the same level. There wouldn't be any prorating of that.

The only prorating -- sorry. Sorry to clarify. Prorating would be if they joined halfway through the year or whatever, there is, I believe, a prorating for that, but Ms. Tucker can clarify that, if I'm mistaken.

ELNORA FRETWELL: Thank you.

CHIEF HUMAN RESOURCES OFFICER TUCKER: That's correct. If team members join in one of our incentive programs, particularly the 20098 program, of which, of course, the Board oversees. They do receive a prorated award, if they start prior to six months in, so as long as they start before six months in, they receive a prorated award. Otherwise, they don't receive an award for that -- for that year. But I think the question was more about the total fund and how that measurement is calculated. So I think Mr. Landers responded to that. I heard Ms. Fretwell say thank you, so...

CHAIR WILLETTE: Thank you. And no other public comment or questions.

Discussion on the item. Is -- this is an action item. Does the Committee like to make a motion?

COMMITTEE MEMBER WALKER: I'll move.

CHAIR WILLETTE: Okay. So you are moving the approval of the annual review 2025-26 incentive metrics and compensation policy updates as presented by our consultants, Global Governance Advisors.

COMMITTEE MEMBER TAYLOR: Second.

COMMITTEE MEMBER WALKER: Yes, I am.

CHAIR WILLETTE: Thank you very much, Ms. Walker. Seconded by President Taylor. All those Committee members in favor?

(Ayes.)

CHAIR WILLETTE: Any committee members opposed?

And any abstentions?

Okay. Seeing none, that does pass. Thank you so much.

We will move to Action Agenda Item 5b, our 2025-26 incentive plan of the Chief Executive Officer.

Ms. Tucker.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you, Chair Willette. Item 5b is presented annually as part of the regular incentive plan cycle required under the Board's Compensation Policy for the executive and investment management positions. Recommendations for the Chief Executive Officer's fiscal year '25-'26 incentive plan will be presented by the Board's primary compensation consultant, Global Governance Advisors. And we have provided these items to you in attachment 1.

Based on the Committee's earlier discussion and action on Agenda Item 5a, the annual review of incentive metrics, the CEO's annual incentive plan for fiscal year '25-'26 will be updated to reflect the approved incentive metrics and scoring thresholds.

I can now turn it over to GGA for their presentation.

PETER LANDERS: Thank you, Ms. Tucker.

So, yes, given the approval that was just made in Item 5a, I think that will then be flown into the CEO incentive plan design incents of those five sort of organizational metrics, the total fund, the enterprise operational effectiveness, the Investment Office CEM, customer service, and stakeholder engagement. All of those new, and updated, and unchanged performance ranges will be adopted as part of the CEO's incentive plan. We also opine on the relative weighting between those, what we'll call, quantitative or organizational objectives and the individual sort of key businesses objectives weighting in the CEO's scorecard.

So if you recall, that has historically been a 75/25 weighting within the CEO's annual incentive. And again, when we looked at the marketplace back in April and reflected on it, again, in the spirit of let's not make any -- too many wholesale changes, given we're in this gray zone, in the spirit of sort of tweaking, we're actually still quite comfortable with that 75/25 weighting within the CEOs annual incentive design. And so we're, you know, recommending no change to those weightings as well, and also no change in terms of how the CEO's individual key business objectives are assessed on annual basis going forward.

So from that perspective no real changes there. Obviously, again, any changes from the earlier discussion will be reflected. But really other than that, no real other changes for the CEO -- CEO recommended. What I will say is, again and not to harp on something, but in the event there is a change made in terms of moving towards a TPA approach, we might be coming forward next year with slightly different weightings or slightly different metrics, depending on again how the movement to TPA affects, you know, Board's view of what are the key performance drivers for the organization. And are we, you know, comfortable with the weightings of the CEO under this new direction. And so while there's no real changes made for this year. That's not to say that next year, if you move into TPA approach, we might be coming forward with some changes next year.

And so with that, I'll open it up to discussion or any questions.

CHAIR WILLETTE: All right. Thank you. We do have questions. Ms. Gallegos, please.

ACTING VICE CHAIR GALLEGOS: Sure. So if there are no real changes, what are the two items that you refer to in the report, total fund performance moving the metrics from the 2024-25 to '25-'26, and then also the enterprise operational effectiveness?

PETER LANDERS: Perfect. Yeah. That's just basically, now that you've approved in Item 5a, the adjustments to some of the performance ranges in those two categories, it's basically just those then flow through into the CEO's program essentially, so she will be measured off of those new performance levels. So it's just sort of carrying over from Item 5a.

ACTING VICE CHAIR GALLEGOS: Okay. And if you could just explain the total fund performance, are -- is the hurdle now higher to 20 basis points and 10 basis points and --

PETER LANDERS: Correct. That's an increase from the 5 and 10 previously to now 10 and 20.

ACTING VICE CHAIR GALLEGOS: Okay. Okay. Great Thank you.

CHAIR WILLETTE: Thank you. Thank you for that clarification. Any other questions, comments from the Committee or -- yes.

BOARD CLERK ANDERSON: Dr. Willis is now online, if you can do the open attestation.

CHAIR WILLETTE: Excellent. Thank you for joining, Dr. Wills. I also just want to note, thank you for joining us Mr. Kelly. I see you on as well.

