

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

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

MONDAY, APRIL 13, 2026

12:32 P.m.

JAMES F. PETERS, CSR
CERTIFIED SHORTHAND REPORTER
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APPEARANCES

COMMITTEE MEMBERS:

Kevin Palkki, Chair

Lisa Middleton, Vice Chair

Malia Cohen, represented by Deborah Gallegos

Michael Detoy

Monica Erickson

Troy Johnson

Theresa Taylor

BOARD MEMBERS:

David Miller, Vice President

Ramon Rubalcava

Yvonne Walker

Mullissa Willette

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Michelle Tucker, Chief Human Resources Officer

Robert Carlin, Senior Attorney

Prashant Yerramalli, Special Advisor

Renee Salazar, Deputy General Counsel

APPEARANCES CONTINUED

ALSO PRESENT:

J.J. Jelincic, Retired Public Employees Association

Brad Kelly, Global Governance Advisors

Peter Landers, Global Governance Advisors

Tom Toth, Wilshire Advisors

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1 member. Today, we have two items before the Committee.
2 Agenda Item 5a will be presented by your primary
3 compensation consultant, Global Governance Advisors, or
4 GGA. And they're here to conduct an educational session
5 for the Committee around incentives and total portfolio
6 approach. The I presentation will help set the foundation
7 for other items we'll also be hearing today.

8 Item 5b, by GGA will present their annual
9 incentive metrics review via the policy. It's presented
10 as an information item today, so the Committee can provide
11 feedback and direction to Global Governance Advisors who
12 will then return in June with final recommendations for
13 the Committee's and Board adoption of incentive metrics
14 for fiscal 2026-2027.

15 In addition, I would like to point out that Tom
16 Toth from Wilshire Advisors is here to provide any
17 feedback, if you had any questions as relates to these
18 information items, and how they might interplay with
19 Investment Policy or items related to the Investment
20 Committee. With that, that concludes my report and happy
21 to answer any questions.

22 Thank you.

23 CHAIR PALKKI: Thank you so much. I don't have
24 any questions from the Committee, which brings us to
25 action consent items. What is the pleasure of the

1 Committee?

2 COMMITTEE MEMBER TAYLOR: Move approval.

3 CHAIR PALKKI: Got a moval -- motion from Ms.
4 Taylor.

5 COMMITTEE MEMBER JOHNSON: Second.

6 CHAIR PALKKI: Second from Mr. Johnson.

7 See any discussion, any -- seeing none.

8 All those in favor say aye?

9 (Ayes.)

10 CHAIR PALKKI: Any opposed?

11 Any abstentions?

12 Thank you very much.

13 I did not get any requests to pull any
14 information consent items, which then moves us into our
15 information agenda items.

16 CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you,
17 Mr. Chair and thank you members of the Committee.
18 Michelle Tucker, CalPERS team member. First up, we have
19 Item 5a, which presents an educational item on aligning
20 incentives through a total portfolio approach. The
21 Board's primary compensation consultant, Global Governance
22 Advisors, will provide information on industry trends and
23 best practices for executive and investment compensation.
24 This presentation will provide a framework to support the
25 Committee in their knowledge and duties related to the

1 annual incentive metrics review for classifications
2 covered by the Board's Compensation Policy for executive
3 and investment management positions.

4 That concludes my opening remarks and we can
5 invite now Mr. Landers and Mr. Kelly to begin their
6 presentation.

7 (Slide presentation).

8 BRAD KELLY: Thank you very much. Good
9 afternoon, Mr. Chair, members of the Committee. Brad
10 Kelly, partner with Global Governance Advisors. For the
11 new members, very nice to meet you. And thank you very
12 much for instilling your continued trust in us and
13 bringing us on for yet another mandate working with your
14 Board and your Committee.

15 That being said, this is a unique year where
16 you're getting ready to transition to towards a total
17 portfolio approach. And naturally there were questions
18 that arose around its impact on the incent -- the current
19 incentive design for how the incentive design might need
20 to be changed or augmented to align with this new
21 incentive or investment approach. So that being said,
22 we're going to start with this education session just to
23 walk you through some of the initial things you might want
24 to think about things, things that we've learned in our
25 investigation, and getting ready for a bit more change or

1 some objective testing later on that we'll propose for the
2 upcoming PCTM meeting. That being said --

3 [SLIDE CHANGE]

4 BRAD KELLY: -- we'll start out with just what --
5 you know, what are the current foundational elements. And
6 how this is affecting or how it's aligned with your
7 current philosophy. Compensation, in general, is designed
8 to attract and retain highly qualified individuals by
9 offering them competitive pay and incentivizing their
10 performance. You want to make sure that a sizable portion
11 is at risk. So it's not just paying for people to come
12 and show up, but also paying for the performance and the
13 achievements that are realized in their roles that they
14 play with in your pension system. Having at-risk pay is a
15 risk-averse way of compensating your individuals within
16 your organization, because it is -- it should be
17 correlated to the actual value-add and the achievements
18 that they make in your organization.

19 They are per -- they currently, in terms of your
20 compensation philosophy, your incentive awards are tied to
21 the organizational performance outcomes. The incentive
22 metrics, your investment returns, as well as key business
23 or individual objectives. And then also, your investment
24 returns, because you are a institutional investor. You're
25 here for the long run. You want to make sure that your

1 incentives are calculated on a longer term basis. You
2 want to make sure that it's designed to help sustain your
3 fund and make sure that you're able to provide your
4 benefits to your members for generations to come.

5 [SLIDE CHANGE]

6 [SLIDE CHANGE]

7 [SLIDE CHANGE]

8 BRAD KELLY: So that being said, when we look at
9 the current design of your compensation plan, there's a
10 key -- three key buckets that currently exist. First and
11 foremost is the base salary. And that is for someone
12 coming in, you're paying them for the role that they're
13 going to be performing within your organization, and that
14 is kind of the key. We're paying for you to come in and
15 fulfill this role.

16 The other two buckets are associated with how
17 they're actually achieving within those roles and what
18 they're actually doing to help progress or to sustain this
19 fund going forward. First is your annual incentive and
20 the second is a long-term incentive. Both are capped
21 above the hundred percent target. And we see that as
22 ideal, because it helps to incentivize your team and the
23 individuals to go above and beyond what you've deemed as
24 your base sustainable targets. And so you want to make
25 sure that you're rewarding and incentivizing individuals

1 to go above and beyond, and that's what the current design
2 will help you to do.

3 Your annual incentive is broken down into two
4 subcomponents. First is a qualitative -- quantitative
5 elements again based on a multi-year performance element
6 on total fund performance against your standard strategic
7 asset allocation model. And then you have additional
8 objectives, such as looking at how you perform against the
9 enterprise operational effectiveness, the Investment
10 Office. That's really around your -- the fee structure,
11 what it costs for you to actually operate, your investment
12 team.

