

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
PERFORMANCE, COMPENSATION &
TALENT MANAGEMENT SUBCOMMITTEE

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FECKNER AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

THURSDAY, OCTOBER 30, 2025

9:00 a.m.

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

J&K COURT REPORTING, LLC

APPEARANCES

COMMITTEE MEMBERS:

Mullissa Willette, Chair

Malia Cohen, Vice Chair, represented by Deborah Gallegos

Monica Erickson, represented by Nicole Griffith

Kevin Palkki

Theresa Taylor

BOARD MEMBERS:

Yvonne Walker

STAFF:

Doug Hoffner, Chief Operating Office

Robert Carlin, Senior Attorney

Justin Heeb, Assistant Division Chief, Operations Support
Services Division

ALSO PRESENT:

Grant Holoman, Mercer

Brad Kelly, Global Governance Advisors

Aimee Kudela, Mercer

Peter Landers, Global Governance Advisors

Richard Liu, Hugessen Consulting

Bridget McKellar, Hugessen Consulting

Josh Wilson, Mercer

<u>INDEX</u>		<u>PAGE</u>
1.	Call to Order and Roll Call	1
2.	Executive Report - Doug Hoffner	1
3.	Action Agenda Items	
a.	Board's Primary Executive and Investment Compensation Consultant Request For Proposal: Finalist Interviews and Selection	2
4.	Information Agenda Items	
a.	Summary of Subcommittee Direction - Doug Hoffner	119
b.	Public Comment	119
5.	Adjournment of Meeting	119
	Reporter's Certificate	120

PROCEEDINGS

CHAIR WILLETTE: Good morning, everyone. We will now convene our Performance, Compensation and Talent Management Committee.

Can I please get the roll call.

BOARD CLERK ANDERSON: Mullissa Willette.

CHAIR WILLETTE: Here.

BOARD CLERK ANDERSON: Deborah Gallegos.

ACTING VICE CHAIR GALLEGOS: Here.

BOARD CLERK ANDERSON: Nicole Griffith.

ACTING SUBCOMMITTEE MEMBER GRIFFITH: Here.

BOARD CLERK ANDERSON: Kevin Palkki.

SUBCOMMITTEE MEMBER PALKKI: Good morning.

BOARD CLERK ANDERSON: Theresa Taylor.

SUBCOMMITTEE MEMBER TAYLOR: Here.

CHAIR WILLETTE: Thank you very much.

Our first agenda item is our Executive Report from Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Good morning, members of the Subcommittee of the PCTM. Doug Hoffner, CalPERS team member.

Today's subcommittee will conduct interviews of the three finalists for the Board's primary executive investment compensation consultants for the Board for the next five years. Following today's interviews, the

1 Subcommittee will convene a consensus of interview scores
2 for each finalist, which will then be presented with a
3 total score. The Subcommittee may select the highest
4 scoring finalist for recommendation to the Board's -- full
5 Board for the primary compensation consultant Board of
6 Administration meeting at November 25th, later this month
7 or next month.

8 Unless you have questions for me, I'll turn it
9 over to Justin Heeb of our operations and contracts team
10 and he'll go through a review of the process will be
11 following today.

12 Thank you.

13 CHAIR WILLETTE: Thank you. I don't see any
14 questions from the Committee.

15 So, today the Performance, Compensation and
16 Talent Management Subcommittee is interviewing the
17 finalists for the Board's primary executive and investment
18 compensation consultant Request for Proposal number
19 2025-9385 and we'll be interviewing three finalists today.
20 And in accordance with the RFP, we, as a group, will
21 determine an interview score for each finalist with a
22 maximum of 1,200 points available to each finalist. So,
23 at this time, I would like to ask Justin Heeb, the CalPERS
24 Contracts and Procurement Manager, to provide a summary of
25 the RFP activities to date and the logistics of the

1 interview process.

2 OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION

3 CHIEF HEEB: Good morning, Madam Chair and Subcommittee
4 members. Justine Heeb, CalPERS team member.

5 The CalPERS Board of Administration has delegated
6 to this Subcommittee the authority to conduct the
7 selection of the Board's primary compensate -- executive
8 and investment compensation consultant to the -- recommend
9 the finalist to the Board.

10 On May 16th, 2025, CalPERS released the RFP
11 number 2025-9385 to seek vendor participation to provide
12 executed and investment compensation consulting to the
13 Board for up to a five-year period. CalPERS received six
14 proposals by the final file date of July 2nd, 2025. Three
15 of those six proposals passed the technical proposal
16 evaluation and had their fees opened and scored.

17 All three finalists Global Governance Advisors,
18 LLC, Hugessen Consulting, Inc., and Mercer, LLP were
19 invited for oral interviews as scheduled today. I would
20 like to take time to update the Subcommittee on the
21 preliminary total scores of the three finalists coming to
22 interviews today, ranking from highest to lowest. Global
23 Governance Advisors, LLC received 195 points for their
24 technical proposal score, 600 points for their fee
25 proposal score, and 60 DVBE incentive points for a

1 preliminary total of 855 points. Hugessen Consulting,
2 Inc. received 185 points for their technical proposal
3 score, 553.8 points for their fee proposal score, and 100
4 points for the DVBE incentive for a preliminary total
5 score of 838.8 points. Mercer, LLP received 195 points
6 for their technical proposal score, 553.8 points for their
7 fee proposal score, and 60 DVBE incentive points for a
8 preliminary total score of 808.8 points.

9 Each finalist will be allotted 45 minutes for the
10 interview, consisting of five minutes for presentation, 35
11 minutes for the question and answer period. All finalists
12 will be asked the same questions. If needed, the
13 Subcommittee will have five additional minutes to provide
14 clarifying or follow-up questions to each finalist.

15 At the conclusion of the interviews, the
16 Subcommittee will determine an interview score as a group
17 for each finalist up to 1,200 points available, and motion
18 the interview scores. The interview scores will be
19 collected and combined with the preliminary total scores
20 to be -- to determine a total score each finalist. The
21 Subcommittee will then be asked to make a motion
22 recommending the Board award the contract to the finalist
23 with the highest total score subject to final negotiations
24 and satisfaction of all requirements.

25 This concludes my summary of. Happy to take any

1 questions.

2 CHAIR WILLETTE: Thank you, Mr. Heeb, for the
3 overview.

4 Any questions from the Committee?

5 Seeing none, I want to make one programming note
6 for the audience that is watching this meeting remotely
7 over the internet. We are going to turn off the webcast
8 of the meeting during the interviews in order to ensure a
9 fair process, where no finalist is able to see its
10 competitors' interviews. We'll resume the webcast after
11 the interviews so you'll be able to see the subcommittee
12 discuss and score the finalists. And I want to remind the
13 subcommittee that once we start, please stay through the
14 entire interview process.

15 And I would now ask that the roll be taken, so
16 that the record reflects the Subcommittee members present
17 and participating in the interview, and selection process
18 for this contract.

19 BOARD CLERK ANDERSON: Mullissa Willette.

20 CHAIR WILLETTE: Here.

21 BOARD CLERK ANDERSON: Deborah Gallegos.

22 ACTING VICE CHAIR GALLEGOS: Here.

23 BOARD CLERK ANDERSON: Nicole Griffith.

24 ACTING SUBCOMMITTEE MEMBER GRIFFITH: Here.

25 BOARD CLERK ANDERSON: Kevin Palkki.

1 SUBCOMMITTEE MEMBER PALKKI: Good morning.

2 BOARD CLERK ANDERSON: Theresa Taylor.

3 SUBCOMMITTEE MEMBER TAYLOR: Here.

4 CHAIR WILLETTE: I'd also like to note Yvonne
5 Walker is present. I thought you were, but not certain.

6 SUBCOMMITTEE MEMBER TAYLOR: You're on the
7 Committee.

8 CHAIR WILLETTE: Yeah.

9 Thank you. Mr. Carlin, would you like to weigh
10 in.

11 SENIOR ATTORNEY CARLIN: Morning, Subcommittee
12 members. So just a programming note as well for
13 conducting this. Because this is a Subcommittee of the
14 per Performance, Compensation and Talent Management
15 Committee, the only members who can be participate in the
16 question are the five Subcommittee members. Ms. Walker,
17 you're welcome to be present and you can participate in
18 the discussion after all the interviews have commenced,
19 but you won't be able to vote today or ask any of the
20 questions during the question period.

21 Happy to any questions about that. Sorry.

22 BOARD MEMBER WALKER: Sorry. No questions. It
23 would have been nice to know this before I came in. I
24 don't think I'll be staying. I'll be surprised like the
25 rest of the Board.

1 Thank you, guys.

2 CHAIR WILLETTE: Thank you so much.

3 So we will now conduct the interviews in
4 alphabetical order. Global Governance Advisors will be
5 first, Hugessen Consulting, Inc. will be second, and
6 Mercer, LLP will be the last interview. So, each finalist
7 have five minutes as mentioned for the presentation and 35
8 minutes for a question and answer period. If needed, the
9 Committee will have a five minute period for clarifying or
10 follow-up questions based on the finalist interview
11 responses. The clock will show you the time remaining in
12 each segment. And Committee members, please note that the
13 questions for finalists are included in Item 2 of the
14 finalist interview binder.

15 At this time, I would like to remind the
16 finalists that each of your firms signed and submitted the
17 CalPERS Board of Administration interview form in the
18 proposal. This form represents a pledge that each of you
19 will not make any attempt to listen to or watch the
20 interviews of the other finalists nor have anyone do so on
21 your behalf. Failure to adhere to this requirement will
22 result in your firm's disqualification from this
23 engagement from this engagement. Scores will be
24 determined by the Subcommittee as a group after all
25 finalists have been interviewed. A score will be motioned

1 for discussion and then seconded and voted upon or a
2 substitute motion will be made.

3 Does anyone have any questions at this time?

4 Seeing no questions, we will take a brief pause
5 before beginning the interviews.

6 (Pause in the proceedings.)

7 (Slide presentation).

8 CHAIR WILLETTE: All right. Thank you. I would
9 like to invite all representatives of Global Governance
10 Advisors to present. Global Governance Advisors, you will
11 have five minutes for your presentation. Staff, please
12 start the clock for five minutes when Global Governance
13 Advisors staff starts to speak.

14 BRAD KELLY: Excellent. Thank you very much
15 Madam Chair, members of the Subcommittee. Thank you very
16 much for giving us an opportunity to address this
17 Committee. By way of introduction, we're Global
18 Governance Advisors. My name is Brad Kelly. I'm a
19 partner with Global Governance Advisors. I'm one of the
20 principal founders of the firm. And to my right here is
21 Peter Landers, senior partner with Global Governance, also
22 one of the principal founders of the firm.

23 [SLIDE CHANGE]

24 BRAD KELLY: We started in 2009 throughout North
25 America. Each of the seniors that came together at that

1 juncture had at least a minimum of a decade of experience
2 doing compensation and governance consulting throughout
3 North America. And one of the key foundations of our
4 portfolio at the time were public pensions, principally in
5 Canada, but also a few in the United States. We do also
6 have offices located in both sides of the border and we do
7 operate throughout North America.

8 [SLIDE CHANGE]

9 BRAD KELLY: We do have a broad service offering
10 that we provide our clients. We don't necessarily just
11 focus on executive compensation, although that was our
12 principal focus when we first started. But by means of
13 evolution and requests from our clients, we have evolved
14 to have a full slate of offerings that go from corporate
15 governance, board effectiveness, executive compensation,
16 which we're here to discuss today, as well as succession
17 planning and other HR elements.

18 [SLIDE CHANGE]

19 BRAD KELLY: And that has further expanded.
20 Because of the trust and the relationship that we've built
21 with our clients when they have that value and trust
22 within us, then they -- we tend to get requests that go
23 beyond just our original service offerings.

24 [SLIDE CHANGE]

25 BRAD KELLY: Some of you may be familiar with the

1 fact that we walk the talk. We want to educate the public
2 sector and the pension sector as much as possible. So we
3 are the principal creators and deliverers of the NCPERS,
4 accredited fiduciary program, which has been an offering
5 since 2016, as well as numerous HR certification programs
6 throughout North America as well, where we principally
7 focus on executive compensation.

8 [SLIDE CHANGE]

9 BRAD KELLY: That has led to further requests
10 both from associations, State associations, oversight
11 committees, legislatures to come in and educate public
12 pension trustees on a broader level. Because of the
13 commitment that we've made over the last number of years,
14 it was an honor to be recognized this year as Pension
15 Partners of the Year in the U.S. for the work that we've
16 been doing throughout the U.S. pension community.

17 [SLIDE CHANGE]

18 BRAD KELLY: We have deep experience in the
19 pension world on both sides of the border, some of the
20 most transformed and complex funds, as well as some of the
21 transforming funds.

22 [SLIDE CHANGE]

23 BRAD KELLY: But in conjunction with that, we
24 also have a significant experience in the investment world
25 as well on the private side. We feel that best practices

1 can evolve on both sides, both in the public sector and
2 the private sector. And so therefore, it's nice to have
3 an understanding of best practices on both sides, so that
4 they can be considered, implemented, and adopted on either
5 side of the market.

6 [SLIDE CHANGE]

7 BRAD KELLY: We are your advisors. The two of us
8 are the people you will see in front of this Committee, in
9 front this Board on a consistent basis. We have a
10 two-senior policy within our organization to provide
11 redundancy, but we are the leads and we are the ones that
12 you will consistently see throughout this engagement.

13 [SLIDE CHANGE]

14 PETER LANDERS: And the lastly, we just wanted to
15 highlight our experience working, of course, with you for
16 the last give years or so. I feel like we've made a lot
17 of progress in terms of advancing the compensation levels,
18 getting things like the CIO as part of the long-term
19 incentive program. We reviewed and updated your
20 Compensation Policy, led you through several education
21 sessions, and also helped, and I think, enhancing and
22 improving the CEO performance facilitation and evaluation
23 process and have further, I think, improvements we can
24 make to that as well.

25 [SLIDE CHANGE]

1 PETER LANDERS: And then what we wanted to
2 quickly talk about is moving forward what we see as some
3 of the key priorities for you as a Committee. So things
4 like further education, especially if you're moving in the
5 direction of TPA on how that's going to impact
6 compensation. If you do adopt TPA also, looking at the
7 Compensation Policy, looking at the incentive designs, in
8 terms of do the metrics still make sense, because I think
9 there's a lot of ways in which we can look at things like
10 are they incenting the right behaviors, do we have the
11 right way of measuring investment performance and things
12 like that as well?

13 There will be further benchmarking if pay to make
14 sure you're competitively positioned, as well as looking
15 at the long-term incentive. There's been a few different
16 cycles you've worked through, one payout, one non-payout.
17 Probably a good time to look at that long-term incentive
18 and make sure it's still working for what that Board wants
19 it to do at the end of the day.

20 And then lastly, I think doing that annual review
21 of metrics and making sure again that they're aligning
22 with your evolving strategy and that TPA investment
23 approach.

24 And with that, I'll leave it to questions.

25 CHAIR WILLETTE: Thank you very much.

1 We will now proceed to the 35-minute question and
2 answer segment of the interview. You will have a total of
3 seven questions. And each question will be asked by a
4 different Committee member and we will rotate.

5 So, staff, please start the clock for 35 minutes
6 when the first question is asked. And I will turn it over
7 to Vice Chair Gallegos for the first question.

8 ACTING VICE CHAIR GALLEGOS: Thank you.

9 Describe your experience working with public
10 pension boards or similar bodies which operate in public
11 settings. What do you do to balance the needs of the
12 Board, the organization, and its members and beneficiaries
13 when you develop and present recommendations?

14 BRAD KELLY: Thank you for that question. We
15 have deep experience within the public sector and within
16 the pension world throughout North America. As I
17 mentioned, the foundation of our firm started in Canada
18 transforming a lot of the funds north of the border, which
19 then led to an interest and appetite to moving our
20 services down here into the United States. Large pension
21 associations started recognizing our positioning in the
22 market, made recommendations and requests that we come in
23 and start educating trustees.

24 And so, we truly believe on the education side
25 when we work with clients, we truly believe that it's not

1 just our recommendations that come forward, it's also the
2 rationale as to why we're requesting making these
3 recommendations. And we are also very much aware that you
4 operate within a fishbowl. Very politically motivated,
5 and very politically driven. And you do have stakeholders
6 and members who are consistently watching. So when we
7 embark on that education side, and basically explaining
8 why we're recommending what we're recommending, we are
9 very much aware of the fact that we want to educate not
10 just the Board, but also the stakeholders and the outside
11 members, so that they get an understanding as to what is
12 the motivation, and the direction, and the purpose through
13 which we're recommending.