Because we are not all present in the same room and because we have a Board member not -- participating from a remote location that is not accessible to the public, the Bagley-Keene requires that remote Board members make certain disclosures about any other persons present with them during open session. Accordingly, the Board members participating remotely must each attest that they are alone or that there are -- if there are one or more persons with them that -- who are at least 18 years old, the nature of that person's relationship to each person. At this time, I will ask Dr. Wills to verbally attest according.

BOARD MEMBER WILLIS: Good morning. I do attest to the fact I am alone. Thank you.

CHAIR WILLETTE: Thank you so much.

So we are on Item 5b. This is an action. Any other comments, questions? I do not have any public comment.

COMMITTEE MEMBER TAYLOR: Move approval to approve fiscal year '25-'26 incentive plan for the Chief Executive Officer as proposed by the Board's compensation consultant Global Governance Advisors.

COMMITTEE MEMBER PALKKI: Second.

CHAIR WILLETTE: Thank you very much. That has been moved by President Taylor and seconded by Mr. Palkki.

And all those Board members in favor?

(Ayes).

COMMITTEE MEMBER TAYLOR: I think you have to take, because Gail is on.

CHAIR WILLETTE: She's not on the Committee.

COMMITTEE MEMBER TAYLOR: Oh, she's -- Okay.

(Ayes.)

CHAIR WILLETTE: And any opposed?

And any abstentions?

All right. That does pass. Thank you so much. Thank you to our -- got you.

The next item on our agenda is Action Agenda Item 5c, the compensation review and recommendations for statutory positions. And for that, Mr. Tucker.

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

(Slide presentation).

CHIEF HUMAN RESOURCES OFFICER TUCKER: Item 5c represents GGA's recommendations for adjustments to the current salary and incentive ranges for classifications covered by the Board's compensation setting authority under Government Code section 20098 and in alignment with the Board's approved market comparator group.

In April of 2025, McLagan presented updated compensation survey data based on the Board's policy defined comparator groups for executive and investment management positions. This item presents GGA's compensation review and recommendation based on the review and analysis completed by McLagan and presented to the Committee in April 2025.

To better align CalPERS compensation with market standards, GGA has recommended targeted adjustments primarily to salary midpoints for certain roles where gaps were identified. Additionally, adjustments to incentive opportunity levels have been proposed for two key positions to better align with the peer group median.

With regard to the Chief Health Director position, CalPERS team members worked with GGA to identify comparable compensation data for the Committee's consideration, including a number of California-based health organizations and districts. Any changes adopted by the Board to salary or incentive ranges will become effective July 1st, 2025 or phased in, as directed by the Board. CalPERS team members will incorporate any approved changes to base salary ranges, incentive schedules, and any other planned assigned options into the Board's policy.

Please note that any approved increases to existing base salary ranges will not result in automatic pay increases to incumbents, unless an employee's base salary is less than the minimum of the newly approved base range. Currently, there are no incumbents whose base pay falls below the salary ranges proposed in this agenda item.

That concludes my opening remarks. And once again, we can invite Mr. Kelly and Mr. Landers to begin their presentation.

PETER LANDERS: Thank you, Ms. Tucker. And I do have a PowerPoint, so I can go through it with you all. I think to start off though and set the stage, I think it's important to realize that this Committee and the Board at CalPERS made some very material adjustments two years ago and did a lot of hard work two years ago to adjust compensation levels, to recognize that incentive opportunity levels and certain salary ranges had fallen below market. And so you made a lot of material adjustments two years ago. And the good thing about that is when we did the study two years later, right now, there wasn't nearly as many adjustments that were required. So you'll see a lot of positions within this review that were -- are very competitive, both from a salary range perspective as well was an incentive opportunity level.

And, you know, as you get into this sort of rhythm of reviewing pay every two years, this is sort of the rhythm you should get into. You shouldn't necessarily need to see wholesale, across-the-board adjustments being required. It's probably going to be certain roles here or there, where the market has moved in a certain direction that will require some tweaks. And so we are very happy to see that, you know, a lot of the good work that was done two years ago has led to the need for much less and fewer adjustments this time around to compensation ranges to stay competitive. But I'll walk you through again, just as a reminder through this sort of the methodology --

[SLIDE CHANGE]

PETER LANDERS: -- that went through it and some of the background.

[SLIDE CHANGE]

PETER LANDERS: So again, as Ms. Tucker said, there are certain executive positions that you have authority for. And, of course, investment positions down to the associate Investment Manager level, all of these roles have been evaluated and that's what the recommendation are based off of, those roles.

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PETER LANDERS: I think the key thing in terms of our role is highlighting key findings from the review and then providing these recommendations. And again, we are recommending adjustments to the ranges for base salary, not the incumbents base salaries. I think that's an important thing there. So this does not automatically mean that anyone is going to get an adjustment in pay. Just makes sure that the -- again, the midpoint of those ranges is still competitive and in line with your stated compensation policy.

[SLIDE CHANGE]

PETER LANDERS: And as a reminder that policy is to be positioned at the median of a combined peer group, which is two-thirds weighted on public agencies and public funds for executive positions and one-third based on private sector comparisons, and then for Investment staff, two-thirds based on leading public funds and then one-third private sector. So all of these recommendations are to align with the policy, which is to align with that median of the market.