13 We do know, and we will note that in this
14 morning's FAC conversation, there were some questions that
15 were raised around the fees -- additional fees that are
16 being proposed within the upcoming budget. This element
17 will help to determine whether or not you're aligned or
18 misaligned with the market. And so if there's any
19 question around that, just be sure that it's already being
20 addressed within the framework of the incentive design.

21 You're also looking at customer service and
22 stakeholder engagement on the annual side. And then on
23 the qualitative side, because we always say, from a
24 success perspective, you want to make sure that
25 individuals are fulfilling their role objectively. So

1 they're attaining the objective targets and the things
2 that you're expecting them to do. But it's not just what
3 they're doing and achieving, but it's how they're
4 achieving it as well, because they're equally important.

5 And so that's why there's qualitative elements
6 here too looking at how are they leading, how are they
7 leading the team, how are they fostering a good culture,
8 is there attraction/retention issues that have suddenly
9 been realized within your organization, also looking at
10 their performance against some of their own personal
11 business objective or team objectives.

12 And then something that's just been added in this
13 year. Stephen came in and said collaboration is such a
14 core element of TPA in terms of this practice that we need
15 to start instilling this into our team early. So he took
16 the initiative to start putting that in place, so that
17 your investment professionals will now be looking at this
18 as key objective that they need to achieve and perform
19 against them to be incentivized accordingly.

20 That being said, there's a third element, which
21 was addressed or was implemented prior to Peter and I
22 coming in, and that was the adoption of a long-term
23 incentive. You are unique in that aspect. You're one of
24 the only U.S. pension funds that has a long-term
25 incentive. And the reason why you have it is because it

1 has very strong retentive elements to it, because it's --
2 usually, it's a five-year program, three- to five-year
3 program. And if you leave, you leave money on the table.

4 So it's much different, because now any of your
5 professionals here within your pension system that are on
6 the long-term incentive, if they were to be approached, or
7 offered a job with any of your other pension systems, or
8 in the private sector, there is money that they're leaving
9 on the table. And so, from an intent -- retentive aspect,
10 it is definitely something that has helped. You've gone
11 through a number of cycles, and we'll talk about this a
12 bit more later on.

13 But again, from a longer term perspective,
14 because you are an institutional investor that needs to be
15 around for multiple generations, this is based on a
16 five-year return or five-year average, and it also
17 basically is based on an absolute amount. So it's not a
18 relative. It's saying from an actuarial standpoint, here
19 is what we need to achieve to remain sustainable. That is
20 the base threshold. If you meet that standard, you'll be
21 rewarded. If you don't meet that standard, nothing is
22 available.

23 And so it's very powerful, because again it gets
24 the team to focus collectively on that total fund
25 performance on a multi-year basis and making sure that

1 PETER LANDERS: -- look at three of the key
2 leaders in TPA adoption and looked at how are the
3 incenting their people, what is the design of their
4 incentive plans look like, and what can we learn as
5 CalPERS looks to embark on the TPA approach starting on
6 July 1st. What do we have do to tweak or overhaul the
7 current incentive programs?

8 So we looked at the Australian Future fund. We
9 look at the New Zealand Superannuation fund, and CPP
10 Investments. And so Australia and New Zealand are
11 identified as long-standing TPA adopters. They're seen
12 leaders across the world in terms of TPA investing. And
13 then CPP is one of the, I guess, leading North American
14 funds that have really adopted a lot of the key tenets of
15 TPA.

16 But I think one of the key things that, you know,
17 came across, and, you know, come across a little bit on
18 the slides, but also just through our interactions and
19 reading about all these things is there's no
20 one-size-fits-all approach. Everyone has their unique
21 little spins on how they measure performance under TPA,
22 especially on that qualitative side of things. But there
23 are some tenets, some key similarities when you look at
24 all three of these funds as leaders in the TPA approach
25 that we can look at and say, here are some key tenets or

1 And we when look at it, that is measured on a
2 three-year basis, their total fund performance relative to
3 a CPI plus target. And that is one of the key tenets
4 that, yes, the Australian government has wanted them to
5 make sure that they can beat over time. And then they
6 also have a qualitative component to it. And that
7 qualitative component is made up of an individual
8 performance rating, as well as a values rating modifier.
9 And that was one of the key tenets they were quite proud
10 is having that values rating that they assess on an annual
11 basis and that modifies that sort of bucket of
12 performance.

13 And then when you look at the long-term incentive
14 side, that's where they look at that reference portfolio.
15 So you're looking at a reference portfolio. They look at
16 the reference portfolio under their long-term incentive.
17 It's a 60/40 portfolio. So slightly higher weighting on
18 the fixed income side than what you have designed to put
19 in place. But they look at it over a four-year basis and
20 then say how does our reference -- how do we compare to
21 our reference portfolio. And that makes up 50 percent of
22 that long-term incentive and they have another 50 percent
23 that's weighted again on a four-year basis looking at
24 total fund performance again versus CPI plus.

25 And so again, you'll see the CPI plus, that's a

1 and maximum. And it's not publicly disclosed, so we're
2 not able to necessarily go into all the details on what
3 those exact percentages are. But essentially, at the
4 threshold level, when they look at that CPI, there's a
5 tolerance to fall a little bit below what that investment
6 mandate is. The maximum level of performance is meeting
7 that investment mandate, in terms of beating CPI plus a
8 certain percentage.

9 And then when they look at the reference
10 portfolio, again not able to share the exact percentages,
11 but they do expect a threshold basis to be above the
12 benchmark by a small percentage. And then they set a
13 fairly much -- a fairly higher percentage above that
14 benchmark to set that sort of -- that 150 percent or that
15 maximum cap at the end of the day. So again, something to
16 be aware of in terms of what do we want set those
17 performance expectations at when we look at that
18 investment side of things.

19 When we look at the individual side of things, we
20 talked about the performance rating being modified by that
21 values rating. They look at values. They look at risk.
22 They look at like the code of conduct and their
23 expectations against that. One of the unique things that
24 they developed -- and they said it's, you know, a rough
25 approximation, so it's definitely not set in stone and

1 something they're still working on, but they were asking
2 themselves how are we going to look at collaboration? How
3 can we take something that's pretty qualitative and try to
4 put some level of quantitative measure on it.

5 And what they came up with was this celebrating
6 collaboration survey. And what they do is they actually
7 ask senior leaders to say provide us with five names of
8 people that, you know, did the best job in terms of
9 collaborating the strongest across the different groups
10 throughout the year. And it's a way of sort of measuring,
11 you know, if some name and some individual comes up often
12 in a lot of these different surveys, well, that's someone
13 that obviously is exemplifying that collaboration
14 component that much better. And it was one way of which
15 they could look at pretty crude and a little bit roughly
16 at, you know, potentially who are those top collaborators
17 and who are those that are maybe just performing at level
18 expectations.