14 PETER LANDERS: And the only thing I'll add to
15 what Brad was saying is we understand that compensation
16 levels are a very sensitive topic. And it's, you know,
17 tough in terms of balancing out, you know, the private and
18 the public sector pieces that, you know, a lot of public
19 pension funds deal with. And I think what we'd like to do
20 to Brad's point about rationale and that is coming up with
21 defensible peer groups, and therefore, you know, having
22 that higher weighting on a public sector, public agency,
23 pension fund component, but realizing that you are
24 competing, especially for investment talent, with the
25 private sector.

1 And so having to have a -- you know, a somewhat a
2 smaller weighting, but a weighting nonetheless on the
3 private sector to balance out those two needs. And I
4 think what our recommendations also try to do is come up
5 with a structure that will make you competitive and
6 similar to a private sector, and definitely put some pay
7 levels out there that are maybe a little bit above what
8 the public sector is providing, but nowhere near Wall
9 Street levels. We understand that there's no way for
10 public pension funds to pay at a Wall Street level, but
11 you have to bridge some of that gap between traditional
12 public sector and private sector wages to be able to fit
13 the needs of people that you're trying to recruit in.

14 And if you're able to take that gap and shrink it
15 a little bit and move part of that way, then you can use
16 some of the intrinsic benefits, like the purpose-driven
17 organization that you're working for, like potentially a
18 little bit more work-life balance, yes, the ability to
19 give back to the members and to be really working towards
20 more of a public good. But if you're not able to bridge
21 part of that gap and it's too big of a gap, you're not
22 going to be able to necessarily bring those people in.

23 So it's about bridging that gap and then using
24 some of those intrinsic benefits the pension funds have to
25 really be able to provide that full suite of, you know,

1 total rewards and sort of meaning to the role that someone
2 is playing.

3 CHAIR WILLETTE: Thank you. Our next question.
4 Your firm may have experience with pension funds both
5 inside and outside the U.S., which often have different
6 compensation philosophies and regulatory environments.
7 How do you approach compensation consulting for U.S.
8 funds? What lessons or best practices from other models,
9 if any, do you believe could be adapted to the U.S.
10 context, particularly for CalPERS?

11 PETER LANDERS: I can start and then Brad can add
12 on. A lot of it comes back a little bit to what I just
13 mentioned around, I guess, getting the right balance
14 between -- for that public sector, public pension fund
15 balance with a little bit of private sector, so mixing the
16 two in together. So I think that's part of the way. I
17 would say that CalPERS, you've gone a lot of the way
18 already in terms of bridging and using some of those best
19 practices that we see. The fact that you were probably
20 the first, although we are seeing more, start to adopt
21 these things, come up with a long-term incentive, I think
22 that is really transformative and is in line with where a
23 lot of the global pension funds have gone. Obviously, it
24 transformed Canadian funds.

25 And that is a best practice that I think is

1 something that can be offered. Yes, you're not going to
2 be paying and granting long-term incentives that are at
3 Wall Street levels, but you have a structure now with a
4 salary, with an annual incentive, and now with that longer
5 term incentive component that you have a structure that
6 now, if I'm coming in from the private sector, that's a
7 structure I'm used to seeing. Yes, the numbers themselves
8 may be a little lower than what I get in the private
9 sector, but then I can again look at all those other
10 intrinsic benefits of being able to work for a fund.

11 So I think you've already adopted some of those
12 best practices. I would say also having that formalized
13 CEO evaluation process is something that we don't always
14 see all -- especially public agencies do a great job on.
15 And I mean there's obviously always work to be done in
16 improving and enhancing those types of evaluations and
17 practices, but I think you've made a lot of great steps in
18 moving in that direction.

19 So those are just a couple things that come to
20 mind. Brad, I'm sure you might have some other ideas.

21 BRAD KELLY: We also -- and it's not necessarily
22 the case here in California, but you can imagine other
23 states that we currently work in, the restrictive nature
24 of politics in terms of overseeing and safeguarding their
25 public pensions. One of the things, as I mentioned

1 before, that we like to do is educate and inform. And so,
2 oftentimes, and this is not the case thankfully here in
3 California, but in other states we get asked to meet with
4 members of the -- politicians or members of the oversight
5 committee or legislation -- legislators directly to
6 basically help talk about how some of their old thinking
7 or their old policies that have never been reviewed or
8 revisited in 30, 50 years might be updated to better
9 enhance the overall performance and the abilities of their
10 pensions to meet their pension promise for their members,
11 and to basically lower some of the financial pressures
12 that they currently find themselves under.

13 CHAIR WILLETTE: Thank you.

14 ACTING SUBCOMMITTEE MEMBER GRIFFITH: Thank you.
15 Question number three. What current compensation issues
16 exist for public sector employers as they relate to
17 incentive pay and highly compensated executive and
18 investment management positions and how might those issues
19 impact CalPERS' ability to attract, hire, and retain high
20 quality executive and investment management team members.

21 BRAD KELLY: Those of you who have taken our
22 accredited fiduciary program know our personal position on
23 this. There are many public pensions that currently do
24 not adopt or refrain from adopting incentive -- proactive
25 incentive designs. And that ends up being prohibitive in

1 terms of their ability to attract and retain the talent
2 they need.

3 And our experience over the decades that we've
4 been in this industry is strictly because this mindset has
5 been able to evolve over time because of the fact that
6 real proactive and well-structured incentive plans have
7 not been put in place. I spent 12 years in federal public
8 serve and I had one meeting a year, which talked about my
9 previous year's performance, my go-forward performance,
10 and there was no real dialogue in between.

11 That is not the case here in CalPERS. You have
12 very proactive and constructive incentive design, both in
13 the short-term and long-term retention aspects. You do
14 calibrate them properly. And I think the track record
15 shows that you, even recently, have been able to attract
16 and retain some very talented individuals from across the
17 river, if you want to be specific, which shows that you do
18 have a very progressive incentive plan that is beyond what
19 many of these emerging pensions would currently have.

20 PETER LANDERS: And I'll just add on to what Brad
21 was saying. I think it comes down to, especially in this
22 setting where you're in this fishbowl, and there is going
23 to be scrutiny over pay levels, is really looking and
24 bringing it back to the quantitative and the facts of the
25 matter.

1 So, for example, yes, you paid out -- you know,
2 you're in the process of paying out a long-term incentive.
3 Yes, that is a dollar amount that's going to be a really
4 large number. But, if yo're able to defend it by looking
5 at what is that payout as a percentage of the value added
6 that the team and that you were able to generate above
7 that seven percent or that 6.8 percent return, if you arm
8 yourself with the facts on things like that and look at it
9 in terms of a percentage of gains and really the value
10 that has been generated for the members and for
11 stakeholders, and that those incentive payouts are just a
12 fraction of what those -- you know, what the value-added
13 has been, that can help in terms of being able to defend
14 your decisions in terms of paying out these at-risk
15 incentives.

16 And I think that's where a lot of -- you know,
17 whether it's public pension funds or public agency boards
18 get a little hesitant is they're really concerned, rightly
19 so, about the headline number that gets reported out
20 there. And that's why by arming yourself, I think, with
21 the facts and the -- you know, looking at things as a
22 percentage of the value that the -- those individuals have
23 helped generate, that helps you defend those decisions and
24 really show that, yes, we're paying out these incentives,
25 but real value is being generated for the members. And so

1 arming yourselves with those facts and statistics can
2 really help in defending decisions on it, things like
3 incentive pay and things like that.

4 SUBCOMMITTEE MEMBER PALKKI: Thank you, Madam
5 Chair.

6 Compensation decisions for public pension funds
7 are subject to heightened public scrutiny and transparency
8 requirements. How does your firm navigate the challenges
9 of designing and recommending competitive compensation
10 programs for this environment and can you provide examples
11 of how you have addressed public or media concerns
12 regarding executive or investment compensation in previous
13 engagements.

14 BRAD KELLY: As we mentioned earlier, one of our
15 principal practices is to educate as much as possible and
16 inform. We most often will recommend to our board that
17 they focus on the objective results, the objective proofs.
18 When you look at numbers, it's hard to refute that. But
19 the media loves -- they love the juicy headlines. They
20 love stirring up a story. And compensation is something
21 that tends to be a lightning rod issue in many
22 communities.

23 We often would say make sure you understand the
24 numbers. We advise our trustees definitely understand the
25 numbers, understand the rationale behind those numbers,

1 how you came to that conclusion, because when you can
2 defend it with the objective facts, and as Peter mentioned
3 before, the correlation not just to what you paid out, but
4 the correlation to the value-add that was generated
5 through this compensation exercise, takes the wind out of
6 their sails and allows the community to truly understand
7 what it is you're trying to achieve.

8 I can say that, you know, reflective of our time
9 here working with your Board, the public comment has
10 changed over time and that member criticisms have lessened
11 over time, because they truly do understand the objective
12 aspect of what we're trying to do and where we're trying
13 to lead your organization, where have -- where we had been
14 trying to lead your organization and the
15 performance-driven culture that were behind the numbers.

16 And I think as long as you can continue to
17 communicate that, people will get it. Unions get it and
18 public -- and public servants get it, politicians get it.
19 And again, if you arm yourself with the objective facts,
20 it's hard for people to refute that.

21 PETER LANDERS: And I'll add a few things that
22 we've done in particular to, I think, further justify sort
23 of incentive payouts and compensation levels in the
24 marketplace is, yes, looking at, you know, what are these
25 payouts as a percentage of the value that's been added,

1 but we've also helped certain funds in doing outside
2 third-party audits of the incentive payouts, so there is
3 very clear accuracy and there is trust that the numbers
4 are correct and that they've been calculated correctly.
5 So that's one way we've done it.

6 From a disclosure perspective, this is more so
7 not in the United States, but with some of our Canadian
8 funds, we actually have helped them in their disclosure in
9 terms of providing a level of disclosure that's much
10 closer to what you might see from a publicly-traded
11 company. So there's a lot of transparency in terms of
12 what sort of those top executives are paid, how they're
13 paid, why they were paid the way they did. So we've
14 helped them do that. I'm not saying you want to go in
15 that level here, but in terms of examples of how we've
16 helped in terms of transparency and disclosure.

17 So those are a couple of things that came to mind
18 for us. And I think to Brad's point as well, you know,
19 we're able to, where possible, challenge some of the --
20 you know, the public comments and things like that. And I
21 will say we did have one of your common detractors
22 actually I think praise some of the work that we've done
23 and the progress we were making and that we maybe weren't
24 even moving fast enough.

25 So, you know, I think an example of where we've

1 tide to deal with some of the potential criticisms out
2 there, but arm it with facts and data to back up the
3 decisions that you, as a Board, have made.

4 SUBCOMMITTEE MEMBER TAYLOR: Hi. The CalPERS
5 Board is seeking consulting expertise -- I'm sorry, let me
6 rephrase. I've got a different one -- question.

7 Describe your experience developing incentive
8 plan recommendations, which include qualitative and
9 quantitative performance objectives, as well as shared
10 organizational quantitative performance objectives. What
11 key elements must be considered to create meaningful,
12 measurable objectives.

13 PETER LANDERS: I'll start. So great question.
14 And I think it is about getting the right balance between
15 quantitative and qualitative metrics. We, as a firm
16 though, are real big proponents of where you can quantify
17 things as much as possible, the better off you are.
18 Especially with everyone sitting around this table in
19 terms of being to justify why certain decisions were made,
20 if you're able to speak to a quantitative formula and not
21 have to say that, you know, we relied on a lot of, you
22 know, what people will view as discretion, I think that
23 helps, in terms of arming your -- all of you with, you
24 know, not having to, you know, use too much discretion.

25 So I would say a lot of the things that you as an

1 organization have done, in terms of quantifying the
2 performance measures even for your CEO are really aligned
3 with where we'd like to see it. You have that sort of
4 75/25 percent split between that quantitative and the
5 qualitative. There are some of your peers that choose to
6 use a little bit more of a qualitative approach, for the
7 CEO. And I would say, you know, that comes with its own
8 challenges. You're relying a lot more on the Board's
9 discretion and views on things.

10 I would say, if you are going to use qualitative
11 metrics and qualitative areas of performance, we've worked
12 with some of our funds to actually come up with
13 descriptions of what that qualitative performance looks
14 like, as sort of a minimum target and sort of that
15 superior level of performance. That arms them with at
16 least an idea, so that when they get to the end of the
17 year and they're evaluating their performance, they can
18 say, yeah, you know, what it feels a little bit more like
19 this description than this one.

20 So that's one thing you could do to further
21 enhance, I would say, any qualitative discretion. I would
22 say in terms of the metrics in the areas of performance
23 that are looked at, we've been on the record. We think
24 that you are looking right now at a lot of the right
25 buckets, especially for your CEO. We'll reflect on you

1 CEO. You have that small investment component, but you
2 have other factors, whether it's operating costs, whether
3 it's servicing members, whether it's stakeholder
4 engagement. Those are all typical things that we see
5 boards measure their CEO's performance against.

6 Now, are there maybe tweaks that could be done to
7 those metrics? I think on the operating cost side, there
8 probably is. It's a metric that I know you've used for a
9 few years now. We also like the fact that you look at CEM
10 benchmarking results. And look at your performance
11 relative to them on both a cost and investment performance
12 basis.

13 We feel that does a great job of adding in that
14 relative component. All that being said, you are going
15 through a transformative debate on TPA. And I think some
16 of the decisions that come out of that TPA discussions and
17 going in that direction will probably require some tweaks
18 to the -- to the metrics in terms of on the investment
19 side potentially that reference portfolio being looked at
20 as opposed to the current sort of customized total fund
21 performance metrics. So that could be a big change.

22 However, I will say this, in terms of the CEO,
23 that role is only part of -- partly involved in the
24 investment side of things. So, yes, there are some TPA
25 things that have to be done. Yes, we have to obviously

1 motivate the right behaviors, which will probably feed
2 into the qualitative side of things. But still a lot of
3 the same buckets you're looking at the CEO's performance I
4 think will still hold. We might be tweaking some of the
5 metrics there, but the buckets still largely hold, because
6 that role is involved not just on the investment side, but
7 mostly on more of the administration and non-investment
8 side of the house. So you don't want to lose sight of
9 that with all the focus on TPA. And I know that's a
10 long-winded answer, but hopefully it addresses your
11 question.

12 Brad, if you have anything else to add.

13 BRAD KELLY: What I'll add to that is that we are
14 strong proponents of breaking silos and bringing people
15 together. And we believe that every person within an
16 incentive program should have something that's focused on
17 the realization of the ultimate mission -- vision and
18 mission.

19 So in terms of public pensions, that would be
20 what is that total portfolio return? What is that total
21 return, the annual return? Regardless of what asset class
22 you're in, regardless of what your role is within the
23 operations, you should be focused on trying to find
24 efficiencies to raise and elevate that top-line number.
25 And that helps everyone to really focus on one cohesive

1 goal. We also believe that in terms of some of the more
2 subjective elements, we say it's very, very important for
3 you to focus on what people have achieved, but also
4 address how it's being achieved, because you can see
5 people hit these objective benchmarks and numbers, but
6 have some detrimental effects in terms of culture, and
7 atrent -- attraction, and retention, and reputational
8 damage that you can't recover from, that will eventually
9 become material and you don't want that.

10 And so there has to be a recognition of both, as
11 I said, the what you're achieving, as well as the
12 subjective how they're achieving it.

13 PETER LANDERS: And one last thing, which I
14 forgot to mention earlier, on the investment professional
15 side of things, one of the things we've noted for a few
16 years now is something that you'll want to look at moving
17 forward is that weighting between the quantitative and the
18 qualitative. From what we see, you actually have a higher
19 weighting on the qualitative side for those investment
20 staff and professionals. And so that is something that,
21 you know, we'll have to look into.

22 It may actually make more sense under a TPA
23 model, where you are trying to balance out the what and
24 the how. People do it as part of integrating and getting
25 that TPA model up to speed. But if we were to look

1 historically, that is an area where that balance has been
2 a little bit more on the qualitative side than on the
3 quantitative side when we look at, you know, peers in the
4 pension funds space.

5 But again, it's funny, some of the things you've
6 done in terms of just having total fund performance,
7 having more of that qualitative performance for investment
8 professionals may actually line you up a lot better in
9 transitioning to a TPA model than maybe if you'd stayed on
10 sort of the more strategic asset allocation. So, it's
11 something we'll definitely look into assuming you move
12 forward on the TPA front.