And then one thing I did want to point out, if you recall two years ago when looking at the market data for that Chief Health Director position, that is the one role in this review that is not incentive eligible. When we looked at the data, this is a role that is quite unique compared to the other roles that are included in this review. And in the marketplace, this role is typically provided a salary only. And so you'll see that our recommendations are just to amend the salary ranges for this role and not to bring forth an incentive opportunity level. That was a conscious decision that this Committee and the board made two years ago coming out of the review that GGA had done.

[SLIDE CHANGE]

PETER LANDERS: In terms of our recommendations --

[SLIDE CHANGE]

PETER LANDERS: -- I'll start off in terms of our adjustments are again base salary midpoints just to -- again to remove or try to eliminate a lot of the gaps to the market that we see and then selectively to certain incentive opportunity levels for certain roles, where there is an observed gap due to the lack of incentive opportunity. So that is really the spirit of these adjustments. I will point out as well, if you recall, we've had this discussion in the past.

There is certain precedent and you'll see it in the market data, for some of the roles below the CEO level at the executive role in particular that do show a bit of a gap due to a lack of long-term incentive.

At this time, we are not recommending making any changes to that long-term incentive opportunity for those roles. However, again, with the move to TPA and a further discussion of how that might impact the incentive program at CalPERS, this is something that, you know, will definitely, I think, warrant some discussion, if you move in the direction of TPA and if you do want to make some adjustments there in the future. But for now, again in the spirit of tweak not wholesale change, we're recommending for now keeping all the long-term incentive eligibility the same as it is currently moving forward

[SLIDE CHANGE]

PETER LANDERS: So for those executive positions, we wanted to remind, this came out of our study, McLagan's work, and then we sort of analyzed it in April. You can see some of the material gaps for those executive positions. And I will point out the largest gap being the CEO position. And you'll see that we have brought forth some recommendations for that role. And I'll caveat that by saying, this was a role that two years ago we saw there was a very, very material gap between your CEO and where the market data was.

And so at the time, I think we brought forth a recommendation, and you, I think, prudently as a committee and as a Board decided to say we're not necessarily going to go all the way there all at once. We're going to go, you know, fill part of that gap, given there was a sizable gap, and then we'll, you know, revisit this, you know, a couple years later when we do another review.

So we're two years later. There is still a material gap for the CEO position at both a total cash, which is salary and that short-term or annual incentive, as well as at a total compensation, so salary annual and long-term incentive perspective. So you will see we'll bring forth some recommendations for that role to again alleviate some of that gap to the market, given the material difference.

The other roles, as you'll see, are quite competitive from a total cash perspective, and that's why you will see more minimal adjustments and only select adjustments for those roles, given that total cash is competitive. There is that gap from a total compensation perspective. But again, for now, we're suggesting let's hold off on making anyone newly eligible for long-term incentive and maybe revisit that as part of the TPA discussion should you be move in that direction.

[SLIDE CHANGE]

PETER LANDERS: So what's the rationale for recommendations? Again, aligning with the median of your peer group, ensure that those base pay -- base salary range levels are competitive, specific the midpoints with the marketplace, ensure that a meaningful amount of the compensation is at risk through incentive compensation, so again short- and that long-term incentive, and then again, recognizing that, you know, there may be some hesitancy to make certain roles eligible for long-term incentive at this time. So that is the spirit of how we came forth with these recommendations.

[SLIDE CHANGE]

PETER LANDERS: And so I'll start off with salary adjustments. You've got CEO, CFO, Chief Actuary, and Chief Health Director. Most of these are relatively small adjustments, but I think meaningful adjustments to make sure again that you're aligning with the median of your -- of your policy and Board-approved peer group. And so we wanted to reflect that. I would say the most material change is actually to that Chief Health Director position, which again is not incentive eligible. So again, we've made maybe a higher adjustment in that regard on the salaries there.

[SLIDE CHANGE]

PETER LANDERS: The biggest change here and really the only change we're recommending, the other incentive opportunity levels to us remained market competitive is to CEO position. And so there are some material adjustments that are recommended here. And, you know, again this is in the spirit of aligning CalPERS to the median of that Board-approved peer group. And I would say this, the reason why, you know, we're comfortable making this change at this time is, no matter if you stay with your current approach to investing or you move to a TPA approach, the actual pay levels and how you stack up against the marketplace is not going to change regardless of the strategy.

How you determine performance will change if you change approaches, but the market pay levels are not going to change. So regardless of the approach, I think it still makes sense to close that gap in pay for the CEO position. And so that's the spirit of those adjustments for that role.

CHAIR WILLETTE: Can we dod a quick question on this?

PETER LANDERS: Oh, sure.

COMMITTEE MEMBER ORTEGA: I just want to stop here so I --

PETER LANDERS: Yep.

COMMITTEE MEMBER ORTEGA: -- make sure I don't lose track of this. So this is one that you -- that you are recommending that make the change when we get to the recommendations?

PETER LANDERS: Correct, yes, the CEO.

COMMITTEE MEMBER ORTEGA: Can you -- can you just help me understand the practical effect of going to a max of 225 percent? I mean, am I getting the math that it's literally 225 percent of the base salary is the possible incentive?