19 And so they trialed it in the past year and they
20 continued to work on it. And there's no set stone there
21 as well. They've actually built descriptions as well of
22 what collaboration role modeling looks like. So I'm sure
23 that's something that Stephen and HR have been doing here
24 as well. And definitely, they understand and realize that
25 there are different expectations around collaboration

1 between senior level Investment staff and senior level
2 folks at say a CalPERS and the more junior level staff who
3 probably aren't asked to collaborate as much. And so
4 they've, you know, set those expectations accordingly.

5 And then lastly, you know, definitely on this
6 individual side of things, it is more of a qualitative
7 approach. It's tough for them to identify a lot of
8 quantitative ways to measure these things. And that's
9 sort of universal across the Board. But I would say, and
10 we'll look at this when we look at CPP, when we look at
11 New Zealand, this individual side is something that I
12 think will always be, regardless of the organization, a
13 work-in-progress. You're always going to be trying to
14 figure out is there a better way in which we can measure
15 this. And when we were talking with some of these funds,
16 this is one of the things they were highlighting. In
17 fact, they're looking even at a CalPERS to say, hey, if
18 you guys have a better mouse trap, you know, we're
19 definitely open to it. And so they're paying attention to
20 this as well.

21 But this is an area that no one feels like
22 they've gotten it perfect. And so, none of you should
23 feel like you have to get it perfect, especially in year
24 one of this transition, but it is something to always be
25 consistently looking at working with HR, working with your

1 CEO and CIO to figure out what are better ways over time
2 that we can continuously try to improve in this area. And
3 that's something that came through in the Australian fund
4 as well.

5 And one thing I will mention as well in our
6 discussions were -- you know, one of the things they said
7 they knew over time that the culture had started working
8 was they had one asset class head, in particular, and they
9 were talking and having one of these collaboration
10 meetings, and that asset class head was actually
11 advocating, due to the circumstances they were in,
12 advocating against putting more money into their specific
13 asset class, and actually said no, there's actually a
14 fundamental case to say we should actually reallocate it
15 to other asset classes. And they said that was over time,
16 a discussion and a situation that said to them, wow, our
17 culture is really getting embedded here, because this is
18 something that you know, you're never going to see someone
19 who's heading up fixed income, or public equities, or
20 private equity typically allocating say we should take
21 money out of this asset class.

22 So when they saw someone actually advocating
23 against their own asset class, that was a sign to them
24 over time that the culture had shifted and the ways in
25 which they were looking at things was moving things in the

1 right direction. So we thought that was a good little
2 anecdotal story to share. And hopefully over time at
3 CalPERS, you'll start to have those similar circumstances
4 that a Marcie or a Stephen can share with the Board over
5 time.

6 [SLIDE CHANGE]

7 PETER LANDERS: When we look at New Zealand, they
8 take a bit of a different approach to Australia. They
9 only have two buckets. So they have a salary bucket of
10 course, and then they only look at it from an annual
11 incentive perspective. And similar to your friends across
12 the river there, they actually set that incentive as a
13 maximum. So they don't have that upside multiplier above
14 target. They set their incentive as a percentage of
15 maximum. And they look at it from a weighted approach on
16 the quantitative side of two-thirds against the reference
17 portfolio and one-third against the 90 day T-bill rate.
18 And that's the New Zealand T-bill rate.

19 So they set a pretty low risk benchmark on that
20 sort of 90 T-bill rate, but the majority of that
21 two-thirds is based on the reference portfolio and that's
22 an 80/20 reference portfolio. So a little bit higher
23 weighting on equities and a little less on fixed income
24 than what you contemplate here at CalPERS. And then
25 similar on the other one-third how they perform. It's

1 level of performance, so beating that sort of risk-free
2 rate by a sizable 400 basis points.

3 And then when they look at the reference
4 portfolio, they set a threshold of meeting that reference
5 portfolio, so you have to beat it to start earning an
6 incentive. And then their maximum, or that cap, comes in
7 at 757 basis points above that reference portfolio. And
8 so, you know, compare that to, of course, right now we
9 only have about a 20 basis point spread here. You can see
10 that they're obviously looking to generate a lot more
11 alpha over the reference portfolio over that longer term
12 time period.

13 In terms of how they look at individual
14 performance, they really look at it from this rating and
15 they use this term how you do the work. That's sort of
16 their key mantra in terms of looking at the values and how
17 you perform. They look at the values, how are you
18 exemplifying those values. They're looking for outliers
19 across and within the teams to identify those anomalies,
20 both on the high end as well as on the lower end, so
21 really trying to delineate between the two.

22 And one of the key things that came out of that
23 discussion, and this is more less so about incentive
24 design, but more about performance management overall is
25 they're looking to catch those performance issues early,

1 having those regular check-in points with individuals,
2 having those conversations as quickly as possible
3 throughout the year, so that if there are any challenges,
4 any performance issues that are identified, they can be
5 talked through, they can be worked through, identify
6 potential areas where, you know, someone can move things
7 in the right needle, what supports -- extra supports may
8 someone need.

9 And so again, all of this is documented as well,
10 in terms of any performance issues as well. And they give
11 lots of time in terms of documenting those issues so that
12 if it does come to a point down the line where it isn't
13 the right fit, you have all the ducks in a row.
14 Everything is documented in terms of what those
15 performance issues were, because similar to, you know, the
16 challenges that, you know, CalPERS faces -- and this was
17 something that came across in talking with New Zealand and
18 Australia, they do have similar challenges in terms of
19 these are public sector -- public employees. It's very
20 tough to just, you know, unilaterally just say, you know,
21 you're terminated. You have to have documentation. And
22 so, this came out pretty rigorously through our
23 discussions with them as well.

24 One of the big things that they also mentioned is
25 specifically when they're looking at the performance

1 rating is they look at collaboration as one of the key
2 values that is measured as part of that individual
3 performance rating. And again, that's something that, you
4 know, I know that Stephen has already put in place for the
5 senior leaders, on the investment side, but something to
6 consider moving forward. And again, they are also
7 struggling with how do we find a way to make this more
8 quantitative. They still have to use a very qualitative
9 approach in terms of determining what that individual
10 performance looks like.

11 [SLIDE CHANGE]

12 PETER LANDERS: Lastly, I'll focus on CPP, the
13 North American peer. They have three buckets. Although,
14 the way they treat it is sort of two buckets with a
15 deferral component and I'll explain that in a little bit.
16 So they have a salary and then they set sort of a total
17 incentive for individuals. And then what happens is that
18 total incentive is paid out about half or a little bit
19 less than half for senior leaders, but about half right
20 away at the end of the year. And then they defer a big
21 portion of it as well.