13 ACTING VICE CHAIR GALLEGOS: Thank you. The next
14 question is the CalPERS Board is seeking consulting
15 expertise on a range of topics related to our incentive
16 compensation program as outlined in the RFP. These may
17 include, but are not limited to, compensation program
18 structure and design, schedules and benchmarks for
19 quantitative measures -- metrics, design and
20 implementation of shared organizational metrics,
21 delegation of compensation decision-making authority, and
22 overall complexity of the existing program. Based on your
23 knowledge of those topics, please describe the specific
24 actions your firm would prioritize and undertake within
25 the first 120 days of engagement, if selected.

1 PETER LANDERS: Thank you. Well, part of it is
2 actually on the slide right here, in terms of some of the
3 stuff we would start on. I think the big -- the big
4 decision point and where there's going to be a pivot is
5 the TPA discussion. I think that's going to open us up,
6 if -- probably for the February meeting to do some further
7 education, maybe illustrate some concepts of what might --
8 you might want to consider in terms of, you know, TPA and
9 how that might impact your incentive program, not only for
10 your CEO and your sort of executive staff, but also for
11 the investment side of the house. So that would be a big
12 priority.

13 And then I would say coming out of that, coming
14 forward in April at our usual time frame in terms of
15 looking at the metrics and really coming forth with some
16 harder recommendations in terms of where do those metrics
17 need to move, in terms of, you know, are they changing
18 fundamentally altogether, is there a new reference
19 portfolio, things like that.

20 And then our idea would be in June to then come
21 forth with formal sort of changes for the upcoming fiscal
22 year. And I think it's important to realize too that
23 under a TPA approach, if you go in that direction, that
24 it's going to be an evolution. So you're not going to get
25 all the way there on day one. So we would also take into

1 account the fact that crawl, walk, run. We're going to
2 make some changes right away, but knowing that, you know,
3 there's going to be continuous tweaks along the way. So
4 that's probably the biggest component in the first 120
5 or -- days or so.

6 And then that will then result in further updates
7 needed probably to the Compensation Policy and the
8 document itself that governs pay. Luckily, you've just
9 gone through a pay benchmarking cycle. So going on your
10 cadence, we can wait until 2027 for that. But I would say
11 that's going to be the biggest sort of inflection point is
12 make a decision on TPA and then I think education and
13 working towards what those metrics might look like moving
14 forward are probably the biggest priorities.

15 BRAD KELLY: And when you expand that to include
16 issues such as the delegation of authority and who's
17 responsible for what, I think that's where our expertise
18 and our broadest -- broader service offering come into
19 play, because we're not just experts in compensation
20 oversight, we are experts in corporate governance as well
21 in the pension world. And we'll help you navigate that.

22 Adopting TPA is something brand new in this
23 country. And it will change the risk oversight function
24 of your board. And so, therefore, we will have to work
25 with you to make sure that you're able to function in a

1 way that allows your people to do what they -- is intended
2 to do under a TPA, but then also make sure that the
3 compensation incentive design are structured to
4 incentivize the right behaviors. And that's the big one.

5 So we'll make sure that there's adequate stress
6 testing and tire kicking as we go through this to make
7 sure that you're not caught off guard, and that you're not
8 putting something in play that may actually material
9 impact -- materially impact your fund going forward.

10 PETER LANDERS: And one other thing I forgot to
11 mention is regardless of what direction you go on on TPA,
12 one of the things I know we talked about at the September
13 meeting was further education and discussions around
14 improvements to the CEO performance evaluation and
15 assessment process. And we have a few ideas around that
16 of about how we can maybe use some automation and some
17 online tools to help in terms of that process, have maybe
18 some regular quarterly check-in points around the CEO's
19 performance and the overall total fund in CalPERS overall
20 outperformance.

21 So that would be another priority, besides just,
22 you know, if you go on the TPA route, it would be talking
23 through those CEO performance assessment changes and
24 getting ready for the next cycle, which will be, you know,
25 next September. So that would be another thing on our

1 120-day to-do list.

2 CHAIR WILLETTE: That goes straight into the next
3 question, our final question. The scope of services for
4 this contract includes the provision of compensation
5 related educational sessions or workshops. If asked to
6 provide this service, one or more times, during the course
7 of the contract, what approach would you take to design
8 the session and what key topics would be important to
9 share with us during each -- during such a session.

10 BRAD KELLY: As most of you know, this is
11 definitely something within our skill set and our service
12 offering. We're highly committed, as I said before, to
13 education. We would basically embark on the same process
14 that -- process -- sorry. We're in the States --

15 (Laughter).

16 BRAD KELLY: -- process that we've conducted with
17 your board in the past. We would engage a number of key
18 members. We would have some initial conversations both
19 with Committee Chair, the Board Chair on, you know, what
20 is the conversation right now, what are the stress points?
21 And then we would help shape that. We would work with
22 staff collectively to make sure that we're addressing all
23 the -- hitting the key high notes, but then also we always
24 may make ourselves available at any time for any of the
25 Board members, if they have questions or concerns about

1 things that have been recommended or any stresses that are
2 suddenly emerging within the -- your community.

3 PETER LANDERS: In terms of specific topics that
4 could come to mind, I think one of them would be a CEO
5 performance assessment best practices, if that's something
6 you wanted to look into. Obviously, again the TPA
7 discussion around what -- and we've already done some of
8 that education, but I think some more detailed education
9 around TPA and how that then gets integrated into the
10 compensation program makes sense.

11 And then probably not in the first 120 days or
12 so, but as I mentioned earlier, you have gone through a
13 couple cycles on the long-term incentive plan. And I
14 think it would be good -- you know, this Board -- a lot of
15 the Board probably wasn't here when that plan was adopted.
16 So I think some further education on long-term incentive
17 plans in the pension fund space, where those have been
18 moving in terms of the direction as well, some of the
19 trends out there, and maybe even doing -- looking at your
20 plan in relation to others, and making sure that it aligns
21 with that evolving strategy of CalPERS as an organization
22 would be another, I think, key education point. Again,
23 maybe not a 2026 initiative, but maybe an early 2027 or so
24 initiative, because it is getting to that regular cycle,
25 two or three cycles in to start relooking at that.

1 And maybe it all is great, and it's working well,
2 and it's working the way you intended, and it's motivating
3 staff and the team members, but it's important to always
4 do those regular check-ins. And it is getting to that
5 point where you'd want to look at that and have a good
6 understanding of that as well.

7 BRAD KELLY: And just to add, and this is outside
8 of the scope of the current mandate, but those of you who
9 have taken our accredited fiduciary program understand
10 that there are tools available to your Board that could
11 help you identify what are the key stressors and skill
12 gaps within your Board.

13 Two processes that come to mind. One is
14 undertaking a board effectiveness assessment, trying to
15 take a keep look under the hood to see if there's anything
16 that your Board could benefit from, in terms of education
17 and opportunities. And then also a skills assessment or
18 skills matrix assessment to say, collectively, here is
19 what we need, here are the skills, and experience, and
20 backgrounds we need to fulfill the mandate and the
21 workload of our Board on an annual basis, and then also,
22 going -- undertaking an assessment to say here's what we
23 have in correlation to that needs -- that list of needs.

24 And that helps you identify two things:
25 individual skill gaps that you might want to pursue on

1 your own in terms of your own personal development
2 opportunities, but then also from a broader perspective
3 seeing, you know, are there any broader holes that could
4 be filled through full Board education opportunities or
5 even through requesting appointees that have specific
6 professional or skills experience that can be brought and
7 sit on your board. So it's a way of proactively assessing
8 the situation, and also coming up with what is that
9 education plan going forward, and not just -- not just
10 providing generic stuff, but, you know, providing stuff
11 that really has been assessed and optimized in terms of,
12 you know, what your Board truly needs.

13 CHAIR WILLETTE: All right. Thank you. So that
14 ends the prepared questions. We have an additional five
15 minutes for clarifying or follow-up questions. Would you
16 reset the clock or not?

17 Okay. I do have a follow-up question or an
18 additional question. I was wondering, you guys have been
19 doing this work for a long time, as you mentioned in your
20 presentation. What drives you as individuals to do this
21 work and show up?

22 BRAD KELLY: Wow. My mom's a teacher, retired
23 teacher. My sister is about to retire. I spent 12 years
24 of my own public -- my own career in the public sector.
25 There are millions of people who depend on this pension.

1 You, yourselves, are responsible for over two million
2 members within this community. It's a huge responsibility
3 and undertaking.

4 We don't agree with the current model that exists
5 here in the United States particularly, because there's
6 billions that are generated at the Wall Street level on
7 the backs and the stake of your pension system and your
8 members. That's not -- that's not an equitable model. We
9 passionately defend pensions throughout the U.S. And
10 those of you who have heard us speak know we have no
11 problem standing on stage and defending what is right. We
12 truly believe in truth to power and upholding DB pensions
13 particularly, have such a strong value in the community.

14 And you operate as a -- as we keep saying, in
15 this fishbowl under tremendous external pressures. But
16 it's the way in which you attract and retain people into
17 your public service. It's the way in which people come
18 into the public service and say I'm willing to take a
19 lower pay rate to -- because I know I'll be taken care of
20 later on in life. It's a huge, huge value.

21 And, fortunately, young people are starting to
22 realize that again. And there's -- the pendulum is
23 swinging backward. You see Alaska is a great example of
24 that. They went to a total DC plan. And now, they
25 realize they can't attract or retain anyone they need.

1 Dallas police and fire all of a sudden went to a
2 DC plan. And now they had, what, 800 people relieve
3 within a week. You can't operate like that. And so, the
4 commitment we have to the pension community -- most of the
5 work we do is pro bono. Most of the traveling we do is
6 pro bono. And we do that because we believe pensions are
7 such a valued element within society and they need to be
8 safeguarded and protected.

9 I hope my passion has come out in that response.
10 But it's truly what we believe and we totally walk the
11 talk.

12 PETER LANDERS: I can't maybe say it as well as
13 Brad, but I echo a lot of his sentiments. And the only
14 other thing I would like to say, Brad mentioned earlier,
15 we do work obviously with public pension funds. We do
16 work with other public sector organizations. We do work
17 obviously in the private sector. And I feel like, you
18 know, getting to work with committed people, such as
19 yourselves that are really committed -- you're not --
20 you're making the hundreds of thousands of dollars that
21 board members of publicly traded companies are making.
22 You're here because of your commitment and your passion
23 for public service and for the DB pension community.

24 And we really value and appreciate getting to
25 work with people that are that committed and to be quite

1 frank, a lot more friendly than walking into a private
2 sector corporate board room where everyone is out for the
3 last dollar. Being able to work with people who are
4 committed to the cause, to a mission is something that we
5 really value and that's why we continue to want to work
6 more and more with more and more public funds, because we
7 see the good work that you all are doing, and are
8 committed to setting you up with yes on this mandate, the
9 compensation that you need to attract and retain the
10 people you need to generate the returns for your members,
11 but also on the governance side in terms of improving and
12 enhancing the governance of funds, so that if any of you
13 have taken our NAF program, you're getting that extra one
14 to two percent per year compounding that's going back to
15 your members and to the benefits.

16 So really appreciate the opportunity to be able
17 to compete in this and to have worked with you for the
18 last five years and hopefully continue to come.

19 BRAD KELLY: We also don't breach status quo.
20 And we believe that there needs to be an evolution. We
21 believe that there is definitely a place for large --
22 especially large pensions, such as yours, to be a key
23 focal leader within your community, and there's ways to do
24 that.

25 We are committed to turning that value

1 proposition and that messaging around, so that the
2 community doesn't see you as a cost within society, but
3 also an intrinsic economic benefit, a huge, huge
4 contributor to the economic benefit of your community.
5 And we know that it's there. It's just about changing the
6 narrative around that.

7 CHAIR WILLETTE: Thank you so much. Seeing no
8 other questions from the Committee, Global Governance
9 Advisors, this concludes your interview. I would like to
10 thank you for your time today and please leave now.

11 (Laughter).

12 SUBCOMMITTEE MEMBER TAYLOR: Bye, guys.

13 (Globe Governance Advisors the auditorium.)

14 (Hugessen Consulting entered the auditorium.)

15 CHAIR WILLETTE: At this time, I would like to
16 invite all representatives of Hugessen Consulting to
17 present. Your firm was asked not to view the interview
18 that proceeded you. Can you please confirm to the best of
19 your knowledge your firm did not view that interview.

20 BRIDGET McKELLAR: Yes, I can confirm that.

21 CHAIR WILLETTE: Thank you.

22 Hugessen Consulting, you will have five minutes
23 for your presentation. Staff, can we please start a five
24 minute clock when Hugessen Consulting staff starts to
25 speak.

1 (Slide presentation).

2 BRIDGET McKELLAR: Great. Thank you. We're good
3 to go.

4 Good morning, Committee members, Madam Chair.
5 Thank you for inviting Hugessen Consulting to present as a
6 finalist for the Board's primary executive and investment
7 compensation consultant. We're honored to be here. And
8 we look forward to sharing with you how our team and our
9 approach can help advance CalPERS governance going
10 forward.

11 [SLIDE CHANGE]

12 BRIDGET McKELLAR: Let me briefly introduce
13 Hugessen for you. We are an independent board-first
14 advisory firm, specializing in executive compensation,
15 board effectiveness, and governance. Founded in 2006, we
16 100 percent employee owned and we have offices in Toronto,
17 Calgary, and Montreal with affiliate firms located in Los
18 Angeles, New York, and London.

19 Our team of 35 plus consultants, including 14
20 senior leaders is trusted by boards across North America
21 to deliver clear, practical advice for complex high-stakes
22 decisions.

23 Let's meet the team.

24 [SLIDE CHANGE]

25 BRIDGET McKELLAR: I'm Bridget McKellar, Lead

1 Client Relationship Manager, and I would be the lead
2 consultant for CalPERS. I bring over 15 years of
3 experience advising boards of major pension funds and
4 public sector organizations on executive compensation and
5 related governance. I currently lead our engagement teams
6 for two Maple 8 pension fund clients being Ontario
7 Teachers' Pension Plan and OMERS. And I regularly teach
8 director education modules on executive compensation and
9 its governance.

10 RICHARD LIU: Good morning, everyone. My name is
11 Richard Liu. I'm a principal with the firm. I've been
12 with Hugessen for the past 10 years and also in the
13 executive compensation advisory field. A large part of my
14 practice is with investment management organizations, like
15 yourselves, including several of the major Canadian
16 pension plans. My role for this team will be to oversee
17 all of the consulting deliverables, as well as our policy
18 analysis.

19 In addition to myself and Bridget, a couple of
20 our team members who couldn't be here today are Amulay
21 Chadha and Georges Soaré. Amulay is a key member of your
22 team and brings a public sector background, having worked
23 at the Canada Pension Plan Investment Board prior to
24 joining our firm.

25 Georges is a senior partner at our firm. And he

1 leads our engagement with several of our Maple 8 pension
2 funds as well. And together with our other colleagues,
3 he'll serve as a resource to the CalPERS engagement
4 helping you to benefit from the full breadth and scope of
5 our insights.

6 [SLIDE CHANGE]

7 RICHARD LIU: On to our service offerings. When
8 we partner with public sector pension funds like
9 yourselves, our objective is threefold, to help you make
10 decisions that is well informed, grounded on the right
11 principles, the right data, and ultimately that is
12 responsive to your stakeholder expectations. And we do
13 work across the full spectrum of compensation governance,
14 as you can see on this page.

15 And I'll call out just three of the items here.
16 Often, our work begins with the compensation philosophy
17 and articulating the guiding principles that will serve as
18 the foundation of how you make compensation decisions. A
19 lot of the work that we do with public sector funds is on
20 the investment management, the calibration of benchmarks
21 and performance.

22 And lastly, I'll mention that we do also work on
23 compensation disclosure, stakeholder relationships, and
24 strategy in order to help you tell your story, on pay and
25 performance in a way that's resonant with your

1 stakeholders including your members and the public at
2 large. So there you have it.

3 [SLIDE CHANGE]

4 BRIDGET McKELLAR: We're very proud to be the
5 advisory of choice among leading pension funds, including
6 six of the Maple 8 in Canada who are seen as global
7 leaders in this space. Unlike some of our competitors, as
8 you'll see our mandate with these funds are all as the
9 Board's independent advisor on compensation and related
10 governance, which is exactly the mandate you're selecting
11 for today.

12 You'll see our client relationships are
13 long-standing, some nearing 20 years, so we've been
14 through multiple economic cycles, leadership transitions,
15 multiple changing government, and legislative frameworks
16 that these funds are dealing with. So our experience in
17 supporting our clients through these changing
18 macro-environments is extensive.

19 Beyond pension funds, we also advise leading
20 organizations across North America and globally, which
21 allows us to bring proven solutions and practices to
22 CalPERS.