PETER LANDERS: That is correct.

COMMITTEE MEMBER ORTEGA: Because it feels like this is going to be pretty eye popping number.

PETER LANDERS: It -- I mean, definitely, you know, it will result in material -- potentially, if performance warrants, material adjustments, if you are to maximize payouts. So you are right, it is a -- you know, definitely a material number. Again, I think the spirit of this though is the Board has approved a policy of aligning to the median of a peer group. That peer group again is made up of public funds, public agencies, as well as, you know, a certain portion of the private sector. So it's in the spirit of again making sure that you are aligning competitively with the median of the marketplace.

And the CEO position is one that, you know, definitely requires probably obviously the largest adjustment. So it is in the spirit of aligning again with that Board-approved policy.

COMMITTEE MEMBER ORTEGA: Madam Chair, just a comment, if I may. I think what really concerns me here is that we're going to every two years be looking at growth from the comparators; that those CEO salaries in the comparator groups, especially on the private sector side and probably some of the public sector comparators as well, because they're using the same sort of approach in their compensation studies, it's just going to constantly grow.

And on the -- on the corporate governance side, we would be taking a position that we're very concerned about this sort of outsized growth of CEO salaries. We'd be looking at the comparison to other positions. And so it just feels like in the time I've been on this Board, we're constantly increasing this amount. And the growth over, you know, even a five-year period, but if you go back even more than that, the growth in the compensation of these positions, and in particular the CEO position, is pretty large, the percentage growth. So I just caution the Board like I'm not sure where this ever ends. It just feels like it's going to continue to grow. We're always going to be chasing that private sector and that comparator group number. So again, I feel like 225 percent is like -- it's pretty shocking for a public fund in my -- in my opinion. Thank you.

PETER LANDERS: The only thing I'd like to respond to that, I think if you look at again our recommendations, there is a pretty sizable amount of positions where we actually haven't recommended any adjustments to the ranges and things like that. And this is a specific position where there was a -- quite a material gap to the market identified two years ago and we only went part of the way, at that point in time. And so, I think, you know, making this further adjustment, I think will lead to much lower increases being required in the future. It was just there has been a sizable gap for this role that has been identified.

And we've, I think, prudently tried to take it in more of a grandfather over a multiple year period, but I would suggest that, you know, given a lot of the work that was done two years ago and you can see some of the results of that. If you start to get these incentive opportunity levels more in line with the marketplace, you're going to see much smaller adjustments every two years, once you get them into the right range. And I would say this position in this particular, even two years ago, was still below the range at that point in time. And so we're just trying to get it in the range. And once it's there, I think you will see much less and much lower adjustments being required moving forward.

CHAIR WILLETTE: Thank you.

BRAD KELLY: Madam Chair, could I add something here?

CHAIR WILLETTE: Yes, please.

BRAD KELLY: Thank you very much. I would like to turn everyone's attention to slide number 26 of our deck, where we have the Board approved peer group that McLagan used in pulling their data. Remember that Peter had mentioned that we use the median of the compensation data for this entire group. And if I can get everyone to look at this list, you'll see that CalPERS is sizably the largest public fund on this list. And then you -- and -- or in comparison you have CPPIB there, two Canadian funds up front, and it goes all the way down to $12 billion in assets under management for Washington University Endowment.

So if -- yes, there are sizable adjustments that have been made, but please keep in mind that this is the median of this large group, going all the way from a peer that's comparable to your size all the way down to 12 billion, which is substantially, substantially smaller. So in terms of fairness, you're not benchmarking yourself at the top of this group or making sure that you're always at the hundredth percentile, which could arguably be the case, but you are conservatively benchmarking yourself at the median of this group, which again is fair and defensible, and is -- and allows you to stay within a reasonable market range of the group.

But again, by no mean are you making sure that you're benchmarking at the top of this group. And I just wanted to point that fact out, just to show the conservative nature of the recommendations coming forward.

PETER LANDERS: Yeah. Mr. Kelly makes a great point on 26, as well as on page 23 is another good example, of sort of the leading funds. And I was going to get to this in a little, but in terms of that peer group, as Ms. Kelly spoke, we did take a lot of the feedback from two years ago into account and worked with McLagan to identify other larger sized public funds in the United States that has, you know, similar characteristics in terms of managing things internally, having a complex portfolio. And that did lead to certain adjustments in terms of adding in certain New York funds, as well as adding in Florida funds as well.

And so, I wanted to bring that up in that we -- you know, we definitely are cognizant of making sure that the peer group that, you know, these pay levels are being based off of are -- is fair, defensible. And that is really what's gone into setting this is, you know, looking at those funds that are managing a meaningful amount internally, that are within a certain size range that have complex investment portfolios. Also, you know, have, you know, a lot of plan administration things, and things like that.

And so that has all gone into setting this peer group, and then to Mr. Kelly's point, you know, then setting that at the median of this peer group and recognizing that CalPERS is the largest one of all the funds on this list. And definitely to Mr. Kelly's point, you know, some boards we work with might defensibly say we would be paying ourselves higher than the median. So we -- you know, I think this Board has been quite prudent in its approach. It's an approach and in terms of a peer group that is defensible, that is used by many other pension funds, in terms of having that mix between public agencies, public funds, as well as private sector.