22 And that deferred portion actually just tracks
23 the overall total fund over a three-year vesting period.
24 And so a bit of a different approach, but something to be
25 aware of in terms of how they think through incentives in

1 that bucket. And then on the annual incentive side of
2 things, what they look at is they look total fund
3 performance. So a five-year value-add against an 85/15
4 portfolio. They look at 40 percent against an absolute
5 return objective. And then they look at 20 percent is
6 just annual strategic objectives. So think of those other
7 things that you're drying to enhance as a -- as a
8 strategic imperative.

9 Then they have as well department, group, and
10 individual objectives. So they go beyond just an
11 individual. So I think it actually sets departmental and
12 group objectives for those individuals as well. So one of
13 the key highlights here, definitely they have a weighting
14 that's not just on total fund and individual, but they
15 have this total -- this departmental and group aspect to
16 things. So a little bit different that way. And then
17 senior management have that sort of 50/50 weighting,
18 whereas there's a 30/70 weighting for others. There's
19 equal weighting on the reference portfolio and absolute
20 return objectives as well. And then they do have a
21 long-term incentive, but it's structured a little bit
22 differently, so it's a deferral of a total incentive and
23 sort of that tracking over three years. So a bit of a
24 different way of looking at that future performance than
25 what is done here and what we see in a lot of other cases.

1 [SLIDE CHANGE]

2 PETER LANDERS: In terms of, you know, this is
3 publicly available and we've estimated this, they do set
4 out threshold target and maximum levels of performance.
5 On the absolute side, they're looking at a threshold zero.
6 The target performance is 6.24 percent. And then a
7 maximum performance is 12.48. So they've sort of
8 delineated and said we're actually okay with being
9 slightly below our absolute return benchmark up to a
10 certain point and then we'll still fund part of the
11 incentive. So that was interesting to us, because they're
12 allowing for that little bit of underperformance.

13 On the reference portfolio side, and this was an
14 interesting one to us as well, because of the volatility
15 of measuring against a reference portfolio, and the big
16 swings that can occur year over year, they actually have
17 set a threshold that actually allows them to underperform
18 the reference portfolio benchmark by up to negative a
19 hundred basis points. They set a target at beating it by
20 39 basis points and then that greater level of
21 outperformance that generates that max payout is up to 178
22 basis points.

23 So they have a very widespread wider than say
24 what we saw with the Australian fund. And so again, this
25 is something as we -- and we'll talk about this in a

1 little bit, as we plan for June, and do some of our stress
2 testing, these are just some of the observations that
3 we'll take into account. There's other sort of factors
4 we're going to look at as well, but it's interesting to
5 see the dynamic in terms of some of the different levels
6 of under- and overperformance that are being targeted by
7 some of these different funds.

8 They've also set some strategic objectives. I
9 won't go into all the detail. But for each year, they set
10 out specific objectives that they want to hit and that's
11 where that 20 percent performance is also dictated. So
12 again, a little bit different in that they go beyond just
13 total fund and look at other capabilities.

14 On the departmental and group side of things,
15 interesting to us, there's value-add returns of different
16 asset classes that are looked at. So that was
17 interesting. And again, that might be something that
18 could be put into more the individual component side of
19 things. Here, and looking at people, they look at other
20 strategic objectives that are set out at the Department
21 and group level.

22 And then individual-wise, they look at things
23 like how are you doing in integrating with their risk
24 framework, their career framework, as well as their
25 guiding principles, being integrity, partnership, which

1 again collaboration sort of a similar word to that, and
2 then high performance. And that's measured on a
3 five-point rating scale as well.

4 And again, one of the interesting things here,
5 they do look at a mixture of quantitative and qualitative
6 elements outside of the total fund. So I think -- so
7 again, a little bit different way to approach things as
8 well.

9 [SLIDE CHANGE]

10 PETER LANDERS: So summing this all up, we wanted
11 to, I think, talk about where are the key similarities
12 that we see between these leading funds and what are some
13 of the differences. And if you look at the similarities,
14 these are what I would say are the foundations or the key
15 building blocks that, you know, any TPA-based incentive
16 program should most likely have in place, because this is
17 things that are tried and true amongst those different
18 funds.

19 One is using a reference portfolio to measure
20 total fund performance. That seems to be universal.
21 Using a mixture of absolute and relative performance. And
22 you can do that in two ways. You can do it either under
23 just an annual incentive or you can do it through a
24 mixture of the annual side as well as the long-term
25 incentive, which is what you're doing currently at

1 CalPERS.

2 They all use individual performance in terms of
3 determining a portion of those incentives. Interesting to
4 us, investment and executive staff all have a total fund
5 component on the investment side. That's part of their
6 incentive plan design, and so they're measuring that
7 performance relative to an absolute return or to a
8 reference portfolio. And they all use collaboration and
9 partnerships as considerations when they're looking at
10 that individual side in determining those incentive
11 awards. So key tenets, key similarities there.

12 What are some of the differences? Some of the
13 areas where, you know, you might have a little bit more
14 flexibility to create sort of what I'll call a made in
15 California or a CalPERS approach to these things.
16 Outperformance hurdles. We saw a great differentiation in
17 terms of what those outperformance hurdles were. So those
18 are going to have to be specific to your fund and what you
19 feel is fair, reasonable but also challenging.

20 They use different absolute return benchmarks.
21 You've got a T-bill rate. You've got CPI plus and things like
22 that. You've got an actuarial return of 6.24 that CPP
23 uses. So different absolute return objectives as well.
24 You have different investment performance periods. You
25 use a five-year approach, but they've used three and four

1 years. So there are differences in terms of time periods.
2 So you want to make sure that that aligns with what you,
3 as a fund, feel is most important.

4 Long-term incentives are not offered at all of
5 the funds. They're offering it in a majority, but not all
6 of them. There's a different mix between total fund and
7 investment performance in between qualitative and
8 quantitative between the funds. So again, that's where
9 you have a little bit of flexibility there. And then
10 interestingly, CPP using a mixture of quantitative and
11 qualitative approaches to looking at that sort of
12 non-total fund sides of things, but using more of a
13 qualitative approach at Australia, New Zealand to look at
14 that individual component.

15 So again, some flexibilities there. So I think
16 again looking at this, trying to summarize this all out,
17 similarities are your sort of key building blocks that
18 you'll see as we come forward in June with some more
19 formalized recommendations. You'll see that we will most
20 likely have recommendations in each of those areas as key
21 building blocks. And then you will see on the differences
22 side of things, some more sort of CalPERS specific
23 approaches that we'll be bringing forward in June that
24 will align I think with your philosophies and how you've
25 historically looked at things.