23 [SLIDE CHANGE]

24 BRIDGET McKELLAR: So ultimately, why should
25 CalPERS choose to partner with us? Our market-leading

1 position among the Maple 8 will give you access to global
2 est practices and solutions for complex governance and
3 compensation issues. We offer independent Board-first
4 advise, and we integrate with your management processes
5 for effective execution.

6 We take a business-first approach, ensuring
7 solutions are tailored to your strategic and talent
8 priorities. Our solutions are nuanced and they balance
9 competitive market realities with stakeholder
10 accountabilities that we know you have.

11 And finally, our commitment to innovation brings
12 fresh perspectives. Most importantly our values,
13 integrity, accountability, and openness align with CalPERS
14 commitment to transparency and Public Trust. And that's
15 time, and we're delighted to be here, and look forward to
16 your questions.

17 CHAIR WILLETTE: Thank you very much. We will
18 now proceed to the 35-minute question and answer segment
19 of the interview. You will have a total of seven
20 questions. And they will be asked by each of our
21 Committee members here. And so please plan your time
22 accordingly. And our staff, please start the clock for 35
23 minutes when the first question is asked.

24 I will turn it over to Ms. Gallegos for the first
25 question.

1 ACTING VICE CHAIR GALLEGOS: Thank you. Great.
2 Thank you. Describe your experience working with public
3 pension boards or similar bodies which operate in public
4 settings. What do you do to balance the needs of the
5 Board, the organization and its members and beneficiaries
6 when you develop and present recommendations?

7 BRIDGET McKELLAR: Thanks for the question.

8 So as you saw in our -- in our presentation, you
9 know, we have extensive experience working with public
10 pension funds. You know, six of the Canadian Maple 8 are
11 our clients and have been for a very long time. So we
12 have deep experience working with bodies that have -- like
13 yourselves that have sophisticated and significant asset
14 bases and are also dealing with the same similar external
15 pressures on the decisions that they're making around
16 compensation, around performance. And so that's an area
17 that we're very expert in.

18 In terms of the -- so, you saw some of our client
19 names up there. In addition to the Maple 8 funds, you
20 know, we do do a lot of work with other pension funds that
21 don't necessarily -- aren't necessarily as big, but are
22 still facing the same kinds of pressures, so it's an area
23 we spend a lot of time working in. In terms of the work
24 that we do with those funds, as Richard alluded to, you
25 know, it spans the spectrum of the types of questions that

1 this Committee or your Committee and your Board are called
2 in to make decisions upon. So it's grounding in
3 compensation philosophy. What is an appropriate
4 comparator set? How should we be positioning our pay?
5 How do we actually set those pay levels?

6 And then when it comes to incentive plan design,
7 you know, what's an appropriate balance between fixed pay
8 between -- and at-risk pay? What's appropriate between
9 short-term incentives, long-term incentives? What are
10 appropriate performance measures that will help drive
11 those pay outcomes and ensure there's alignment between
12 pay and performance over time.

13 Richard, would like to say something?

14 RICHARD LIU: Sure. And I would just add to
15 Bridget's answer there that a lot of our work with public
16 sector funds, you know, the Board consists of members and
17 a very diverse backgrounds. You know, we have clients
18 where they're -- you know, they're firefighters, they're
19 teachers, they're paramedics, nurses. So people come from
20 all sorts of different backgrounds. And we see our role
21 as helping to distill some of the very complicated aspects
22 of executive compensation, investment compensation, in a
23 forum that -- where we can really pinpoint what is the key
24 aspects of the decision that you need to make.

25 And so, being able to distill very complex

1 subjects into what are the three or four key, you know,
2 elements of it is part of our day-to-day job with these
3 funds.

4 And to the question of how do we, you know,
5 balance the different perspectives. You know, I would
6 just add that part of the, you know, again the role that
7 we see ourselves in is being able to help you articulate,
8 you know, what are the right principles. You know, at the
9 end of the day, you know, staying grounded on what is
10 truly important for CalPERS, what is truly important to
11 your members, to your stakeholders, to the public
12 at-large.

13 And, of course, compensation is a very big issue
14 and people can take all sorts of different perspectives on
15 it, but being able to take into account those different
16 perspectives. You know, I mentioned earlier part of our
17 work is with stakeholder engagement and communication
18 strategies. And that is with the -- you know, that is
19 through the lens of -- you know, when we're providing
20 advice or recommendation on compensation, we not only look
21 at it from, you know, a data or a, you know, analytical
22 perspective, but we ask ourselves the all-important
23 question of how is this going to be perceived, you know,
24 from the outside, right? How are we going to communicate
25 this decision, you know, to the public who may or may not

1 have the same access to the depths of complexity, that --
2 you know, that we're used to.

3 And so, you know, when -- so that's -- you know,
4 that gut check at the end of the day, making sure, you
5 know, can we tell a story here that is both, you know,
6 rational, that's going to be well accepted, you know, by
7 the broader stakeholder base, that's a lens through which
8 we think about our recommendations and how we provide
9 support to our clients.

10 CHAIR WILLETTE: Thank you. Our next question is
11 your firm may have experience with pension funds both
12 inside and outside the U.S., which often have different
13 compensation philosophies and regulatory environments.
14 How do you approach compensation consulting for U.S. funds
15 and what lessons or best practices from other models, if
16 any, do you believe could be adapted to the U.S. context,
17 particularly for CalPERS?

18 BRIDGET McKELLAR: That's a great question. And
19 clearly, as we've talked about, you know, we do have
20 extensive experience working with primarily funds
21 operating within, you know, the Canadian pension fund
22 model, which we fully appreciate. There are -- there is
23 different context in which those funds have, you know,
24 evolved over time, a different governance model, different
25 relationships with various levels of government. And that

1 has dictated, in many ways, how these funds have been able
2 to evolve, particularly when it comes to their
3 compensation frameworks.

4 So, we fully acknowledge that there are different
5 pressures acting upon CalPERS as an organization, as
6 compared with some of the Maple 8 funds that we -- that we
7 know so well and that we've worked so closely with.

8 I would say that when we think about it, if we --
9 if we bring it back to first principles, we do believe
10 that there is consistency, a lot of similarities in terms
11 of, you know, how -- what the building blocks are here,
12 and -- for a big U.S. fund like CalPERS and with these
13 Canadian funds that we -- that we work closely with. So,
14 you know, you've got to pay competitively. You need to
15 define -- you know, you need good talent. You need --
16 you're competing in an environment where the private
17 sector, has almost unlimited earning opportunity for high
18 performers, so how do you craft a employee value
19 proposition, that allows you to attract and retain the
20 types of talented that you need to, you know, deliver on
21 the pension many promise for your members, and to be able
22 to generate those types of investment returns that you
23 need to generate.

24 We do think that there's a lot of consistency in
25 terms of first principles. And what else is important,

1 you know, pay for performance is important. We see that
2 in your current approach to executive and investment
3 compensation. So all that to say, you know, we believe
4 that there are a lot of -- there are a lot of consistent
5 principles across, and we can bring -- you know,
6 creativity, and thinking, and best practices from a
7 different environment, and think about to tailor them into
8 CalPERS' unique environment.

9 RICHARD LIU: And I would just add, you know,
10 what makes our value proposition unique, in comparison to
11 our competitors is that this particular mandate that
12 this -- that you -- that you have is exactly the mandate
13 that we do for the Maple 8 -- for many of the Maple 8
14 pension funds. This is exactly the same mandate. And
15 when we look at -- you know, in addition to having
16 similar, you know, objectives and principles, when we look
17 at the track record of success, the Canadian Maple 8
18 pension funds, you know, they are the north star. They
19 are, you know, some of the highest performing pension
20 organizations globally.

21 And so, you know, why do I think that? Well, you
22 know, looking at funding status, by and large they're
23 fully funded. Investment returns are all very strong.
24 They have some of the most sophisticated, you know, risk
25 and liability management processes across the globe. And

1 so, by retaining us, you'll be able to see some of the --
2 you know, the secret sauce that goes behind the scenes in
3 helping, you know, create that level of high performance
4 within this organization, in your particular context.

5 Okay. And when we look at some of our
6 competitors who may be, you know, more used to the U.S.
7 market, it's a different kind of system in terms of the
8 performance that they've been able to realize through some
9 of their advice and through their recommendations. And
10 so, what we'd like to bring here is that secret sauce of
11 success that we see at the Maple 8 pension funds here to
12 your organization.

13 ACTING SUBCOMMITTEE MEMBER GRIFFITH: Thank you.
14 Question number three is what current compensation issues
15 exist for public sector employers as they relate to
16 incentive pay and highly compensated executive and
17 investment management positions, and how might those
18 issues impact CalPERS ability to attract, hire, and retain
19 high quality executive and investment management team
20 members?

21 RICHARD LIU: Maybe I'll start with this one.
22 You know, at the core of any public sector pension fund is
23 the strategy. You know, what are you trying to achieve,
24 you know, in the short, medium, and long term. And one of
25 the key trends that we're seeing is that as organizations

1 think about, you know, what is our definition of
2 performance, how do we define success, there's an
3 increasing focus on do we want to reward for generating
4 absolute returns or do we want to reward for generating
5 relative returns. And by relative, I mean relative to a
6 benchmark and invest -- on an investment basis. And so we
7 see a lot of organizations taking a look at how their
8 incentive programs are structured, what is the right
9 balance of absolute versus relative returns and how do we
10 structure it in a way that's truly aligned to our
11 long-term objectives.

12 Another trend that we're seeing is -- especially
13 given today in the macroeconomic market, there's a lot of
14 volatility, especially in the -- in the public equities
15 market, and so that's generating a lot of fluctuations in
16 terms of returns, in terms of risk that's generated from
17 that. And, of course, as a public sector pension fund,
18 you know, there's certain risk limits that you have in
19 order to ensure that your members are being well-served.

20 And so, we see the down -- we see some of the
21 downstream impacts of that macroeconomic volatility
22 impacting compensation programs and how do you measure
23 performance in a time when, you know, you have some of the
24 Magnificent Seven, you know, the big tech firms, you know,
25 generating very, very high returns, but there might be a

1 lot of risk embedded within that. And as a public sector
2 fund, you might not be willing to invest in some of those
3 organizations in the same manner.

4 And so, there's a -- there's an ongoing
5 conversation just around how do we manage some of that
6 volatility, how do we measure performance -- our own
7 performance in a way that is conducive to the way we think
8 about risk in the short, medium, and long term.

9 And ultimately, this comes back to a third topic,
10 in my mind, which is just on the talent side of things.
11 You know, as an organization, of course, you want to
12 retain talent, you know, that is, you know, maybe not the
13 highest paying in the market of course, but there's
14 certain limits, but talent that is certainly very strong
15 in your particular context.

16 And so, you know, we are seeing this kind of
17 pressure between the public and the private sector. And,
18 of course, you know, being able to articulate, you know,
19 for an organization like yourselves, where do you compete
20 for talent at the executive level, you know, for
21 investment for professionals, and being able to stay true
22 to yourselves in managing some of the cost pressures at
23 the same time, being able to retain and attract folks.

24 And, you know, oftentimes part of the answer to
25 that question is, you know, when people, you know, come to

1 work at a public sector pension fund, they're not here
2 just for the money, right? There's other benefits.
3 There's other, you know, aspects of the work, whether it's
4 values alignment, whether it's belief in the -- in the
5 mission of the organization that attract them here as
6 well. And so, being able to articulate that in a way
7 that's -- you know, that's, you know, ultimately
8 persuasive to someone to want to work here, want to stay
9 working here, you know, that's a message that we're seeing
10 and continues to be emphasized because of some of the
11 pressures from the cost side of things.

12 BRIDGET McKELLAR: Just to add on to that, I
13 think - thank you, Richard - I think two other trends or
14 areas of focus for public pension fund board. Actually,
15 these two topics I think transcend outside of the public
16 pension fund space and are more around -- we're seeing
17 them across a wider client base, but increased focus on
18 wanting to be able to deliver differentiation within an
19 employee base, or high performers versus perhaps those who
20 are -- who are not performing as strongly.

21 And so we're seeing organizations look at, you
22 know, what design features can they build into their
23 incentive compensation programs, either through, you know,
24 individual performance metrics, you know, divisional
25 performance metrics, so that there is better area

1 alignment with pay and performance over time for the top
2 performing teams, for the top performing individuals, and
3 having transparency around what the mechanisms are by
4 which someone can influence his or her own pay, you know,
5 within bounds, within reason, depending on the
6 organization, is a powerful tool that we're seeing
7 organizations spend more time focusing on.

8 And then the second point I would raise is -- and
9 this goes -- ties in with Richard's point about, you know,
10 how are organizations dealing with, you know, a very
11 volatile macro-environment, but the role of informed
12 judgment within incentive compensation programs and how --
13 what frameworks are boards and committees applying to make
14 sure that the ultimate -- not withstanding what the
15 formula says. And formulas are good and they all -- they
16 have a place in the program, but, you know, how are boards
17 then thinking about, you know, does the formula give me an
18 answer that actually passes the smell test, that makes
19 sense at the end of the day based upon not just what the
20 numbers show, but what the other factors, the other
21 contexts that we are living within and the realities of
22 needing to retain and incent a team.

23 And things go sideways, things change, the macro
24 situation changes. So the frameworks that folks are
25 building and applying and having those more -- less ad hoc

1 and a little bit more formalized in terms of this is a
2 process that we will go through and a framework that we
3 will apply. We're seeing interest there and organizations
4 kind of building that out in a bit more detail. And I
5 think that can apply certainly in CalPERS situation as
6 well.

7 SUBCOMMITTEE MEMBER PALKKI: Compensation
8 decisions for public pension funds are subject to
9 heightened public scrutiny and transparency requirements.
10 How does your firm navigate the challenges of designing
11 and recommending competitive compensation programs in this
12 environment? Can you provide examples of how you have
13 addressed public or media concerns regarding executive or
14 investment compensation in previous engagements.

15 BRIDGET McKELLAR: Sure. Thank you for the
16 question. So, we are acutely aware of the environment
17 that public pension funds operate within, in terms of the
18 scrutiny around executive pay. It is a topic that never
19 ceases to generate headlines. And so we're hyper-aware of
20 that when we come into client engagements where that is
21 a -- that is a factor or fact set. I think when we are
22 thinking about this and advising our clients, you know, we
23 take the view that we need to make sure that decisions are
24 being grounded in the facts, first and foremost. So do we
25 all collectively have a very clear understanding and good

1 view of what has performance been over a period of time?

2 And so that's kind of first point I would make.

3 The second point is around, you know, thinking through --

4 again, this ties back to my point I just made. Not

5 withstanding what the formula says, and what the

6 performance numbers kick out, and what the comp numbers

7 are, do we actually feel like the outcome is fair, and

8 defensible, and reasonable within the context? That's the

9 second set. And having, you know, very candid and open

10 conversations with management, with the Board around those

11 types of questions we think are valuable.

12 Giving folks the opportunity to express, you

13 know, reservations, doubts, et cetera, and talk those

14 through, we think is valuable, and important, and should

15 be encouraged to ensure that the board, as a whole, and

16 the committee as a whole feel like everybody is on board

17 with the decision that's been made.

18 In terms of then thinking through, you know, the

19 next step is around disclosure. And as Richard alluded

20 to, you know, we support clients in their -- the public

21 disclosure of compensation, either in an annual report or

22 other description of the program. And we focus in our

23 efforts there advising our clients on just laying out the

24 framework by which the decisions were made, so setting the

25 performance context, setting the other -- the other

1 factors that influenced the decisions, and ultimately
2 demonstrating clearly that pay and performance over time
3 have been aligned.

4 And there's a -- there's an element of, you know,
5 if we can get comfortable collectively that we can write
6 down our story and describe in the narrative how the
7 decisions got made and folks can get comfortable with
8 that, then there's a way to move forward. If you can't,
9 then that -- to me, that's often a sign like maybe this
10 isn't the right decision and maybe we need to pivot or
11 make some adjustments here and then it comes back to
12 informed judgment.

13 In terms of specific examples, you know, we
14 had -- I mentioned CPPIB just for the -- as one of our
15 long -- very long-standing clients. Coming out of the
16 financial crisis -- and so this is going back a ways, but
17 it is -- it was a very, very big news story in the
18 Canadian context. Coming out of the financial crisis,
19 they had an incentive program that -- because it was a
20 hundred percent based on relative performance, there was a
21 very strange outcome that happened, where the benchmark
22 there -- their portfolio took off before the benchmarks
23 had actually recovered.