And so, we know definitely that this is, you know, a meaningful and a material adjustment to pay, but I think, you know, you have been prudent in terms of trying to measure this out over time. And that's why we are comfortable in making this adjustment and, you know, we are pretty confident that -- in making this adjustment that you'll be that much further within the range, and you won't necessarily need to be making as material adjustments moving forward.

So I'll quickly go back, because we'll get to the investment staff in a second.

[SLIDE CHANGE]

PETER LANDERS: But I will point you to page 13 as well to show that the resulting market positioning of these adjustments, even with the adjustments we're proposing for the CEO position, you're still seeing a double digit -- the midpoint -- the midpoint of the CalPERS range still being below the median of that combined two-thirds, one-third peer group. So again, we are trying to be prudent, while still moving CalPERS to a more competitive position relative to its peers.

CHAIR WILLETTE: We have additional questions.

First, Ms. Gallegos.

ACTING VICE CHAIR GALLEGOS: Thank you. I'm just wondering if we've looked at -- we have -- we vote proxies. And a lot of times we vote on CEO pay of proxies. And I want to make sure that we are being consistent in our decisions about our own CEO pay and the proxies that we're voting, and the statements that we're making when we vote those proxies for CEOs. Has anybody taken a look at that to make sure that we're consistent?

PETER LANDERS: No, that hasn't been something that necessarily we've been asked to do. This is definitely something that from a policy perspective, if that is something that this Board, you know, upon further discussion wanted to have a policy on, as part of your overall policy, that is something that definitely this Board could discuss.

I would say that I haven't seen a pension fund or really most, if any, company adopt sort of a, in the sand we want to pay or CEO this ratio to the average worker. I have never really seen a policy like the adopted. But obviously, that's something that this Board, should you be really passionate about it, could consider. But I would say that would be less typical and actually fairly atypical in the marketplace. I think you want to make sure that you are continuing to provide a market-competitive opportunity to all of your people, not just your CEO, but others. And, you know, having a further discussion potentially on the peer group is the -- does the peer group make sense, does the weighting, you know, between public and private make sense, do you want to shift that weighting a little bit? Those, I think, are open for future discussion.

I will say this though, the two-thirds, one-third approach that you follow is quite standard and in line with the market. So we, as consultants, don't have any concerns with that weighting. But again, this is something that in the future I think if you want to have a discussion, and it's a good time every two or three years to review, you know, the peer group, the policies, and make sure everyone is still comfortable with that, I good that's a good open discussion to have. But setting specific pay ratios of we want the CEO to be paid X -- no more an X of the average worker is not something we typically see, and would be, you know, atypical with market practice.

CHAIR WILLETTE: All right. Thank you. We have additional questions. Mr. Palkki.

COMMITTEE MEMBER PALKKI: Thank you, Madam Chair.

Most of my questions just got answered, but I did want to point out, you know, I'm a strong believer that everyone deserves a fair and equitable wage. And thank you for putting those numbers that I, too, was shocked on into more context as far as our peer group and where they fit into the median.

However, looking at the peer group and where we sit nationally, I would like to start to see more international groups in comparison in that peer group, just because I know there are larger funds out there worldwide. And I do believe we stand pretty strong on that global stance there. So thanks.

CHAIR WILLETTE: Thank you.

Ms. -- President Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Madam Chair. So I just want to remind everybody when we initially started increasing the CEO's pay package, she was really underpaid comparatively speaking. So we're -- if we're -- yes, we have been consistently increasing it. It is to get it to a midpoint here, because CalPERS was probably in the lowest quartile for paying their CEO. And I always think about, we talk about our plan for making sure that we have replacements and how do we hire the next time around if we're not offering an equivalent pay package that most other plans are offering?

And then finally, the comparative -- I think that Ms. Gallegos was talking about is interesting at CalPERS, because we have some of the highest paid employees at CalPERS. As the average State worker goes, then that's a different story. But if you're comparing her pay to if you add the average pay of everybody at CalPERS, you're probably going to be in a decent area, because, I mean, we're not talking, what, billions -- hundreds of millions of dollars or billions of dollars, and we do have some pretty high paid workers -- State workers.

So I think we're -- if we're in the midpoint, we're using the comparators that we're using. And then you add in the fact that we oversee 1.5 million people for health care. So we're one of the most complex funds in the world. So I think we have to take that into consideration before we say, oh, we can't raise her pay anymore.

So, I'm -- I will -- I'm speaking in favor of this. So thank you.

CHAIR WILLETTE:

PETER LANDERS: And just to maybe respond to a couple of those comments. Definitely -- we can definitely look in terms of what international peers are out there. You know, sometimes, there are some limitations from a data availability perspective, but that's definitely something we can examine for the next go-around.

The other thing to be mindful of when you go outside of North America is, you know, certain pay practices might differ pretty significantly between North America and other sort of jurisdictions, New Zealand, Australia, Europe, things like that. So we'd want to be mindful of that as well, but that's definitely something that could be looked into as well. And then I think to Ms. Taylor's point around, you know, make sure you're in the median, making sure that you've made material adjustments, getting the CEO in line with market, I think that's something that -- and again, I think you made a conscious decision two years ago to start to make that move. And you did make some material adjustments to the CEO's pay at that time.