1 But with that, I'm going to pass it on to Brad
2 and he's going to highlight through all our sort of
3 discussions what are sort of, you know, a few different
4 areas when we come to finalize things in June and we
5 welcome any feedback you have as part of today's
6 discussions, what are sort of areas that you could look
7 into to say do we tweak this or do we, you know, keep
8 things the way they are.

9 [SLIDE CHANGE]

10 BRAD KELLY: Thank you, Peter. So when we look
11 at the possible impact that TPA could have on your
12 incentive design --

13 [SLIDE CHANGE]

14 BRAD KELLY: -- there are a few things that we
15 want to address right off the bat. Some of you were
16 concerned that the adoption of TPA may actually push the
17 reinvention or the reconceptualization of your incentive
18 plan. That's not the case. And the good news is that you
19 already have a number of key factors in here that are
20 aligned with what we've learned from other funds that have
21 adopted TPA approach. And some of it has been pure
22 serendipitous. We would say like the first one here you
23 have focused on a total fund approach for quite some time.
24 And for those of you who were here when we first came into
25 our first mandate with you, we came in and we told you

1 flat out we felt that you were misaligned with the market,
2 because most funds will have a total fund component as
3 well as an individual asset class component.

4 You do track your asset class performance against
5 benchmarks. You do. Stephen and his team, they're very
6 much on top of that. But to break silos prior adopt -- or
7 hiring a GGA, you decided to focus solely on the total
8 fund approach on that metric. We came in, and again we
9 tried to advocate that you needed to adopt some benchmarks
10 or some objectives around the individual assets. But
11 purely serendipitous or maybe you were all clairvoyant.
12 You held your ground and said no, we're going to focus on
13 this total fund approach. And that is totally aligned
14 with the adoption of TPA going forward. So there won't be
15 any monumental changes on, you know, new objectives or new
16 benchmarks being put in place. So that has been in place
17 already.

18 You already track relative and absolute
19 performance, both on your annual incentive and on your
20 long-term incentive. So those are also in place.

21 You have a 60/40 split in terms of your objective
22 metric, which is how is our total fund performing. But
23 then what are we expecting you to do on the personal and
24 business objective side. That is very much aligned with
25 the funds that we were in touch with in terms of, you

1 to basically say objectively from a probability standpoint
2 this is what's fair and defensible, both from a pension
3 system and your member's perspective, as well as the
4 participant's perspective.

5 That's going to change, because what we've
6 learned is that funds that have adopted a TPA approach
7 because of the variability that is part of this approach,
8 they do have kind of a wider window of performance that
9 they measure within. And so that's something that we
10 objectively will be testing, something that we will be
11 bringing forward at the next PCTM meeting, and we will be
12 working very closely with Tom and Wilshire and Wilshire's
13 team to make sure that we have some, you know, really
14 objective tire-kicking benchmarks that we can bring
15 forward that you might want to -- might want to adopt.

16 In looking at the multi-year calculation, you
17 have a five-year performance window here. You can't just
18 flick a switch. When you adopt this from an incentive
19 perspective, because everyone has been measured this
20 five-year average it's not as though you can say from day
21 one now everyone is being measured against TPA, because
22 part of that incentive is based on historic performance in
23 the past. And so, you can't say, well, these last four
24 years were under our, you know, traditional SAA approach.
25 And going forward now, it's on this new TPA approach, but

1 everything is blended in a five-year approach. It won't
2 work that way.

3 And so this is something that we'll address in
4 greater detail in our objectives letter going forward in
5 the new fiscal year, but you're going to have to take an
6 incremental approach to make sure that it's fair, that
7 you're basically incentivizing people for the performance
8 that they achieved under that -- the expectations and the
9 framework that they were looking within at the time.
10 Okay. So again, this is going to be something that you'll
11 have to phase in over time.

12 [SLIDE CHANGE]

13 BRAD KELLY: In terms of looking at the
14 collaboration, outside of the senior investment roles,
15 this is a culture shift. This is something that all of
16 CalPERS will have to look at and embrace. And this is
17 going to be one of the challenges with Michelle and her
18 team in terms of, you know, how does CalPERS approach
19 this. So it's not just an investment thing. It's a
20 mindset change.

21 And so therefore, when you're looking at
22 collaboration, it really has to start from the top. So
23 it's not just looking at collaboration from your
24 investment professionals, but it's also how is your senior
25 leadership team emulating those values, those practices?

1 Are they helping to facilitate that and help to instill
2 that into the culture of the organization?

3 So it's something that you might want to consider
4 going beyond just your investment team and saying, how is
5 the entire senior leadership team adopting this new
6 practice and this new culture shift. And then ways to --
7 looking at ways to quantifiably measure quant --
8 collaboration, very, very difficult. Again, we were -- we
9 were quite taken aback in our conversations when they all
10 said we don't have it. Like, we don't have this and
11 please tell us if you have something better. And they
12 had -- actually had adopted a TPA for numerous years. So
13 they had -- you know, they're well down the road here.
14 And yet, they feel, as Peter mentioned earlier, that they
15 still don't have it. Okay.

16 So when you look at ways to identify
17 collaboration, there are some ways that they've tried,
18 like New Zealand is doing their survey to find, you know,
19 who your five key collaborators that you work with, but
20 it's also they're doing that to try and identify the key
21 characteristics around a good collaborator. And then they
22 broadly will say, well, this is the model that should --
23 you know, that you should try and emulate and this is what
24 we're espousing everyone to adopt.

25 So again, it's -- this is all new and there's

1 still -- it's still a work-in-progress, but it's something
2 that you might want to consider or contemplate. And
3 again, it will be another challenge for Michelle -- sorry,
4 Michelle. It will be a challenge for Michelle and her
5 team to say what makes sense, what can we actually
6 implement here, what will have a measurable improvement or
7 a measurable impact on how we look at collaboration and
8 cooperation within our organization.

9 Again, looking at the TPA approach, if you're
10 focus is how your whole portfolio or your whole fund is
11 performing, it makes sense to have the entire team on that
12 metric. And so, we would say, you might want to consider
13 having total fund results implemented in your entire
14 senior leadership team, your executive team, so that they
15 are all solely focused on this is a key thing we have to
16 achieve. Again sustainability, you want to be around for
17 generations to come. And so, I think you want everyone to
18 focus on the same goal, so that everyone again is, you
19 know, working together collaboratively.

20 And then on the long-term incentive, this is
21 something that we've mentioned numerous times. And again,
22 we're going to bring this up. If you are harmonizing and
23 aligning everyone on, you know, key objectives and key
24 outcomes, then a long-term incentive for everyone on your
25 executive team, on your -- below the CEO is something that

1 you might want to contemplate, but it's not something you
2 need to put in place right away. We do know that there's
3 going to be a labor benchmark study coming up in 2027.
4 And so that might be an opportune time for you to revisit
5 this and to say what makes sense going forward, is this
6 something that will actually benefit CalPERS going
7 forward. Okay.