24 And so they were generating massive bonuses in a
25 year where the entire economy was struggling and people

1 were struggling. A lot of people had lost jobs, a lot
2 pensioners had lost jobs, and people were looking at this
3 going this doesn't feel right. And, on the biggest
4 newspaper in the country, they showed up -- the four
5 senior executives showed up above the fold with like their
6 faces behind bars. So it was a big news story. And so
7 what we did was we supported the Board in articulating,
8 like I talked about before going back to first principles,
9 how can we communicate the decisions that were made, did
10 we actually right -- make the right decision or was there
11 an overreliance on the formula, and what -- and then
12 articulating that in the annual report.

13 And what ended up happening from a design
14 standpoint is the next year they made a bunch of
15 adjustments to their incentive plan, including bringing in
16 the concept of -- you know, we need a balance between
17 absolute performance measurement and relative performance
18 measurement. We can't just necessarily go based on our
19 performance versus the benchmark.

20 RICHARD LIU: That's really well said. And I
21 think I would just cap it off by saying that, you know,
22 when working with -- in an environment of heightened
23 scrutiny, there's always a proactive approach to
24 anticipating that, and what can we do now to stay off the
25 headlines? And then there's the -- you know, in the event

1 that something, you know, does go off the rails, what can
2 we do, you know, in response to -- you know, as a response
3 to a reaction that we hear from -- you know, from outside
4 stakeholders.

5 And so, you know, we understand both sides,
6 right? There's a lot that can be done in the front end
7 proactively to make sure that this is as bullet proof as
8 you can -- as you can make it. The performance, and how
9 we define performance, the way that we think about how
10 compensation is made, it's all very well grounded in the
11 right principles, the right rationale, the right data, and
12 ultimately anticipating, you know, what the market
13 reaction could possibly be.

14 You can't anticipate everything, right? There's
15 always going to be something that, you know, someone pulls
16 out from the air, you know, in terms of a critique. And
17 so, being ready to respond on a reactive basis as well,
18 you know, understanding, you know, what is their
19 perspective, right, like what is the source of their
20 concern, is there validity to it, as Bridget mentioned,
21 and then being able to articulate, you know, our response
22 to that in a way that's -- you know, in a way that's
23 collaborative, but at the same time, you know, staying
24 true to your principles. That's the approach that we
25 take.

1 SUBCOMMITTEE MEMBER TAYLOR: Describe your
2 experience developing incentive plan recommendations,
3 which include qualitative and quantitative performance
4 objectives, as well as shared organizational quantitative
5 performance objectives. So what key elements must be
6 considered to create meaningful measurable objectives?

7 RICHARD LIU: Sure. Maybe I can start with that.
8 You know, a lot of the work that we do actually starts
9 with the Board and really understanding, at a strategy
10 level, what's important to your organization? And
11 actually some of our client situations, we'd be sitting
12 alongside you, and in terms of actually originating what
13 are those goals for the those -- for the organization, and
14 that includes both on a quantitative side, things that we
15 can measure, investment performance, you know, there's
16 also all sorts of different organizational performance
17 metrics you can look at as well, satisfaction, things like
18 that. And then on the qualitative side, what are some
19 strategic aspects of the organization that we want to move
20 forward on?

21 And so in some sit -- in some situations, we're
22 working with the Board to originate those goals. And
23 then, you know, once they are approved and decided upon is
24 when you begin to move them into the incentive program and
25 essentially compensating your management team based on how

1 they achieve based on those goals. I would say that
2 there's a two -- there's a two-part -- you know, two parts
3 of incorporating into a compensation program. You know,
4 part of it is actually identifying the actual metrics how
5 are you going to define success.

6 The other aspect of it is how are you going to --
7 what is a specific target that you're going to associate
8 with that? In other words, you know, what's good, what's
9 better, and what's great, and what's not so good, right?
10 And so being able to identify the full spectrum of what is
11 the potential performance outcome is part of -- is part of
12 the process as well.

13 Stress testing is very important, in terms of
14 understanding what is the range of potential outcomes with
15 any incentive compensation program. And the philosophy
16 that we take there is we need to make sure that we look at
17 the tales, you know, not just what is likely to happen
18 from a stress-testing standpoint, but what are the extreme
19 scenarios. Markets are really high, markets are really
20 low, what would the outcome under the incentive program be
21 in those scenarios and are we okay with those outcomes?
22 And again, you know, that's with a risk lens as well.

23 One other thing to consider when we're thinking
24 about incentive programs is also at the end of the day,
25 you know, ensuring that there is a market lens that

1 we're -- you know, what we're looking through this on.
2 You know, are the practices here competitive relative to
3 other similar organization, relative to companies in
4 your -- in your compensation comparator group.

5 You know, ultimately compensation with any, you
6 know, job, it's a free market here. You know, people can
7 work here. People can choose. People have alternatives.
8 And so ensuring that your pay program here is competitive
9 relative to your comparator organizations is an important
10 lens that we want to look through as well.

11 As part of that, you know, we're very -- you
12 know, very well versed in researched, in analysis.
13 Understanding what others do, we can bring all sorts of
14 different perspectives to help you understand what are
15 aspects where you are very well aligned in the design of
16 your incentive program, and are there certain aspects that
17 are unique in terms of your particular approach. And
18 there may be very good reasons why you take a unique
19 approach and ultimately grounded in the right principles
20 that's situated for CalPERS.

21 BRIDGET McKELLAR: I would just add, you know,
22 when we -- when we think about, you know, what is an
23 appropriate mix between quantitative objectives, between
24 qualitative objectives, you know, a few other things come
25 to mind. Are we talking about short-term incentives? Are

1 we talking about longer term incentives. There's often a
2 bias to -- for the longer term compensation have that more
3 tied to quantitative, to overall, you know, investment
4 performance returns at a fund like CalPERS.

5 Whereas, in the short-term, it's -- you often see
6 more of a balance between quantitative being, you know,
7 the investment returns, and the qualitative strategic
8 measures that you might see -- that the organization has
9 laid out, either at the enterprise level or within certain
10 business units. And, you know, the principle of you want
11 people -- you want people to be aligned with the ben --
12 with the members over time, and that there's good pay for
13 performance alignment, but there's also an element of an
14 individual's line of sight and ability to influence the
15 outcome and the results.

16 And so having though -- a thoughtful approach
17 when it comes to -- you know, for different levels within
18 an organization, how much of someone's bonus is tied to
19 things that they can directly control as opposed to things
20 that they're kind of just along for the ride on. There's
21 a conversation to be had there.

22 And so what we typically see is that as you go
23 more senior in an organization, you're going to see
24 increasing weight on quantitative metrics, investment
25 performance outcomes, and a decreasing weight on perhaps

1 some of those enterprise and strategic or qualitative
2 measures. They're still very important, but just a
3 little -- a slightly lower weight. And as you go more
4 junior, that mix starts to flip.

5 ACTING VICE CHAIR GALLEGOS: Great. I will move
6 on to the next, if that's okay. The CalPERS Board is
7 seeking consulting experience on range of topics related
8 to our incentive compensation program as outlined the RFP.
9 These may include, but are not limited to, compensation
10 program structure and design, schedules and benchmarks for
11 quantitative measures, metrics, design and implementation
12 of shared organizational metrics, delegation of
13 compensation decision-making authority, and overall
14 complexity of the existing program. Based on your
15 knowledge of these topics, please describe the specific
16 actions your firm would prioritize and undertake within
17 the first 120 days of engagement, if selected.

18 RICHARD LIU: Should I start or I --

19 BRIDGET McKELLAR: You can go ahead.

20 RICHARD LIU: Okay. So, it's a great question.
21 Within the first 120 days, our objective would be
22 threefold. One is understand CalPERS, understand CalPERS
23 compensation program, and number three is develop our
24 perspective on your compensation program.

25 So, process-wise what that would look like is we

1 would have one-on-one interviews with each member of the
2 Committee, and perhaps the Board, as well as with key
3 members of the management team, the CEO, Chief Investment
4 Officer, so on and so forth, to really understand what is
5 the strategy of your organization, where do you compete
6 with for talent, what are those talent implications, and
7 also to understand what are the views on the compensation
8 program.

9 Specifically on that, you know, is the
10 compensation program viewed to be effective, first and
11 foremost? Is it -- are there certain aspects of it that
12 is working well? Are there certain aspects of the
13 compensation program that perhaps isn't working as well.

14 And so we want to make sure that we get as deep
15 as we can in understanding your strategy, your mission,
16 and ultimately the views on the pay program as well. As
17 part of that conversation, we do also want to talk about
18 the stakeholder perceptions, some of the issues that
19 are -- and potentially even criticisms that others have in
20 the way that the compensation program is working
21 historically and what has been the response from the
22 organization's perspective.

23 And ultimately, at the end of that process, what
24 we would do is take that information and develop what we'd
25 call a diagnostic report, which will outline each element

1 of the compensation program. And using our insight and
2 experience working with other public sector funds, we
3 would identify what aspects of the program that we believe
4 are very well aligned with your mission, your organize --
5 with your strategy of your organization, with market best
6 practices, and are there other aspects of the pay program
7 that perhaps there is a little uniqueness or
8 idiosyncrasies within your pay program that could be
9 addressed.

10 And this diagnostic report would be used for a
11 discussion with this Committee in order to identify
12 certain -- you know, what aspects of the program should we
13 be looking to either review, to make tweaks or changes to.
14 And, of course, that could include things that are
15 relatively lower hanging fraught, things that are, you
16 know, small little tweaks to the program, or are there
17 aspect of the pay program that warrant a deeper dive, a
18 more fulsome review, which will take a bit more time and
19 attention.

20 And so, at the output of that, ultimately is
21 really to help you understand where you sit in your pay
22 program in its alignment with the market, in its alignment
23 with your own strategy, so that we can go forward in
24 helping ensure that you build a pay program and ensure a
25 pay program that's competitive and also responsible.

1 BRIDGET McKELLAR: And just to preview, you know,
2 we -- in our written submission, we had done a light touch
3 version of this mini-diagnostic, obviously based upon
4 sitting on the outside, not yet under the tent. And I'd
5 say there were three things in particular that they
6 think -- we anticipate would come up as topics for further
7 exploration. The first being, you know, the balance
8 between relative investment performance and absolute
9 investment performance today, you know, and is it
10 appropriate and is it meeting the objective, is it setting
11 CalPERS up for success in terms of meeting your long-term
12 mention return needs?

13 The second would be understanding the philosophy
14 around the incorporation of risk in your incentive plans
15 and we can bring insights around best practices there.

16 And then the third piece, which I've alluded to
17 previously, is around the use of discretion or informed
18 judgment and how CalPERS thinks about that, how the Board
19 thinks about that, because as I mentioned, it's a topic
20 that's getting a lot of airtime. And we think that it's
21 an important one for the Board to be -- to have a view on.

22 CHAIR WILLETTE: Thank you.

23 The final question. The scope of services for
24 this contract includes the provision of compensation
25 related educational sessions or workshops. If asked to

1 provide this service one or more times during the course
2 of the contract, what approach would you take to design
3 the session and what key topics would be important to
4 share with us during such a session?

5 BRIDGET McKELLAR: Great question. This is
6 something that we take really seriously. We are -- like
7 as a firm, we have a passion for director education and we
8 think it's laudable and great that CalPERS has such a
9 focus on this. Being directors of a very large public
10 pension fund is complicated. You're being asked to weigh
11 in on, you know, complicated questions. And, you know,
12 the breadth of your investment portfolio is significant,
13 and we think that it's an important piece of ongoing
14 director education. We, as a firm, have, you know, a
15 well-earned reputation, I think, as a leading voice and
16 kind of cornerstone of the governance community within
17 North America.

18 And there's a heavy focus, from our perspective,
19 on director education. You know, our senior consultants,
20 Richard and I, included are ongoing faculty members with
21 the Institute of Corporate Directors, which is Canada's
22 version of the NACD. So we are the nationwide partner in
23 delivering their director education program. And we
24 specifically deliver a module focused on executive
25 compensation and its governance, which we've have crafted

1 over the years. And so we are the architects of that
2 program.

3 And so all that to say, we're very experienced in
4 doing this and believe it's a high priority. In terms of
5 design a workshop, you know, our -- and the first and
6 foremost was we'd want to understand, you know, what's
7 important to the Committee? What are the topics that
8 you're looking for deeper insights and expertise on? We'd
9 probably form a working group consisting of us, the
10 Committee Chair, some key members of management, and come
11 up with a plan as to what are -- what are the topics, what
12 are the top five things that people are really focused on
13 and want to learn more about.

14 In terms of crafting materials and designing a
15 session, you know, my view is that everything that is
16 being talked about and taught should be anchored back to,
17 you know, what's the purpose here, what is CalPERS
18 purpose, what's its investment strategy, what's its talent
19 strategy, so we can draw a direct line between the
20 business goals here, and, you know, the why for certain
21 compensation decision-making or designs and decisions that
22 you make.

23 We find in actually delivering these things a
24 combination of kind of lecture style and also case study
25 exercises can be really valuable. So, giving -- having

1 breakout sessions where the team -- you know, where
2 participants are asked to, you know, try to solve -- work
3 your way through this real problem that the Board faced,
4 that either you or a similar board faced. And then let's
5 come back together and learn from each other in terms of
6 what questions do you have, how would you approach this,
7 how have other boards talked their way -- or gotten --
8 worked their way through problems like this. We find
9 that's really, really valuable, that learning experience.

10 And then my final point would be, you know, if
11 there is appetite to go deeper on a particular topic, you
12 know, I'd highlight, we do have very deep research
13 capabilities, and a really broad network both within
14 leading pension funds and also related bodies, like CEM
15 pay benchmarking -- sorry, performance benchmarking and
16 other organizations that would allow us to, you know, go
17 deep on kind of any topic you'd be -- you'd be looking
18 to. Is it really deep on, you know, value-added
19 performance benchmarks? Like, we can design a session
20 just on that. Is it strategic objectives? We can design
21 a session based upon that.

22 Sorry. And I see that --

23 CHAIR WILLETTE: Thank you.

24 BRIDGET McKELLAR: I see that the clock is done,
25 so...

1 CHAIR WILLETTE: Thank you so much for those
2 responses. The time has expired.

3 We will now have five minutes for any of the
4 Committee members to have -- ask any clarifying or
5 follow-up questions for Hugessen?

6 Ms. Griffith, did you want to ask?

7 ACTING SUBCOMMITTEE MEMBER GRIFFITH: Sure.
8 Thank you. Just a follow-up question that we had is can
9 you tell us and share a little bit about what drives your
10 passion for this work?

11 BRIDGET McKELLAR: Am I on?

12 I'm on. Sorry.

13 That's a great question. Yeah. This is -- I
14 have always found -- so doing executive compensation work,
15 I've actually gotten this question a lot throughout my
16 career. You know, you're at a -- people are asking like
17 why do you -- why do you do that? Don't you have like a
18 moral opposition to what, you know, executives get paid,
19 because we know the numbers can be, you know, just like
20 eye popping. And, we are called into, you know, opine
21 upon the reasonability of sometimes things that it's hard
22 for folks to necessarily wrap their heads around like how
23 can that possibly be reasonable.

24 So, that's something that I've grappled with over
25 the years. And I think for me it's -- it comes down to I

1 want to help companies design programs where there is
2 really, really good alignment between performance and pay
3 over time. And that performance, you know, in a public
4 pension fund context, is, you know, driving overall like
5 societal sustainability, I firmly believe. You know, we
6 are funding a pension. We being pension funds more
7 broadly. And I think of us as a team when -- and it's our
8 client. But we are funding people's retirement. And I
9 think it's in credibly important that the decisions that
10 are being made are reflective of the performance that's
11 being generated, and that members and beneficiaries'
12 dollars, like their hard-earned money that they have
13 contributed throughout their career is being responsibly
14 invested and then being responsibly -- and that people are
15 being responsibly paid in response -- you know, in
16 response -- sorry, I used response a lot there, but in
17 response to the performance that is truly being generated
18 to fund that long-term sustainability.

19 RICHARD LIU: For myself, you know, there's a lot
20 of people in my life who are public servants, you know,
21 teachers, nurses, and, you know, frankly they're some of
22 the hardest working people I know, right? And so, you
23 know, to see the amount of sweat and -- they put into
24 their work. And at the end of the day, you know, when
25 they retire, they depend on the pension promise to be able

1 to provide for them -- and for their families for the rest
2 of their lives.