And I think you did it. And we informed you that there was still a pretty sizable gap from two years ago. And so again, I think the spirit of these changes is gradually over time getting this role in line with the market, doing it in a prudent, multi-year manner. And so again, that is why we're comfortable with the adjustments that are brought forth for the CEO position.

ACTING VICE CHAIR GALLEGOS: Okay. Are there any other comments from the Board?

Okay. Yes, sorry. Did I activate it?

COMMITTEE MEMBER TAYLOR: You have to touch the microphone.

ACTING VICE CHAIR GALLEGOS: Yeah. Sorry. Now, I'm -- now I'm nowhere on here.

COMMITTEE MEMBER TAYLOR: There you go.

COMMITTEE MEMBER DETOY: There we go. Thank you for the report. As a new Board member, so I know the two-thirds, one-third agreed upon mix for the combined peer group, but what size market cap businesses in the private sector are we looking at? I mean, is it comparable health insurance, banking, et cetera, or is it just S&P 500 average for CEOs and executive positions.

PETER LANDERS: I'll point you actually. It's page 25 of the report, which for -- specifically for the executive management groups, or a CEO, in those, this is the range in terms of the assets under management for banks and insurance companies that are included. So this is the range. So you can see the median is, you well, below, you know, CalPERS, which is obviously over $500 billion. So it is a smaller size private sector. Obviously, the 75th percentile on the banks is quite high. So it is, you know, a group of private sector peers that is smaller than CalPERS. So I think that's also a prudent thing. You're not necessarily looking at banks and insurance companies that are $500 billion plus.

And so, yeah, that gives that group. And then I'll just flip to -- it's a little bit small on the page, but for the investment staff, you can see investment management firms, banks, and insurance companies, again, the median being around 300 billion for that sort of total set of groups, which is again below -- well, below CalPERS, which is obviously over 500 billion in assets.

So again, I think even the private sector peers, you've, you know, tried to be somewhat reasonable, and prudent, and conservative in setting those private sector groups in terms of sizes. And the reality of the situation is there aren't that many organizations out there, outside of maybe the BlackRocks and that, that are much larger than CalPERS. And so, you know, you are large. You're quite complex with the health component of it, in terms of managing health benefits and things like that, so you are quite complicated. And so, I think you've been quite prudent in terms of the group and the weightings that you've assigned to, you know, public -- I'll call it public sector and private sector comparisons. And that's why we have comfort in the results of the data, and the recommendations that we're bringing forth.

COMMITTEE MEMBER DETOY: And then just to follow up on that. So the private sector comparables that in -- that's total comp, so stock options, et cetera, that the CEOs and executive members get.

PETER LANDERS: That would include long-term incentives, yes, so stock options, and share units, and things like that, correct.

COMMITTEE MEMBER DETOY: Okay.

PETER LANDERS: That's -- that would be in the total compensation bucket of the analysis. The salary and the total cash of course would just be based on salaries and Cash -- or annual incentives that are paid to those folks.

COMMITTEE MEMBER DETOY: I think having a much broader conversation on, you know, how much we can weight on those is -- we all know that sometimes stock options approved by the board of directors are quite rich and how do we, you know, make sure we measure that approach, as we look at the whole market basket. So thank you.

CHAIR WILLETTE: All right. Thank you. We have one more comment. Mr. Pacheco.

COMMITTEE MEMBER PACHECO: Thank you, Madam Chair. Thank you, Pete, for your comments and so forth. I really thought -- I'm really enjoying this dialogue and conversation. I want to go back to what Mr. Detoy said about the -- about the comparators. I was looking at the executive management peer group for the California-based agencies. Now, when we -- when we did this, was this -- was this a -- was this already established or did we add any additional ones? I'm just curious.

PETER LANDERS: I'll defer to Ms. Tucker, but I believe this is the same list as two years ago, but I could be -- I could be incorrect.

CHIEF HUMAN RESOURCES OFFICER TUCKER: It's the same list as two years ago, Mr. Pacheco.

COMMITTEE MEMBER PACHECO: Yeah. And do you -- do you feel that there's -- it should -- there should be any additional persons, or any other additional items that could be added to this to give us a better picture, or do you feel it's adequate?

PETER LANDERS: I feel like this is adequate, although, I will speak to the experts in the room that know the State of California even better than I do to confirm that, but we did not have any concerns and we felt like these are representative of larger, more complex State agencies that made sense to compare CalPERS to, but I will defer to the experts who know California even better than we do.

CHIEF HUMAN RESOURCES OFFICER TUCKER: As I understand it, over the course of the Board's tenure, various organizations have been added and subtracted over the years. But again, this has been a largely stable group for quite a few years. I would say probably close to a decade.

CHIEF OPERATING OFFICER HOFFNER: I think it's -- Doug Hoffner, CalPERS staff. I think it's been there at least seven. And I think to your point, it's looking at large complex organizations that both have base pay and incentive opportunities. And that's how you get to the different counties, and the pensions systems, and some of the larger transit organizations. This is really derived from feedback that we received from this Committee about seven and a half, eight years ago.