8 [SLIDE CHANGE]

9 BRAD KELLY: And then finally, when we look at
10 the individual side, something you might want to consider
11 again looking at objective benchmark -- or objective
12 results that you could use towards the calibration of
13 incentives at the end is peer reviews. There's pros and
14 cons against them. People either love 360s or they hate
15 360s. And if done right, they can be really impactful.
16 If not done right, they can just be a resource strain with
17 no meaningful impact.

18 So again, if it's something you want to do, it's
19 something that you really need to adopt correctly and
20 implement correctly, but it is something that a lot of
21 organizations use to try and objectively identify some of
22 these more subjective or qualitative type elements.

23 Again, measuring information sharing and
24 communication is going to be tough, but finding ways in
25 which you can identify when this is happening. And then

1 the last one in terms of identifying flexibility,
2 adaptability and speed at which you're able to adopt TPA
3 and the impact that TPA is going to have on you, these two
4 elements, they're not mutually exclusive. They're totally
5 correlated, because you need to say at what point is this
6 really working? You won't know year one or year two to
7 be -- to be honest, because of the variability and the
8 variance. Within this practice, it's going to take a
9 number of cycles for you to realize whether or not you're
10 on the right path or not. It's a bit daunting, but you're
11 not -- you're not the initial pioneer. You're not the
12 first one jumping out of, you know, Artemis.

13 (Laughter).

14 BRAD KELLY: It's -- you do have other funds that
15 have adopted this and are successfully working within it.
16 And so, again it's -- I would say if you're nervous, this
17 is not something that is completely unique to the pension
18 community globally.

19 PETER LANDERS: The only thing I'll add is one of
20 the great things that's come out of just this exercise,
21 this education piece is bridging introductions to some of
22 these leading funds. So Michelle and her team now have
23 contacts at these funds. There can be some more
24 information sharing, some, you know, collaborative
25 discussions learning about best practices and sharing of

1 information. And that's one of the great things, you
2 know, in all the work we do across the pension fund
3 community. It's one of the things that I've always
4 enjoyed is there is a lot of -- a pretty collaborative
5 approach. I know that, you know, you're competing with
6 say, you know, your friends across the river there, but
7 overall, pension funds are pretty willing to share best
8 practices, things are working for them, things that might
9 work for others

10 And so, even through this exercise, having those
11 additional contacts globally I think will be really
12 helpful in terms of as this program continues to be rolled
13 out, because again, you're not -- nobody gets it perfect
14 on year one. It's going to take some tweaking. We're
15 going to obviously, you know, maybe making some tweaks
16 along the way. But, you know, that's -- crawl, walk, run
17 is a great way of looking at it. You know, we're going to
18 put -- try and put the building blocks in place in year
19 one and then, you know, we'll make further tweaks as time
20 goes on. But I think, you know, a lot of these great
21 things are things to consider and we'll be bringing
22 forward in June at the PCTM for approval and adoption.

23 BRAD KELLY: And anecdotally at the end here I'll
24 adjust a few days ago, we were approached by another
25 pension system that asked us to do some policy assessment

1 work for them, because they realized that their policy
2 framework is not as robust as it could or should be. And
3 one of the questions they asked was can you just -- before
4 we even get, can you send us kind of a standard list of
5 policies we should have in place. So we have our standard
6 list. Those of you who have taken our course, our NAF
7 course know that this is another thing that we do.

8 And so we have our standard lists and what we
9 normally teach. However, a few month ago we were caught
10 off guard, because one of our clients suddenly lead said,
11 we need an artificial intelligence policy. And it's not
12 on our list. We haven't had it on our list. And so, you
13 know, again it's a reminder that, yes, we're experts in
14 specific areas, but we're not -- we don't know it all.

15 And so just before I hit send, I decided to go on
16 ChatGPT and just do a little check. And I said what is a
17 standard list of policies that should be in place for a
18 North American pension system? And it gave me the -- our
19 standard list. It didn't have AI on it, which is
20 interesting. And AI doesn't acknowledge that it needs its
21 own -- its own policy.

22 However, what really struck me was at the very
23 bottom it said, pension systems should consider the
24 adoption of a TPA policy, and you're the first. You're
25 the first in the U.S. So I thought that that was a really

1 telling sign that this is -- this is definitely a trend
2 that's emerging that we can say with the work that we do
3 within the pension community that there are a lot of eyes
4 on this pension system. And if you're successful in the
5 adoption and execution of TPA, you will see a ground swell
6 of pensions very quickly start pivoting and adopting a
7 similar approach.

8 So, again, this is something that we applaud you
9 for taking on, but there's a lot of interest in this. And
10 so, just be assured that this is a trend that we're
11 actually seeing move throughout the pension community.

12 With that, we'll open it up for questions.

13 I know this was just kind of our initial
14 education session on this.

15 CHAIR PALKKI: Thank you, Brad. Thank you,
16 Peter. I do have some questions from Ms. Gallegos.

17 ACTING COMMITTEE MEMBER GALLEGOS: Great. Thank
18 you very much. A few things that just sort of came to
19 mind as you were going through the examples of our
20 colleagues in other countries, the benchmarks or the
21 hurdles you mentioned were CPI, absolute return, reference
22 portfolio, but there was no mention of our required rate
23 of return. How do we make sure that we are aligned with
24 what we are required to earn to meet our long-term
25 obligations should the reference portfolio, for example,

1 underperform -- CPI does not seem relevant at all --
2 reference portfolio underperform for multiple years at a
3 time, for example?

4 PETER LANDERS: A great point. And they admitted
5 that, you know, I think it was Australia that was just a
6 specific mandate the government had on the CPI piece.

7 ACTING COMMITTEE MEMBER GALLEGOS: Right.

8 PETER LANDERS: But I think the great thing you
9 have in place, and that's why we're talking about building
10 blocks and things that you already have in place that are
11 great, you have that tie-in already to that required rate
12 of return through the long-term incentive. So you have
13 that 6.8 percent right thousand -- it was 7, now it's
14 6.8 -- that you must hit for, you know -- consequently
15 half -- about half of the incentive, half of that at-risk
16 pay is tied over a five year basis to beating that
17 actuarial rate of return.

18 You -- I will say that is -- the long-term
19 incentive is something that, you know, you've gone through
20 a few cycles that coming out of this I would suggest we
21 probably do need to just take a look at and make sure
22 everyone is comfortable still with the way the plan works
23 and everything. But in terms of that direct tie-in to
24 meeting that required rate of return for the pensioners,
25 you have that already in place through the long-term

1 incentive plan. And I would say again in terms of, you
2 know, CalPERS specific pieces, that is something that I
3 think we would suggest you'd want to maintain, either
4 through the long-term incentive or through the annual
5 incentive. I would prefer I'd say over the long run over
6 a long term incentive, keeping it there in that bucket of
7 things, because that is measuring sort of long term are
8 you meeting that benchmark 6.8 on a annualized basis.