3 And so, I think there is an obligation, you know,
4 to ensure that these organizations are governed in the
5 right way, that they're running, you know, optimally, so
6 that, you know these are the members livelihoods that are
7 at stake and their futures that are at stake. So I feel,
8 you know, a connection just from that front. And so, you
9 know, the way that I think about, you know, how I can
10 contribute to that system and to the effectiveness of that
11 system, is by, you know, looking at the executive and the
12 investment compensation program to ensure that it's well
13 structure, it's well governed, there's the right
14 principles, you know, established within it to ensure
15 that, you know, at the end of the day, compensation it's
16 additive, it's -- in a way, its's responsible to the
17 mission of the organization, while at the same time being
18 able to, you know, attract and retain the right talent to
19 run those organizations. So, that's the response for
20 myself.

21 CHAIR WILLETTE: Thank you.

22 Any additional questions from the Committee?

23 Well, thank you so much. This does conclude your
24 interview. I would like to thank the representatives from
25 Hugessen Consulting for your time today. And I'm going to

1 ask you to please leave the auditorium.

2 BRIDGET McKELLAR: Thank you so much.

3 RICHARD LIU: Thank you.

4 (Hugessen Consulting exited the auditorium.)

5 (Mercer entered the auditorium.)

6 CHAIR WILLETTE: At this time we will take a ten
7 minute break. After the break, we will proceed with the
8 interviews.

9 Thank you.

10 (Off record: 10:39 a.m.)

11 (Thereupon a recess was taken.)

12 (On record: 10:53 a.m.)

13 CHAIR WILLETTE: Thank you, everyone. At this
14 time, I would like to ask staff -- well, we have the
15 representatives of Mercer present.

16 Representatives of Mercer, your firm was asked
17 not to view the interviews that preceded you. Can you
18 please confirm to the best of your knowledge your firm did
19 not view those interviews

20 JOSH WILSON: We can confirm that.

21 CHAIR WILLETTE: Thank you much.

22 Now, you will have five minutes for your
23 presentation and we'll ask our staff to please start the
24 clock for five minutes when Mercer staff starts to speak.

25 (Slide presentation).

1 GRANT HOLLOMAN: Okay. So I'll give a brief
2 overview of our team structure. So we have a five-person
3 team. Josh is our relationship manager and project lead.
4 We also have Susan Lemke who is in charge of our Mercer
5 surveys, both our endowments and foundation survey, and
6 our public pension plan survey. We have Aimee who will be
7 our project manager, myself our lead analyst, and then we
8 also have an investment expert in Kelly Henson. Our team
9 is both a east coast and west coast team. Josh, myself,
10 and Kelly based in the Atlanta office, and then Susan
11 based in Seattle and Aimee based in Los Angeles.

12 [SLIDE CHANGE]

13 AIMEE KUDELA: So why Mercer?

14 Well, first of all, our team, the team that Grant
15 just went through, we are Mercer's public pension
16 compensation consulting team can. We work together a lot
17 on, you know public pension projects. And we have figured
18 out an optimal workflow and team structure to get this
19 work done and optimize outcomes. So, we have Josh and
20 Susan both, you know, senior experts in this space. So,
21 at any time - you know, we're on different coasts - if you
22 need somebody, we have somebody for you.

23 As project manager, I make sure that we'll hit
24 all of our timelines and that the work is flowing in the
25 way that makes sense for your team, for the needs that you

1 all have. And then, Grant, you know as an analyst, he has
2 worked with this data. He's done this work before and
3 he's very experienced. And then Kelly rounding with
4 our -- the investment in case, you know, we need to bring
5 in the full picture. Our team works together, not just on
6 public pensions, but also executive broad-based and
7 investment compensation for profits, not-for-profits,
8 endowments, and foundations. So we really bring a broad
9 perspective.

10 And then Mercer's unmatched data. Mercer has the
11 world's largest compensation survey database. So it has,
12 you know, thousands and thousands of participants,
13 millions of lines of data, in addition to the investment
14 group surveys for public pensions and endowments and
15 foundations that Susan Lemke and our team runs. So
16 really, we're familiar with just the ins and the outs of
17 the data. We don't just use it, but we also bring it in,
18 process it, and really understand what it means. And
19 we're also very familiar with peer surveys and, you know,
20 utilizing other market data.

21 And when you hire us, it's not just us. It's all
22 of Mercer. We have a massive global headcount and
23 experience in all areas within the HR. So, even if we're,
24 you know, not an expert in this specific area, we
25 definitely know somebody who is.

1 And then last, experience. You know, that's at
2 the core of everything that we do. We have done a lot of
3 this work. We have robust quality assurance processes to
4 ensure that what we're giving you is most accurate, as
5 well as, you know, robust business standards. And we
6 worked in dual consultant models on both sides. So, we
7 know how to, you know, work to ensure successful outcomes
8 through that model. So thank you.

9 Josh.

10 JOSH WILSON: Thank you, Aimee.

11 Quickly, we'll just talk about some clients. And
12 you know, we spend a lot of time in this space.

13 [SLIDE CHANGE]

14 JOSH WILSON: And what I just want to highlight
15 here is how long we've had some of these clients. So I've
16 been in this work for 24 years. My first client was
17 Georgia Division of Investment Services. They're the
18 second logo down on the left. I've been working with them
19 for 24 years through two firms that I've been at. We work
20 with Florida SBA for 15 years, University of California
21 for 15 years. So, we really have been able to stay with
22 our clients for a long time and help them grow and see
23 them, you know, go through different transitions,
24 including incentive plans, and changing them, and kind of
25 growing with them. So we're very proud of that and I

1 think that's a great -- you know, if you ever want to know
2 how we do our work, then I recommend talking to them,
3 because that's our best reference is talking to our
4 clients that we do work with.

5 And we some new ones, right? We just started
6 with CalSTRS a few months ago. We just started some work
7 with Virginia about six months ago. So we do have some
8 new ones too. And hopefully, in 10 years, I can say the
9 Same thing about them.

10 [SLIDE CHANGE]

11 JOSH WILSON: And lastly, I just wanted to
12 highlight -- I know we have 40 seconds left -- just to
13 highlight some issues that you're probably struggling with
14 in the public pension world, right?

15 So first of all, comparison for performance? You
16 know, do you compare to other states? We compare to
17 pension funds. We compare to endowments and foundations.
18 Should the benchmark be one year, three years, five years,
19 10 years? Those are all discussion points with no right
20 answer. It just depends on your organization.

21 State pay versus investment pay. Your governor
22 makes 240,000. That would be one of the lower pay levels
23 for investment people here, but there's a disparity in the
24 market. So, just trying to make you understand the issues
25 and most importantly thank you for having us here. We

1 appreciate it and look forward to the questions.

2 CHAIR WILLETTE: Thank you very much. We will
3 now proceed to the 35-minute question-and-answer segment
4 of the interview. You will have a total of seven
5 questions. Please plan your time accordingly and we will
6 all take turns -- all the members of the Committee will
7 take turns asking questions. Our staff, please start the
8 clock for 35 minutes when the first question is asked.

9 I will turn it over to Ms. Gallegos for that
10 first question.

11 ACTING VICE CHAIR GALLEGOS: Great. Thank you.
12 Please describe your experience working with public
13 pension boards or similar bodies, which operate in public
14 settings. What do you do to balance the needs of the
15 Board organization, and its members and beneficiaries when
16 you develop an present recommendations.

17 JOSH WILSON: Sure. And I'll go first here and
18 if my colleagues want to chime in, please do. You know,
19 as I mentioned, we spend a lot of time in this space. So,
20 I do probably 60 percent public pension work and then 40
21 percent for profit, either public company or private
22 company executive compensation.

23 And there's a lot of parallels in those. I will
24 say in State pension plans, look, there's incredible
25 transparent -- and it really does differ by State. So

1 some of the states that you saw there before are not
2 nearly as transparent as you and your neighbor down the
3 street are, but most of them, you know, they are, in a
4 bigger sense. And I think that's helpful actually in what
5 we do, because, you know, we're not -- we're taking data
6 that's out there, and we're explaining it to you, and
7 we're proposing different alternatives for it, right?

8 So we can look at two pieces of data. And they
9 may differ and we'll talk about why they differ. We're
10 not saying which one is right, which one is wrong. But I
11 think having a helpful explanation for the Board and for
12 management to understand what does the landscape look
13 like. No one looks like you, right? You are a unicorn.
14 You are the largest U.S. pension. You're in the top five
15 in the world, but you're based in the United States with
16 different pressures.

17 So I think in a lot of ways the fishbowl approach
18 to how you look at this is probably better than trying to
19 do things behind closed doors, because it forces everybody
20 to understand what the data is, what data points do we
21 look at. So it does require a judgment call, though, at
22 some point, right? If you have two data points that are
23 different, and, you know, they're both reasonable, someone
24 has to make a decision on how we're going to look at those
25 two points and how we're going to use them for our plans.

1 You know, I think, you know, what you guys have
2 done over the years, you're basically a leader in a lot of
3 the areas that we're talking about. So long-term
4 incentive, for example, I think you're one of the few
5 pension plans, maybe the only pension plan, that has a
6 long-term incentive. You know, that's not easy to do, but
7 there's obviously very much a business reason to do that.

8 And my guess is when you went through those
9 discussions, you talked about all the different
10 possibilities and what the public perception would be,
11 what it meant to kept -- to keep employees and to attract
12 them. And all that kind of goes into those decisions. So
13 we're very comfortable in this space. It is different
14 than our private companies, right? So if I go to a public
15 company Board of directors, there's no one -- there's no
16 one watching livestream. It's us and the board of
17 trustees or board -- you know, board of directors. So
18 it's a little bit different, but I think this is a good
19 environment to operate in.

20 AIMEE KUDELA: I'll add from the beneficiary
21 standpoint making sure that the compensation programs that
22 are in place, you know, are truly based on performance
23 that will impact the beneficiaries down the line. It's a
24 matter of good stewardship of, you know, funds for the
25 folks that are within the pension. So just having that

1 top of mind as we think through not just the data, but
2 also, you know, recommendations.

3 CHAIR WILLETTE: Thank you. Your firm may have
4 experience with pension funds, both inside and outside the
5 U.S., which often have different compensation philosophies
6 and regulatory environments. How do you approach
7 compensation consulting for U.S. funds and what lessons or
8 best practices from other models, if any, do you believe
9 could be adapted to the U.S. context particularly for
10 CalPERS.

11 JOSH WILSON: Sure. The same format. I'll take
12 first shot and anyone has thoughts on it.

13 As I mentioned that, you know, you're in a very
14 different position than let's say a \$130 billion pension
15 fund in a different state, right, because there's people
16 bigger than them. People smaller than them. You are the
17 biggest, right? We've done work for a private company or
18 for-profit companies like Walmart, or Amazon, or Costco,
19 right? And they're in similar situations is how do you
20 compare your pay to theirs?

21 You know, from a compensation philosophy
22 standpoint, and I think your currently philosophy is to
23 look at a combination of U.S. public -- U.S. and other
24 public pension funds, private, and then depending on what
25 we're talking about, management or not, and also looking

1 at state, and positioning yourselves at the median. Right
2 so I think an innning discussion point is median the right
3 number for you, right?

4 So I think there's an interesting discussion
5 point is is the median the right number for you, right?
6 Should you be -- you know, you're the leading organization
7 from a size perspective. And we know that size correlates
8 to overall compensation levels at the highest levels of
9 the organization. You know, should you be looking at
10 something besides the median? I think that's an
11 interesting question. Is the mix -- you know, does
12 two-thirds, one-third make sense? Can you compare
13 yourselves to states like Florida or Texas Teachers that
14 are, you know, mult -- you know, you're multiples of them
15 in terms of assets and how you operate and complexity.

16 You have international funds, some are actually
17 bigger, but probably a little bit less. Some of the
18 Canadian ones pay significantly more, because they have a
19 different business model. You know, in Canada, you can --
20 it operates not quite just like a for-profit model, but
21 closer to it, less like a state government or, you know,
22 country government organization.

23 It would be great to be there for pension funds,
24 because practically you're trying to attract the same
25 talent that, you know, for-profit firms on Wall Street and

1 other parts of the country are attracting, but I don't
2 think you're there yet. You still have a whole
3 constituency that you have to answer to, that I don't
4 think is yet ready to say we're willing to pay you like
5 Wall Street. You know, the numbers that you already pay
6 are eye popping to many of your constituents, and you have
7 to defend that.

8 So I would love to see our system move towards
9 the system of Canada and some others, but I don't think
10 we're quite there yet. But I think it would be pretty
11 easy to justify a different positioning for an
12 organization like CalPERS. So, I could see a situation
13 where you say, you know, we're going to have the salaries.
14 Maybe it's P50. Maybe it's somewhere in the third
15 quartile, between 50th and 75th percentile. And then with
16 good performance, right -- and that's the key. That's the
17 difference between public pension funds and other parts of
18 State government or federal government is we can measure
19 the performance. We know how you've done.

20 I get the question a lot, like how come we can't
21 do an incentive plan in Department of Transportation?
22 Well, if you can tell me what great performance looks like
23 compared to somebody else, then I would love to design one
24 for you. But in the investment world, you really can
25 decide was performance good or not?

1 I've looked at, you know, umpteen reports that
2 talk about one-year, five-year, 10-year performance of all
3 the -- all the different funds. So it's to measure them.
4 You know, with that, you could say if we perform well,
5 we're happy to pay you in the -- you know, above the 75th
6 percentile or target at the 75th percentile. When you
7 look at how much money actually gets paid out, you one,
8 basis point for you I think is \$50 million, right? So
9 that's one one-hundredth of one percent is \$50 million.

10 You know, the amount of money we're talking about
11 in compensation to get those extra returns is -- you know,
12 it's decimal points. So I think, you know, if you can
13 motivate performance that way and -- you know, you can
14 make an argument that it shouldn't be money that motivates
15 people. You know, would they do a better job with or
16 without an incentive plan? All great questions. I don't
17 think we're here to debate whether you should have an
18 incentive plan, but how to make the most effective one
19 that you can have.

20 And so, you know, I think there's some things you
21 can do. Again, I would love to see us in more of a
22 Canadian model, but I just don't see us going there in the
23 U.S. any time soon.

24 ACTING SUBCOMMITTEE MEMBER GRIFFITH: Great.
25 Thank you.

1 So question number three is what current
2 compensation issues exist for public sector employers as
3 they relate to incentive pay and highly compensated
4 executive and investment management positions, and how
5 might those issues impact CalPERS' ability to attract,
6 hire, and retain high quality executive and investment
7 management team members?

8 JOSH WILSON: So I swear I didn't know that
9 question was coming, but that's exactly what's being
10 answered on the slide up -- that's still up there. Look,
11 incentives are -- you know, we at Mercer certainly believe
12 in incentive plans. We believe in them for private
13 companies. To the extent that we can put them in for
14 not-for-profit organizations, we do. So we certainly
15 believe in them, but they are not without their trouble
16 points, right?

17 So the first question is who do you include? We
18 see this issue a lot right now of we've always included in
19 these plans in direct investment professionals. But what
20 about the, what we call, investment-adjacent folks, so,
21 accounting, IT, legal, some of the upper management that's
22 sort of adjacent to it, but is required for that. And
23 that's a big sticking point, because once you say an
24 investment accountant is in the plan. How come an
25 accountant from a different department doesn't have a

1 plan? A it just kind of -- you know, it's like inviting
2 you second cousins to weddings, right? It just gets too
3 big to manage.

4 And so I think it's a question of who you want to
5 include in the plan. And if you don't include those
6 people, you essentially create two classes of people
7 within your investment group. You create those who are in
8 the incentive plan and those who are outside looking at it
9 and saying, hey, that's great that we performed really
10 well. I get nothing for that while you get your bonus.
11 And that's a difficult situation, too.

12 So we actually see more organizations moving
13 towards including, what we'll call, investment-adjacent
14 positions. Some of you have gone as far as including,
15 what I'll call, support positions, right? So HR people
16 that support that group, or facilities, or administrative
17 assistants, because they have a one-team approach. So
18 that's one issue.

19 I have a couple others up there, so let me just
20 look at those. You know, paying in a downmarket, I think
21 that's an interesting one that we hear a lot about. So,
22 you know, imagine a situation where you beat your
23 benchmark, but the overall return is down. So if you talk
24 to investment professionals, that's actually where they
25 might add the most value, right? If the market is down 16

1 percent and you're down 10, that's incredible performance,
2 right? They're protecting it to allow to grow in the
3 future. But a lot -- it's pretty easy to write an article
4 in the paper that says, you know, XYZ fund lost X billion
5 dollars and paid out \$6 million in incentives, right?

6 Investment professionals understand that. Not
7 every single person whose a stakeholder is going to
8 understand why that makes any sense. So we've seen a lot
9 of this from a design standpoint. It makes sense to say,
10 well, we're going to defer that payout. Maybe we won't
11 pay it until there's a positive return or we'll use it as
12 a retention hook.