COMMITTEE MEMBER PACHECO: It's just that I -- I recently went to a SACRS event with respect to learning more about the Act '37s and so forth. And I noticed that some of them -- you know, they mentioned some of them have grown in terms of their assets under management. And I'm just wondering if that is something that we should look into or think about, consider.

CHIEF OPERATING OFFICER HOFFNER: I think we could always look in that. I think many of those '37 Act counties tend to be considerably smaller in the assets under management, which is going to what Mr. Landers said, it's more of that, you know, 10 to 20 billion. And a lot of it's invested by external managers. And so it's a little -- or like comparable to the work that we're doing, but we can always take a look at this peer comparative group.

COMMITTEE MEMBER PACHECO: Interesting. Thank you.

And then the other -- the other question I have is back to the recommendations with respect to -- let me see, back to page -- on the annual incentive. And you mentioned these recommendations of 0 percent, 150, and 225 percent maximum. Are we -- do we have to make those recommendation? Could we stay in the status quo? And if we were to stay with the status quo, what are the risks of staying with the status quo?

PETER LANDERS: So I'll defer -- I mean, obviously, it's the pleasure of this Committee or this Board to accept or reject the recommendations. I will say though that if the -- you know, these adjustments are not made, you'll be that much further behind the marketplace.

And if I go back a page or two, so you'll be, you know, 33 percent be low the median on a total cash basis and about 26 percent below from a total compensation perspective for the role. So you will have a meaningful gap. And what this will mean is assuming you defer this another two years, you will have gone four years without adjusting -- without adjusting the incentive opportunity levels for the CEO.

So this gap most likely -- most likely -- you never know where the markets will go, but most likely this gap will only grow in four years' time -- or in two years' time. And so, again, the risk is you get further and further behind, and then you'll be in the position that you were two years go, where you might have to make even larger adjustments. And so this approach will get you that much closer to the median, and hope -- and in the future should mean that you don't necessarily have to make a decision for -- as material adjustments moving forward. And I know you're not in the position right now to be, you know, recruiting for a role. But down the line, if you were to, you know, not make any adjustments and you go down the line to replace the CEO and recruit, you might -- you know, you could run into challenges if the gap is too far between what you're paying and what the competitive market is. So that's always a risk when you're not adjusting pay levels.

And the only thing I'll -- I forget to mention this earlier. The big thing also that I think needs to be -- everyone needs to be reminded about is, the majority of the recommendation and adjustment to the pay for the CEO is in the at-risk incentive portion of the pay. So what does that mean? That means that if performance doesn't necessarily warrant it, then you won't necessarily be paying out anywhere close to those 225 percents that we're talking about, especially on the long-term incentive side. If you don't meet that 6.8 percent actuarial required rate of return in five years' time, then this will not pay out. And that whole 150 percent will be a 0 essentially.

So this pay -- the majority of the recommendations that we're making is in at-risk pay, meaning it is based on the performance of CalPERS as an organization, and the CEO against those individual key business objectives.

So again, that gives us another level of comfort, in that we're not just, you know, padding the base salary range for this role. The majority of this increase is through at-risk pay. And so if you are paying it out to the CEO, it's because the performance of CalPERS and them as an individual warrants paying that out. And so again, that gives us another level of comfort in terms of the recommendations we're bringing forward.

COMMITTEE MEMBER PACHECO: Thank you very much for your comments. I appreciate everything you said.

Thank you.

CHAIR WILLETTE: All right. Thank you. I see no other comments from the Committee. I'd just like to add just my comment, that our fiduciary duty is to ensure that our decisions are grounded in rigor, and transparency, and alignment with our organization's long-term interests. And I think that's why we committed many years ago, even before I joined the Board, to a disciplined and deliberate process. And that process has been structured. It's been dated informed. It's been reflective of both performance outcomes and market realities. It was not ad hoc. It's not subjective. It was based on our policy, it's been informed by independent benchmarking, our consultants' expertise, and also guided by our principles of fairness, accountability.

And so I think today's recommendation are a product of that process and I'm in favor of those outcomes, because it was from a process that we all agreed to and that we all followed, not because it's perfect. I appreciate the opportunity that we will have to change policy to inform our peer groups and some of the other recommendations or ideas we're hearing from the Committee and Board members, but our recommendation is a result of a consistent and credible framework that is designed to serve the best interests of the organization, its stakeholders, and to really ensure the retirement security of our members and beneficiaries.

So I want to say thank you to everyone for a really deliberate discussion today. And I see no other questions, so with that, I will entertain a motion.

COMMITTEE MEMBER WALKER: So move the recommendation.

CHAIR WILLETTE: The recommendations have been moved by Ms. Walker.

COMMITTEE MEMBER TAYLOR: Second.

CHAIR WILLETTE: It's been seconded by President Taylor.

And I will ask the Committee, all those in favor?

(Ayes.)

CHAIR WILLETTE: And any opposed?

COMMITTEE MEMBER ORTEGA: No.

CHAIR WILLETTE: Any abstentions?

Okay. The motion has been carried. And with that, I will go to our next item on the agenda, the summary of Committee direction.