9 But, yeah, you already have that through the
10 long-term incentive and we would suggest moving forward.
11 We will keep that as part of the incentive program for
12 sure. We're not suggesting taking that out.

13 ACTING COMMITTEE MEMBER GALLEGOS: Okay. Great.
14 And then the second question I have is if you look at page
15 17, why would we consider an underperformance hurdle, if
16 we are already smoothing the -- smoothing the calculation
17 over five years and offering the grandfather, if we
18 decided to offer a grandfather. Why would we consider
19 underperformance? It doesn't seem to be logical.

20 PETER LANDERS: So one aspect I'll say that is --
21 that underperformance would only relate to the portion
22 that's TPA related. So it would only be sort of that over
23 time piece of it. And this is definitely -- and this is
24 where we're going to go back and do some stress testing on
25 our end, because as you could tell through the analysis,

1 that's not necessarily what everyone does. And that is
2 something that if -- you know, if this Board is adamant
3 that, you know, we're not going to be incenting, you know,
4 for any kind of underperformance, that was something
5 that -- that's some -- that was feedback that we would
6 definitely take back as part of any recommendations that
7 we bring forward.

8 I think the rationale for that, giving that level
9 of underperformance is TPA is something that, you know,
10 especially over maybe three, even four year base time
11 periods is still pretty volatile, because you're not
12 necessarily having that customized benchmark and you have
13 lots of different asset classes that go beyond just public
14 equities and fixed income. So it creates a lot more
15 volatility in the results. So I think the thought process
16 behind allowing for that level of underperformance is to
17 suggest that, you know, over maybe a three or four year
18 time period, there might be levels of underperformance
19 that can result over those sort of short-term blips. And
20 from a -- you know, probably from a talent retention
21 perspective, you don't necessarily want to lose people.

22 I can't speak to exactly the rationale for why a
23 CPP, for example, allows for that underperformance, but
24 I'm just coming up with suggestions of why -- you know,
25 when we work with funds that allow for underperformance in

1 a variety of areas, these are some of the things that come
2 up. Volatility and results that can be temporary blips,
3 worries about maybe retaining people, attracting people,
4 things like that. That comes up. But I will say that
5 it -- mostly on the TPA side, there is a greater
6 volatility in the results, and that -- I think some of the
7 funds out there allow for that vol -- added volatility by
8 having that wider -- much wider performance spread. But
9 that is something that again on a CalPERS specific basis,
10 if this Board has a specific philosophy or piece that they
11 want to speak to, we would definitely take that under --
12 you know, under advisement of course, as we come forth
13 with recommendations in June.

14 So we welcome any feedback as part of today's
15 discussions or even afterwards from the Board on your
16 views on that specific topic, because I understand that's
17 definitely a very sensitive topic. You know, and again in
18 the spirit of being wholesome and providing sort of what
19 all the alternatives are that are out there. We brought
20 that up and we understand, I think, again because of those
21 volatile results why it's there, but that doesn't mean you
22 have to adopt it.

23 Here, it's just one example out there of, you
24 know, a fund that has decided to allow for that greater
25 level of volatility.

1 ACTING COMMITTEE MEMBER GALLEGOS: I guess my
2 thoughts would be rather than incenting underperformance,
3 I'd rather structure something that takes into account the
4 volatility, which if you do five years, you're taking in
5 account the full -- the three-year volatility, right?

6 PETER LANDERS: Yeah.

7 ACTING COMMITTEE MEMBER GALLEGOS: So maybe we
8 need to extend that to seven careers or have a five-year
9 and a seven-year, but I'd rather not incent
10 underperformance. That's all.

11 PETER LANDERS: Understood.

12 ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

13 BRAD KELLY: That's very fair and for those of
14 you who are familiar with our work, that -- we're all
15 about value-add. And so when we first came in, one of the
16 key things we started was to basically address the
17 underperformance issue and to bring up the floor. But at
18 the same time, we brought down the ceiling just to make it
19 fair and defensible for everyone, but we're aligned.

20 But again, this -- TPA is a whole new world. And
21 so, if -- whatever -- and just be assured that whatever we
22 bring forward, we will also address the pros and cons
23 associated with it. And so it's -- we can only make
24 recommendations. And we'll give you as much information
25 around that as possible, so that you can make, you know,

1 informed decisions going forward, but ultimately, the
2 decisions will lie with this Committee and with the Board
3 itself.

4 ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

5 CHAIR PALKKI: Thank you.

6 Ms. Middleton.

7 VICE CHAIR MIDDLETON: All right. Thank you.

8 Gentlemen, thank you. Really appreciate this and
9 tremendous amount of information.

10 One of the things you've said over and over again
11 is -- and I'm paraphrasing, but the odds of getting this
12 right the first time are not great, which I suspect having
13 watched both of you work for a few years now is not
14 something you're used to saying.

15 (Laughter).

16 VICE CHAIR MIDDLETON: But why I'm asking the
17 question is there's an awful lot that goes into creating
18 an incentive program and there are a set of expectations
19 that all of those who are going to be participating in
20 that program are going to have. So can you help us with
21 not just simply the question of do we more frequently
22 check in and update the model? Do we extend out to a
23 longer period of time the long-term incentive? And these
24 are all questions. Do we put more of the incentive into
25 the longer time frame, so as to give us more? And how do

1 we make sure that at each step of the way in this process,
2 those folks who are participating in the system feel that
3 it's challenging them and treating them fairly?

4 PETER LANDERS: Great. Great point. I'll start
5 and Brad feel free to add in after. I'll try and cover
6 all those -- all those bases. I would say on the question
7 of time period, five years, in our experience, is
8 typically -- that's on the tail end or the long end of the
9 spectrum. So I don't know if you necessarily want to go
10 beyond a five-year period. I think it's still within
11 range, but it's definitely on the -- as you can see even
12 there, three and four years is quite common as well.

13 In terms of regular check-ins, that's a great
14 point. We do -- and it's part of the next information
15 item. We do do an annual check-in on the incentive
16 metrics. To be fair, when we looked at hurdle rates,
17 historically, we have probably give them two or three
18 years cycle in each of the areas to see how they play out.
19 That might be an area where we'll want to do some more
20 regular check-ins, at least on the investment hurdle side
21 of things, to see how things are starting to map out,
22 especially as we get two, three, four years, we start to
23 have more and more TPA history to keep maybe tweaking
24 those. An'd it's quite common under an annual incentive
25 program to be, you know, reviewing things annually, making

1 certain tweaks, even on hurdle rates, on sort of a -- you
2 know, looking and viewing and making sure they're still
3 fair, reasonable, and also challenging to the individuals
4 in particular.