13 The practicalities are you're in a war for
14 talent. And if you don't pay out an incentive at some
15 point, you run the risk of losing some of your good talent
16 to people who have a different approach to it. So, paying
17 in a downmarket is a very difficult issue, one that we see
18 a lot of.

19 You know, the idea of the length of your
20 incentive plan or the length that you're measuring. So,
21 the typical choices are three years is probably the most
22 common. Sometimes we see a combination of three and five
23 or three and one. We don't often see just five, which I
24 think is where you are today. And the reason for it is it
25 makes perfect sense from an investment measurement

1 standpoint, right? You can't measure a real investment
2 over a period of one year. Even three years is too short.

3 Five years starts to make sense. You'd love to
4 have it over 10. That's probably a better picture of how
5 your investment people are doing. But the employee
6 lifecycle doesn't match that. And I's sort of look at it
7 and say when we do this work for private -- for-profit
8 institutions, right, so publicly traded companies, the
9 overwhelming majority of the stock options, or restricted
10 stock, or performance shares are three years, right?
11 That's sort of come to be the number that people will
12 agree is a reasonable compromise of long term and
13 employees will be there to see it, to earn it, and to make
14 it real for them.

15 You know one of the questions we have about how
16 you run your plan today, and it's a little difficult to
17 see it from the outside, is well, if someone is not there
18 for the full five years, how do you do it, right? So, you
19 know, if someone just came here this year, do they wait
20 five years or do you take four years of past performance
21 plus this first year. You know, there's a couple ways you
22 could do it, or do they get measured on one year, then two
23 years, then three years, then four years, then five years?
24 There's a couple of ways that we've seen it done before.

25 But the longer out you go, the more challenges

1 there's going to be, right? So I think the average tenure
2 for most employees across the U.S. is probably four or
3 five years. So if you have that kind of turnover, is
4 everybody on a different timeline on their own plan. That
5 creates a lot of calculations. That creates the
6 possibility of mistakes. So, no great answers on that.
7 So that's definitely one of the issues we see.

8 And then I think the last one I'll end with is,
9 you know, what are we comparing against from an incentive
10 standpoint? You know, are we trying to match private
11 institutions can give, because some people have that
12 philosophy that we're going to try to have incentives,
13 like a private money manager or do we want to do it like
14 other pension funds.

15 And again, if you're in your situation, which
16 other pension funds make perfect sense for you. Again,
17 you can't say, well, these are bigger, these are smaller,
18 right in the middle. You're at the top of U.S. pension
19 funds. So how do -- you know, do you take someone else
20 and add 20 percent? I think coming up with a reasonable
21 number is a challenge in this world.

22 AIMEE KUDELA: And then, I'll add that from an
23 attraction and retention standpoint, because these numbers
24 are higher than they might be in other similar
25 organizations. They are more public. They -- they're

1 something that people absolutely see. So, making sure
2 that there's proper education in internally especially,
3 understanding of how the programs work, why the numbers
4 are what they are is a really key piece to just ensuring
5 that everybody is on the same playing field. And that,
6 you know, there is rationale behind all of the decisions.

7 SUBCOMMITTEE MEMBER PALKKI: Compensation
8 decisions for public pension funds are subject to
9 heightened public scrutiny and transparency requirements.
10 How does your firm navigate the challenges of designing
11 and recommending competitive compensation programs in this
12 environment? Can you provide examples of how you have
13 addressed public or media concerns regarding executive or
14 investment compensation in previous engagements.

15 JOSH WILSON: Sure. I think the key is -- like I
16 said, it's -- in some ways it's easier, because everything
17 is -- you know everything is sort of subject to the
18 sunshine. Everything is going to be looked at. All the
19 data that we deal with is public, right? So your
20 information is publicly available. The surveys that we
21 deal with are all publicly available and publishable. So
22 it's actually fairly easy to design compensation plans
23 with that kind of data.

24 And what's different about it the discussions
25 tend to be, you know, in open forums like this, or in

1 one-on-one individual conversations, depending on the laws
2 of the different states. So, you know, we designed one in
3 Florida in 2013, and that -- you know, what was a -- it
4 was an interesting plan, because, you know, they'd never
5 had one before another there was no other organization in
6 the State of Florida that had an incentive plan. We
7 designed it and we went through multiple iterations with
8 the designees from the Governor, and from the general
9 counsel, and chief financial officer. We created a
10 committee called the Investment Advisory Committee to
11 oversee this.

12 So we made a very public process and it -- look,
13 it took probably six times as long as it might take
14 otherwise to schedule meetings, to have, you know, all the
15 things that you need to do, but in the end there was no
16 surprises.

17 But interestingly, even in that case, when we
18 thought, okay, we've checked every box, everything worked
19 out, I was told by the CIO at the time, all right, we're
20 going to shelve this because politically this isn't the
21 right time. Okay. Two years later, we got a phone call
22 and he said, now, is the right time. And three weeks
23 later it was in place.

24 So, you know, the political process is very
25 interesting. And I'll contrast that with North Carolina,

1 where we did a project just about ten years ago trying to
2 put an incentive plan in for them. And at that point
3 North Carolina was -- still is until two months from now,
4 overseen by a single fiduciary, the Treasurer. And so the
5 question was we want to put in an incentive plan, because
6 we don't feel like we can attract and retain people for
7 investments in North Carolina. And the Treasurer said,
8 look, I don't disagree, but I'm not willing to take the
9 political pressure. And, you know, it's all visible. I
10 have to be the one that deals with it, all the articles.
11 To me, it's not worth it. And instead of putting in an
12 incentive plan, we increased the base salary to get their
13 salaries somewhere between the median and third quartile
14 of total cash for everybody, so their salaries were high,
15 which as a consultant, I don't feel great about, because
16 I'd like it to be performance-based. If I'm someone in
17 the state of North Carolina, I'm happy to pay, but I'd
18 like to see the performance that earned it, not just base
19 salary, but that's kind of where we ended up with that.

20 GRANT HOLLOMAN: I think the only thing I would
21 add to that is in terms of methodology, like the
22 methodology has to be very clear especially with the
23 public scrutiny that might come from it, where you have to
24 lay this out, like in a public company, we may sit in a
25 room with the Board or the HR team and go to the

1 methodology of what we're -- survey data we're going to
2 use, what proxy peer group we're going to use. That
3 information has done through multiple processes of people
4 reviewing it, but it's not necessarily going to be as
5 public. It might be in a CDNA. It might not be for a
6 private company.

7 But in your case, that information is going to be
8 public. People are going to pick at it. People may not
9 fully understand it, so making sure everybody see it in a
10 clear and concise way, that is going to be a stakeholder
11 and it is extremely important.

12 SUBCOMMITTEE MEMBER TAYLOR: Thank you very much
13 for your answer for that question.

14 Number five, describe your experience developing
15 incentive plan recommendations, which include qualitative
16 and quantitative performance objectives, as well as shared
17 organizational quantitative performance objectives, what
18 key elements must be considered to create meaningful
19 measurable objectives?

20 JOSH WILSON: That's a great question. And, I'm
21 not sure if it's totally answerable, but I'll give it my
22 best shot. So, when we started designing these types of
23 plans 20-something years ago, again, the reason we could
24 do it is because you could quantitatively measure
25 performance. We happened to be doing this in Georgia

1 right after the lottery came into Georgia, and they put an
2 incentive plan in place. And I wasn't quite sure what
3 they were measuring, but the incentive plan paid off
4 pretty well, because the lottery did very well, because
5 people like to buy lottery tickets.

6 So when we put the plan in Georgia, we said,
7 okay, it's got to be predominantly quantitative. We have to
8 be able to point to something and say, the reason we're
9 paying out \$300,000 of incentives to the CIO is because we
10 beat the benchmark by "X" and that translates to \$60
11 billion of excess return, right? And, you know, we should
12 be happy to pay 99.999 percent to stakeholders and 0.001
13 percent to management for those kinds of results, because
14 we don't have to outsource, right? We all know that
15 paying outside managers is a far more expensive venture
16 than to have internal staff to do the work, but you have
17 to have the right staff.

18 And then, you know, you're managing in your case,
19 you know, \$500 billion in money. You know, one or two
20 basis points is a big difference. So you want to make
21 sure you have the quality of person that can manage that
22 as well as you could outsource it.

23 So, we started off with a hundred percent
24 quantitative in that case. And then we said, well, you
25 know, what about sort of the clubhouse cancer, you know,

1 question, which always comes up in sports, which is
2 someone is a great athlete, but they're terrible in the
3 clubhouse, and it kind of infects everybody else and it
4 makes it a bad place to work.

5 So I said we have to put in some qualitative come
6 components as well. And I will give full credit it
7 Georgia. They came up with a very objective way to
8 measure qualitative things, like how fast do you hire
9 people, how much training do you put in, what
10 certifications do people have? And I've kind of adopted
11 that in my -- in my consulting, because I think there
12 should be some portion of a plan that is qualitative, but
13 it does cause problems. And I say that, because, you
14 know, what do you do if you had a great qualitative year,
15 but not a great quantitative year? How do you manage
16 that?

17 And look, I can tell you from my publicly traded
18 company boards, I sit in a lot of board meetings where the
19 management team did great, except the returns were
20 terrible, right? And so, the question is how much bonus
21 to give them. I think in a state environment where
22 there's a lot sunshine and nothing is -- everything is
23 public for everyone to see. You have to be able to defend
24 that.

25 So I do think plans should have a qualitative

1 metric to them, you know, probably anywhere from 15 to 30
2 percent depending on what level of the organization we're
3 talking about. And then the metrics that go into that are
4 going to vary based on what level of the organization
5 we're talking about, so a CIO and a CEO should probably
6 have more strategic measures. And as you go down, you
7 know, those measures are going to be a little bit more on
8 development, retention, culture building, succession
9 planning and things like that.

10 Anything else?

11 AIMEE KUDELA: When working with a number of
12 metrics, whether quantitative or qualitative, it's really
13 important to consider line of sight into what the
14 employees, you know, can actually affect having an
15 entirely say plan -- like return-driven plan for somebody
16 who has no impact on the returns. That's -- it doesn't
17 drive any sort of behavior. So considering what behaviors
18 you can actually affect with the incentive plans is a key
19 element to consider when designing them.

20 JOSH WILSON: One other point. You may have
21 heard the term balanced scorecard. That often comes up in
22 this situations. And I think what we're talking about is
23 a balanced scorecard, or maybe imbalanced maybe is a
24 better way to look at it, because I think you do have to
25 overweight quantitative performance for everybody's

1 safekeeping. I wouldn't want to defend a plan that was 65
2 percent qualitative and 35 percent quantitative in an
3 environment like this. I think it's much easier and much
4 more defensible to say this is the performance that was
5 given, that is the vast majority of their bonus, and the
6 other pieces were decided like this.

7 So, I call it a balance scorecard, but I don't
8 think it's quite as balanced as you might see in other
9 organizations where you have 25 percent on financial, and
10 25 percent on succession, and 25 percent on operations. I
11 don't think you can have something as balanced as that,
12 particularly at the more senior levels in the
13 organization, where, you know, you more than others
14 incredible scrutiny on everything that you do.

15 ACTING VICE CHAIR GALLEGOS: Great. Thank you.
16 The next question is the CalPERS Board is seeking
17 consulting expertise on a range of topics related to our
18 incentive compensation program, as outlined in the RFP.
19 These may include, but are not limited to compensation
20 program structure and design, schedules and benchmarks for
21 quantitative measures, metrics, designs, and
22 implementation of shared organizational metrics,
23 delegation of compensation decision-making authority and
24 overall complexity of the existing program. Based on your
25 knowledge of these topics, please describe specific

1 actions your firm would prioritize and undertake within
2 the first 120 days of engagement, if selected.

3 JOSH WILSON: Sure. Again, the same order, I'll
4 go first. So first of all, I think one of the differences
5 between Mercer and other firms is, you know, we have
6 someone for everything, right? So no matter what you
7 throw at us from an HR perspective or investment
8 perspective, we have someone. It may not be, I'll say the
9 four of us, because our partner in crime, Susan, has a
10 board meeting right now, but she's normally with us and
11 sort of a team of four that goes everywhere.

12 We have expertise certainly in the areas that you
13 talked about, Deborah, but also in a lot of other others
14 that you didn't talk about that are also important to
15 compensation, right, like development, succession
16 planning, job design, things like that, that also feed
17 into this. So, you know, my general sense is in the first
18 hundred -- I think it's a hundred days, 120 days,
19 something like that, the first thing is getting a lay of
20 the land. You know, you have a long history and there's
21 only so much of that we can discover from public
22 documents, right?

23 So we want to have conversations with the Board
24 and with management to understand perspectives, history,
25 because look, you know, just like our government today,

1 you don't want us going back and rehashing what's already
2 been hashed, right? You want us to move forward, say what
3 can we do next, how is this going to help you going
4 forward. And the best way to do that is to make sure we
5 know what happened in the past, why, and then, you know,
6 what have you tried, what have you not tried? Maybe
7 there's something you did try a few years ago, that
8 actually does make sense to revisit, right, but
9 understanding, I think, is the first question.

10 And then, you know, in an ideal world, putting
11 together some sort of a roadmap that says this is what
12 we're going to do for the next five years or ten years,
13 right, whatever the timeline that we think makes sense.
14 Because a lot of these things, particularly in public
15 environments, can't get done very quickly, it takes a
16 little bit of time to change the boat -- the direction of
17 the boat, right? So if you decide we want to -- maybe our
18 peer group denomination isn't the right way, or the mix
19 isn't perfect, or we want to move towards something else
20 so we're not there, you know, let's outline what we want
21 it to look like, how long it's going to take to get there,
22 what steps do we need to take, and map it out.

23 I think that's the best way to do it, because
24 once you have a roadmap, it's pretty easy to follow it.
25 Things will get in the way. There's no question about

1 that, right? Things come up that we don't plan on.
2 There's turnover. There's, you know, geo -- you know,
3 world geo issues that come up, geoeconomic issues that pop
4 up that derail everything. But generally, having a
5 roadmap like that that says, for example, you know, we
6 want to change our incentive plan by 2028. We want to
7 include more of these types of metrics. We want to do
8 away with asset classes. We want to have, you know, less
9 individual components, you know, how do we get there. We
10 want to make sure we're competitive with this group, not
11 that group.

12 It would be very difficult to make all those
13 changes in one year, right? I think making them in
14 multiple years, it's also a good talking track for
15 employees to let them know, you know, we're thinking about
16 the future. This is what it's going to look like. For
17 people that you're recruiting, the same thing, right? I'm
18 sure there's certain elements of your pay program right
19 now that are attractive to people on the outside and
20 certain that aren't, right, and understanding what those
21 are and trying to make sure that you've addressed those to
22 the best of your ability, because recruiting ends up being
23 the lifeblood of any organization. If you can't get good
24 people in, you know, it's hard to keep growing the way you
25 want to grow. Anybody else?

1 AIMEE KUDELA: From a qualitative perspective, it
2 is again a little bit about assessing where are we going
3 and what do we need to do to get there, so really
4 understanding what roles exist today, what scales are
5 needed, what are the jobs, and then what are they going to
6 be in the future? There's a lot of different pieces
7 within talent management, work design, and the entire
8 environment of today's, you know, work in HR to understand
9 and figure out the weigh that we need to steer our ship,
10 not just from a full business perspective, but on an
11 individual role basis as well.

12 CHAIR WILLETTE: Thank you. The final question
13 is, the scope of services for this contract includes the
14 provision of compensation-related educational sessions or
15 workshops. If asked to provide this service one or more
16 times during the course of the contract, what approach
17 would you take to design a session and what key topics
18 would be important to share with us during such a session?

19 JOSH WILSON: I don't think there's anything more
20 important than the education such components of this,
21 because from what I've seen of the pension boards that
22 I've worked with, you know, there's a lot of things going
23 on in those people's lives. It's not their full-time job.
24 They're on multiple boards, different organizations. They
25 don't necessarily know everything -- every aspect of every

1 plan, nor do they know what's happening in the outside
2 world. They are too busy. There's too many other things
3 going on.

4 So I think educating the Board is something we
5 recommend for every client every year is to have at a
6 meeting where you're not discussing any heavy compensation
7 topics, not trying to change an incentive plan or make
8 merit decisions, just have a state of the world, an
9 education. One of the things Mercer has is a
10 communication group. Certainly helps us put together
11 materials that are visually appealing and help people
12 understand the current plan.