CHIEF OPERATING OFFICER HOFFNER: So I heard some comments so I'll look to Chair to see if these are summary of Committee direction. But, I think Mr. Palkki was interested in looking at some -- a larger set of data in terms of international entities. We can work with both GGA and McLagan to understand that. And there was commented related to proxy voting. We could look at that as well. So I would take those away as things that we will provide further information on in the future.

CHAIR WILLETTE: All right. Thank you so much. And I do not have any additional public. I do have a comment from our Board member. Mr. Ruffino.

ACTING BOARD MEMBER RUFFINO: Am I on?

Yeah. Thank you Madam Chair. Real quick, I just wanted to ask a question about, first -- the first question about regarding Government Code 20098. Obviously, that's the code that gives the Board the authority to set the compensation for certain classifications or the executive. And I noted that there has been several amendments to this Code back in 2007, 2011, and 2019. Was that the last amendment? Was there any other amendment after 2019?

No. Okay. Perfect.

The second question is was -- has staff or perhaps CGA[SIC] identify additional managerial classifications to be included in the future under

Government Code section 20098?

PETER LANDERS: We haven't currently. Again though, I hate to beat a dead horse, I think with this potential transformational adoption of TPA in the months ahead, I think that brings an opportunity to, I think, relook at a lot of things. You know, you have pay levels, probably, you know, that -- the market is where the market is, but how do we incent our people, what are the key objectives that we want to really be motivating our people to achieve under that? Does our current incentive framework do that or not? Do we have to change our benchmarks, you know, relative to a new TPA approach? Do we have the right people eligible for certain elements of compensation?

So, you know, there are a few executive positions that aren't eligible for long-term incentive. Does it make sense -- if we're, you know, potentially under a TPA looking at longer term horizons and things like that, does it makes sense to now include those types of roles, so that everyone is sort of motivated to achieve these things? Do we have the right authority to set the Board's, you know, authority over certain roles?

I think these are all important discussions and questions that definitely, if a TPA approach is adopted, should be had and should -- most likely will lead to some adjustments to the metrics or incentives, and who's eligible, and things like that. And obviously, you know, some of the recent discussions that came out of LACERA and some of the appeals courts around certain authorities to set classifications for certain roles. Not sure how much that will affect you at the State level. But that will definitely spur a lot of pension systems to have similar types of questions I think you're asking, Mr. Ruffino, is do we have the right level of authority at the Board level to set pay ranges and things like that and classifications that meet our needs?

So I think, you know, we're at a good inflection point with where we're at. And we'll have to see where the future goes. But I think all of the questions I'm hearing are all, I think, great questions, I think, need to be addressed. Should, you know, sort of a newer direction on the investment side be had? So I definitely -- you know, I'm welcome to participate hopefully in those discussions and help people think through, you know, what's market practice, what makes sense, given the direction that you as a Board want to move in and happy to assist in whatever way we can in those discussions.

ACTING BOARD MEMBER RUFFINO: Thank you for that. And one additional quick observation. Ms. Tucker, I know that we have more than -- I note about 13 classifications under this -- that falls under this authority and I know we have more than 13 managers. We probably, I would say, roughly -- I don't have the number. I would say roughly, but 200, 300 managers out of 3,000 people, maybe plus or minus. And so I wanted to -- kind of knowing already that we do not have authority over those -- the rest of the managers. CalHR has that authority, understanding that.

However, having said that, remember that every time we do make these adjustments, it creates a salary compaction with the rest of the managers. And that affects morale. That affects recruitment. That affects a whole bunch of other issues. So I hope -- I think it is in our interest, at least morally or otherwise, to encourage and to help CalHR, and let them know when those situation exist of these compaction, once we make the decisions and to see how can we mitigate for the future, although we do not have direct responsibility. But I think that's something that we should also take a look at it to benefit the rest of the management team at CalPERS.

PETER LANDERS: And I'll just -- sorry, Ms. Tucker, I'll just say this is, I think, an ongoing issue that a lot of boards -- pension fund boards deal with. We deal with U.S. boards, Canadian boards, and making sure to get that sort of balance right, especially when you're talking about sort of Investment staff, and more of the operations and administrative staff, making sure that, you know, there isn't too much of a gap, and making sure that people know that they're still valued and very highly valued, and that their compensation is, you know, meant to be competitive.

And so you're definitely not the only board and the only committee that is dealing with this ongoing struggle with, you know, sort, you know, those that, you know, have -- you know, the Board has authority over, those that they may not, or those that, you know, are Investment staff that maybe get paid a little bit more versus the operations staff.

And so I think you're asking some really good questions and ones that I think all pension funds wrestle with from time to time. And I think ultimately it's having that discussion, working with, you know, the Legislature and CalHR to what makes sense for this Board in terms of what can you as a board have authority over and what not, and then trying to make sure that you're, you know, treating everyone market competitively, but also where you can as internally equitable as possible.

ACTING BOARD MEMBER RUFFINO: Thank you, sir, and, thank you, Madam Chair.

CHAIR WILLETTE: Thank you.

The next item is public comment, which I have none. So we will adjourn this meeting, and we will -- the Board of Administration will reconvene in 15 minutes, 10:25.

Thank you.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee open session meeting adjourned at 10:10 a.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 24th day of June, 2025.

JAMES F. PETERS, CSR
Certified Shorthand Reporter
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