13 I did a project for a pension fund about 12 years
14 ago. They asked us to redesign their incentive plan. So
15 we went in and we gave them all the different
16 alternatives. You could have a one-year, three-year. You
17 could have these people included, that people included.
18 In the end, they chose all the features that they
19 currently had. What it came down to is they had no idea
20 what their current plan was and what the market was. But
21 once they understood what the market was and what the pros
22 and cons of each choice were, they liked their current
23 plan. So we ended up -- it was a successful project,
24 where did -- changed nothing.

25 And I think that is -- to me, that was an

1 important lesson, because, you know, to help -- to help
2 the Board, especially that management knows the plans and
3 knows how everything works. But on the Board, you have a
4 lot of other things going on. So an education session
5 that focuses on the basics, right, who are we comparing
6 against and why, what percentile are we trying to hit,
7 where do people sit today, what's the market movement
8 outside, right?

9 So, you know, I tell you, look, in financial
10 services, the typical increase is three and a half to four
11 percent, but in public pension funds, it's closer to five,
12 right? So you have a sense now, okay, well, we're moving
13 faster than the average -- the average, right? So, you
14 know, how many other organizations have pension funds --
15 or, sorry, have incentive plans? How many have long-term
16 incentives? What do long-term incentives look like in
17 private companies.

18 So, giving the Board the landscape with the
19 ability to make decisions, I think is really, really
20 important. And, you know, I wish, more boards would ask
21 for it, because trying to get new things on board agendas,
22 as you might suspect, is a little bit difficult, right?
23 Before agendas are pretty packed, but I think this is an
24 important one that we would love to be able to do every
25 year for all of our clients.

1 CHAIR WILLETTE: Okay. Thank you so much. That
2 does conclude the prepared questions. We have a question
3 from the Committee. We have an additional five minutes
4 for follow-up questions. And I'll ask Ms. Griffith for
5 her question.

6 ACTING SUBCOMMITTEE MEMBER GRIFFITH: Sure. Just
7 a follow-up question that we have is can you share with us
8 and expand a little bit about your passion, what drives
9 you to do this type of work?

10 AIMEE KUDELA: I do a lot of work with public
11 pensions, but also with a lot of not-for-profits and
12 credit unions. I really love the interplay between we
13 have all this data, we have this context, and we're drying
14 towards real results for real people. It's one of the
15 more rewarding pieces is being able to see, you know, this
16 is driving the pension fund that's paying my uncle, and
17 that's a pretty special piece for me.

18 JOSH WILSON: That's a great question, one I have
19 never gotten before, so thank you for asking it. So I was
20 a history major in college. I thought I'd be a lawyer.
21 My older brother became a lawyer, so I decided I didn't
22 want to be a lawyer because he was lawyer, and I really
23 just stumbled into HR. You know, I won't lie about it. I
24 didn't mean to go there. I ended up in there.

25 But I really kind of found it really interesting.

1 And most of my work has been historically a combination of
2 pension funds and for-profit. And there is a refreshing
3 plans to those two, right? So when I do work for a for
4 profit public company, sure they have a mission, right?
5 They have a mission statement.

6 I think your mission is better, right? I think
7 your mission is more tangible. You can feel it. So
8 there's a great aspect of knowing that the plans that we
9 design are going to help people perform at their best for
10 mill -- literally millions of people who have pensions and
11 rely on those pensions over time. So it's -- you know,
12 it's a fascinating aspect of that.

13 I guess I'm a people pleaser by nature and I sort
14 of like putting in incentive plans and helping people get
15 to the right answer on compensation matters, because, you
16 know, I guess -- I believe that compensation makes a
17 difference. You get what you pay for. People will do
18 what they're paid to do, right?

19 We always laugh that if you're designing an
20 incentive plan, be careful what you design, because people
21 will do it, right? And if you design a plan that
22 motivates people to do something that you hadn't planned
23 on, you're going to find that out very, very quickly.

24 So, you know, I like designing plans. It sort of
25 appeals to one part of my brain. So the ability to do

1 that within a public sector environment, where you can
2 really feel tangibly the people that you're helping, it's
3 great. And I've been doing it for 25 years, and again
4 started with georgia by accident, and been going since,
5 and I love it.

6 And it's interesting, our business in this area
7 has really picked up in the last three or four years. I
8 mean, we've done Hawaii, North Carolina, Vermont, which is
9 Tiny. Vermont is like, you know, one-tenth of -- one
10 one-hundredth of your size. But even so, right, I mean,
11 even with three investment professionals, the work is
12 largely the same as it is for an organization like
13 CalPERS, the same decisions that you make, you know, the
14 same group of people outside who are really relying on
15 that pension for their retirement.

16 GRANT HOLLOMAN: The only thing I'll add is just
17 the human element. I think having a human element of the
18 business decisions that you make that make real tangible
19 change for people is motivating, because you actually get
20 to see that it's going to, you know, improve their lives
21 in some type of way. Like, I'm a child of two federal
22 government employees, which they both get a pension, so I
23 understand how that pension is going to play, not only to
24 their lives long term, but also my life growing up.

25 Not like Josh, I majored in political science,

1 which my mom probably would have wished I majored in
2 something else. But at the end of the day, you see the
3 impact that the decisions that are made are impacting
4 people, businesses. But also, for me, it's the whole team
5 we get to work with. Like I get to work with the same
6 team on a regular basis that have educated me, but also
7 invested in me to learn a bunch of things that come into
8 this type of work, but also the relationships we get to
9 build with the Board, the management team that also
10 educate us, like it's a collaborative relationship, both
11 ways, where we're learning from you, you're learning from
12 us, but we're also coming to a common goal to achieve
13 something for a greater good of a large amount of people.

14 CHAIR WILLETTE: Thank you.

15 Any other questions from the Committee?

16 Okay. Seeing none, that does conclude the
17 interview. I'd like to thank the representatives from
18 Mercer for their time today, and I would like to ask you
19 to please leave the auditorium now.

20 (Mercer exited the auditorium.)

21 CHAIR WILLETTE: Has the livestream resumed?

22 BOARD CLERK ANDERSON: Not yet.

23 CHAIR WILLETTE: Not yet. Okay.

24 Thank you. For those watching this meeting over
25 the internet, the interviews have concluded and we are

1 moving now to Subcommittee discussion and scoring. To our
2 subcommittee members, we will now determine an interview
3 score as a group for each of the finalists. The maximum
4 number of points for each finalist 1200. After we've
5 discussed each of the firms, I'd like for us to use a
6 single motion, assigning a score to each of the finalists.
7 And with that in mind, I'll open the floor up for
8 discussion.

9 Ms. Gallegos.

10 ACTING VICE CHAIR GALLEGOS: So I will just make
11 my comments. I also put the scores down, which I'm happy
12 to put out there now or reserve for later.

13 But I really liked all three candidates. I think
14 staff did a great job in choosing three really good
15 candidates. They all responded with great examples and
16 information that could help us with our policies. I would
17 say though that the biggest differentiation between GGA
18 and the other two is the knowledge of our plan,
19 particularly around the possible changes with the TPA.

20 And while in some cases, it is best to change
21 consultants to a new -- for a new view, refreshed look, I
22 think in this case continuity is critical. So I would --
23 I would -- you know, my scoring reflects that. In
24 addition, I really appreciate the passion that all of them
25 have demonstrated around serving the public and serving

1 our beneficiaries. But again, I think GGA was just -- was
2 more notable in the fact that they were willing to
3 continue that passion and serve that passion in our
4 current environment.

5 CHAIR WILLETTE: Thank you. I'm going to go to
6 Ms. Taylor.

7 SUBCOMMITTEE MEMBER TAYLOR: Yes. Thank you. I
8 will agree with Ms. Gallegos, GGA has the most experience.
9 They already know and have been briefed that we're moving
10 into the TPA and how we need to change our incentive
11 program for that. But I really did enjoy the last part
12 where you could feel the passion when they talked about
13 why they do this compared to the other two groups. But I
14 also felt like every -- I mean, they just had the right
15 balance right?

16 So they have a -- (clears throat). Excuse me.
17 They have some Canadian funds, but they also have a lot of
18 funds in the United States. And I think that that
19 translated into giving us a broader view of what they do
20 for us in the U.S. And I kind of feel like the second
21 group of folks don't have enough experience in the United
22 States and a lot of experience in Canada. And I'm not
23 sure they recognize the difference in laws and process, so
24 I really think that they would be out of depth. And
25 having them come in right when we're doing TPA would be a

1 mistake. And then -- and so they were my third. So what
2 was that Hugessen, or whatever?

3 CHAIR WILLETTE: Yeah, Hugessen.

4 SUBCOMMITTEE MEMBER TAYLOR: So they were my
5 third. My second was actually Mercer. I thought they
6 were also very good. I think they recognized all the same
7 things. They just don't know our found, so that's my
8 thought.

9 CHAIR WILLETTE: Thank you.

10 Anyone else like to opine?

11 Mr. Palkki.

12 SUBCOMMITTEE MEMBER PALKKI: So I think I'm in
13 line with Ms. Gallegos and Ms. Taylor. I think the key
14 takeaways for me was the discussion brought up by GGA
15 about breaking down silos. And then also in the midst
16 much that also finding value-add. So I think those are
17 like the two takeaways for me. I did appreciate the
18 interviews on all three, but again GGA's comments in those
19 two matters really stuck out to me.

20 CHAIR WILLETTE: Ms. Griffith.

21 ACTING SUBCOMMITTEE MEMBER GRIFFITH: Thank you.
22 I will just echo the information shared by everybody up
23 here thus far. I really do appreciate the roadmap that
24 GGA laid out. I'm very familiar with the Mercer and they
25 do have a very large and variety of a team that I do think

1 is educated and knowledgeable in this space and other
2 spaces as well. Just kind of where we're heading, it
3 seems that GGA is aligned best.

4 CHAIR WILLETTE: Thank you so much. I'll make a
5 brief comment. I really appreciated the presentations and
6 the discussion from the finalists. It was a really good
7 round. I thought they all did really excellent jobs. I
8 am with the consensus on -- I really appreciated GGA had
9 brought up education, for example, the fishbowl political
10 aspect of California well before those questions were
11 asked several times. And I was a little concerned with
12 Mercer's understanding that that California piece with
13 their client -- the little bit of lack of diversity in
14 their client base that they presented to us today, and as
15 well -- or not Mercer, I'm sorry, Hugessen. And then
16 Mercer I thought did a really good job understanding those
17 pieces, and -- but didn't necessarily kind of address the
18 public perception, the fishbowl. They talked about the
19 fishbowl, but didn't actually address it. Talked with
20 stakeholders.

21 I also like GGA to have brought up the unions as
22 stakeholders, which hadn't been addressed by any other
23 group and really showed how they listened to like public
24 comment for each of our Board meetings, and just know our
25 fund inside and out. And I do think actually Hugessen and

1 Mercer both discussed how the long-term relationship over
2 multiple years was important for them with these -- their
3 funds. And so I think at this point, as Ms. Gallegos
4 said, the consistency is critical for us. So I also rated
5 GGA, Mercer, and Hugessen.

6 All right, Ms. Gallegos.

7 ACTING VICE CHAIR GALLEGOS: Yeah. Great.
8 Thanks. I did have one question though I wanted to pose
9 to staff. And wondering if, in your review of the RFPs
10 and due diligence on these, found any reason for us to
11 worry about conflicts of interest in ownership structure,
12 for example, with any of these firms, and the firms that
13 we do business with in other areas of our business.

14 CHIEF OPERATING OFFICER HOFFNER: Thank you for
15 the question. Doug Hoffner, CalPERS staff. I'm unaware
16 of any conflicts of interest or any ownership structure
17 issues with any of these firms.

18 ACTING VICE CHAIR GALLEGOS: Let me be more
19 direct. Are any of these firms owned by private equity or
20 have private credit lenders?

21 CHIEF OPERATING OFFICER HOFFNER: I don't know
22 the answer to that for all three firms.

23 ACTING VICE CHAIR GALLEGOS: Are any of them --
24 yes or no, do -- is it something we need to look into?

25 OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION

1 CHIEF HEEB: It's something that we can look into.
2 Currently, we have not looked into private equity firms
3 for each of the firms in ownership.

4 CHAIR WILLETTE: Okay.

5 ACTING VICE CHAIR GALLEGOS: I will -- would like
6 to make a motion to -- or at least start the discussion
7 on -- or I'm just going to make the motion, that we assign
8 the following scores to these firms: GGA a total of 1200
9 points, Hugessen 1,000, and Mercer 1125.

10 CHAIR WILLETTE: Thank you.

11 Mr. Palkki.

12 SUBCOMMITTEE MEMBER PALKKI: I'll second -- I'll
13 second that motion.

14 CHAIR WILLETTE: Okay. So that motion has been
15 moved and seconded.

16 Discussion on that motion?

17 I think we've had that discussion. Seeing no
18 further discussion, all those in favor?

19 (Ayes.)

20 CHAIR WILLETTE: And any opposed?

21 And any abstentions?

22 Okay. Thank you so much, Subcommittee members.

23 At this time, we will take a 10-minute break to
24 allow staff to tabulate the final scores.

25 CHAIR WILLETTE: Okay. We'll amend that --

1 CHIEF OPERATING OFFICER HOFFNER: And if we
2 need --

3 CHAIR WILLETTE: -- to a five minute break.

4 CHIEF OPERATING OFFICER HOFFNER: And if we need
5 more, we'll come back about that. That way we don't wait
6 ten minutes if we don't need it all.

7 CHAIR WILLETTE: Okay.

8 CHIEF OPERATING OFFICER HOFFNER: Does that work
9 better for everybody?

10 CHAIR WILLETTE: That works, yes.

11 CHIEF OPERATING OFFICER HOFFNER: Perfect. Thank
12 you.

13 CHAIR WILLETTE: Thank you.

14 (Of record: 11:45 a.m.)

15 (Thereupon a recess was taken.)

16 (On record: 11:48 a.m.)

17 CHAIR WILLETTE: Thanks you so much. Staff has
18 now completed calculating the total scores. And at this
19 time, I would like to ask Justin Heeb, our CalPERS
20 contracts and procurement manager to please announce the
21 final total score for each finalist.

22 OPERATIONS SUPPORT SERVICES ASSISTANT DIVISION

23 CHIEF HEEB: Thank you, Madam Chair. I will now read the
24 interview scores for each of the finalists in alphabetical
25 order. Global Governance Advisor, LLC received 1,200

1 points for their interview, Hugessen Consulting, Inc.
2 received 1,000 points for their interview, and Mercer, LLP
3 received 1,125 point for their interview. Combined with
4 the preliminary total scores, Global Governance Advisors,
5 LLC received a total of 20,055 points, Hugessen
6 Consulting, inc. received a total score of 1,838.8 points,
7 and Mercer, LLP received a total score of 1,933.8 points.

8 Madam Chair, the finalist with the highest total
9 score is Global Governance Advisors.

10 CHAIR WILLETTE: Thank you very much. Staff,
11 thank you for the subcommittee.

12 It is now time for a motion. And I move that the
13 Committee recommend to the Board that the Board awards the
14 contract to Global Governance Advisor as the highest
15 ranking finalist, subject to final negotiations, conflicts
16 of interest, and satisfaction of all requirements, and
17 direct staff to begin contract negotiations for the
18 contract with Global Governance Advisors. And if staff,
19 in its discretion, concludes that negotiations are
20 unsuccessful, staff shall begin contract negotiations with
21 Mercer, LLP, the next highest scoring finalist.

22 SUBCOMMITTEE MEMBER PALKKI: Second.

23 CHAIR WILLETTE: Okay. That has been seconded by
24 Mr. Palkki.

25 Any discussion on the motion?

1 Seeing none.

2 All those in favor?

3 (Ayes.)

4 CHAIR WILLETTE: Any against?

5 And any abstains?

6 All right. That motion passes. Thank you very
7 much. And I would like to remind all members of the
8 Subcommittee and the finalists of the restricted contact
9 policy under Government Code section 20153.

10 The Next is our agenda Item 4a, Summary of
11 Subcommittee Direction.

12 CHIEF OPERATING OFFICER HOFFNER: I didn't have
13 any additional direction.

14 CHAIR WILLETTE: Thank you so much. That brings
15 us to Agenda Item 4B, public comment. Is there any public
16 comment?

17 BOARD CLERK ANDERSON: (Shakes head).

18 CHAIR WILLETTE: Seeing none, this meeting of the
19 Performance, Compensation, and Talent Subcommittee is
20 adjourned.

21 Thank you very much.

22 (Thereupon the California Public Employees'
23 Retirement System, Board of Administration,
24 Performance, Compensation, & Talent Management
25 Subcommittee meeting adjourned at 11:50 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 2nd day of November, 2025.



JAMES F. PETERS, CSR
Certified Shorthand Reporter
License No. 10063