5 And I think, you know, the collaborative approach
6 that we like to take is, you know, there's obviously some
7 limitations in the state on what we can and can't talk
8 about with certain individuals, but what we can do is just
9 understand a little bit of the motivating behaviors and
10 the culture that's trying to be built here at CalPERS and
11 try and, you know, take what we hear about that and try
12 and embed that into how we set -- how we independently set
13 what those hurdle rates should look like.

14 And so, that's what we've tried to do and we try
15 to do with all of our clients is really have a
16 collaborative approach, where we're hearing from the Board
17 and within reason also gaining feedback from senior team
18 members as well within, you know, any of the limitations,
19 because, you know, California is not the only one that has
20 limitations on, you know, what can and can't be spoken
21 about. Definitely in Canada, with some of the -- a lot of
22 the Canadian funds, that we deal with, there is a lot more
23 autonomy to, you know, speak freely about these things.

24 And the U.S. definitely, it's a more restrict
25 environment in a lot of states on what can and can't be

1 talked about, but we try to, as best as possible, follow
2 what we view as a collaborative approach when doing these
3 things to again make sure we're meeting the needs of
4 members and what the Board wants to be achieving for
5 members, but also hearing about the practical realities
6 from the staff and team members on what culture and what
7 behaviors are trying to be developed, and using that
8 combination of information in terms of setting our
9 recommendations.

10 But Brad, if I missed anything, let me know.

11 BRAD KELLY: Ms. Middleton, I appreciate your
12 comments and concerns around some of the things that we
13 mentioned, but I would also ask you to reflect on the work
14 that we've done for the Committee and for your Board and
15 the fact that we are not ever advocates of reinventing any
16 wheel. We like to take an objective conservative
17 approach. So everything -- any suggestion that we brought
18 to this Committee and to this Board have always been
19 incremental in nature, never, you know, ground shifting in
20 any way. So again, we will -- we will basically practice
21 that same approach going forward, although the TPA is a
22 completely new philosophy and approach for this
23 organization.

24 As we mentioned, you do have some foundational
25 elements that are already in place. So again, it won't

1 require any monumental shifts. But any changes that are
2 made will always have trade-offs, always. So if you look
3 at like a longer performance period, a seven-year
4 performance period, you can apply that to your LTIP. Now,
5 you have individuals coming into this organization saying
6 now I have to look at a seven-year period before I see any
7 sort of payout on that side.

8 That might be a deterrent in terms of attracting
9 people. These are all things that we will definitely
10 address with your Board, if there are any, you know,
11 potential changes you might want to consider, but there
12 are always trade-offs.

13 So it's incumbent on yourselves as Committee
14 members, as Board members of CalPERS to make sure that
15 you're informed on all that information around it, so that
16 when you do ultimately make that decision, you know, you
17 know, what are the potential benefits as well as the
18 potential pitfalls associated with this. And we always do
19 our best to make sure that you're as informed as possible
20 going forward.

21 PETER LANDERS: Oh, and I'll just add, because I
22 think I forgot your first point, which was the comment
23 paraphrasing around, you know, we won't get it right in
24 year one. Maybe that's overstating it. I think we can
25 get a -- again set the foundational building blocks that

1 gut us a long way to the way there. I think where the
2 continuous improvement comes from is we might have to
3 tweak some hurdle rates from here -- here to there. We
4 might have to tweak how we look at collaboration and how
5 we measure individuals performance. But I think we can
6 and I think we will be successful in getting the right
7 building blocks in place, but it's going to be tweaking
8 things to say did we get those hurdle rates right? Well,
9 maybe we need to make some tweaks here or did we get that
10 collaboration approach and that calibration right. Well,
11 maybe we can make some further tweaks there.

12 But I think we can get the building blocks in
13 place that set us with the right foundation to move
14 forward on.

15 VICE CHAIR MIDDLETON: I greatly appreciate your
16 candor, as we're moving forward with this. We all know
17 that we're going to have to have some flexibility as we
18 move through this approach. As Ms. Gallegos said, we have
19 a performance standard though for the organization at 6.8
20 percent. And my old friends in all of the cities across
21 California don't want us to come up short of that. Our
22 ability as a Board to be able to sell an incentive plan to
23 the public agencies that ultimately are paying for these
24 benefits is that we're able to demonstrate that the
25 performance is, in fact, superior, that it has beaten what

1 the market would do, that these folks took and did work
2 that superseded what we could have done, if we had simply
3 bought an index fund and gone to the golf course for the
4 afternoon.

5 BRAD KELLY: As an institutional investment
6 organization, I would say that, you know, everything you
7 invest in is related to that -- the value proposition, the
8 value for money, you're making that investment, are you
9 getting an adequate or sufficient return? You should be
10 always looking at incentives in the same way. Are we
11 getting value for the money that we're paying? And it's
12 always our approach that you should be getting
13 exponentially more value from what you're paying, but
14 paying people, you know, an adequate level that continues
15 to motivate the right behaviors as we always say, so that
16 psychologically it incentivizes them to push harder, to do
17 more, to gain more for your fund and for your members, so
18 that everyone can celebrate that success going forward.

19 PETER LANDERS: And I'll just add right now, the
20 way you have it structured with your short and your
21 long-term incentive, I feel like you are doing a pretty
22 good job in terms of balancing out the need to beat that
23 6.8 percent with also balancing that out that with we need
24 to also show that we are beating, you know, passive income
25 and -- income and public equities benchmark.

1 So I think, you know, what we bring forward
2 definitely in our recommendations, the reference portfolio
3 piece and that 6.8 percent side of things in equal
4 measure. So I think you're -- you're already your doing a
5 good job in trying to balance out those two concerns with
6 your investment team and even the broader total fund as a
7 whole.

8 CHAIR PALKKI: Thank you. I'm not going to add
9 anything else, because I think everything that I wrote
10 down has already been said, but I think we can all agree
11 on whatever we're doing to push for excellence is always a
12 positive thing for our members. So before we move on to
13 the next informational agenda item, I do have public
14 comment on 5a. Mr. Jelincic.

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

16 This meeting is not about making decisions. It's
17 been getting input and RPEA would like to provide some
18 input.

19 On the investment side returns, the incentives
20 should be to encourage desired behavior. It should be
21 about things within your control. Total fund portfolio
22 makes sense if you're the CIO, and the Deputy CIO, and
23 managing directors. But if you're an associate investment
24 manager in real estate, you have -- you can impact the
25 portfolio you have. You can even impact real estate,

1 maybe have an impact on real assets. But the ability to
2 real influence the total fund is simply beyond your
3 control. And so the question becomes, why should all of
4 the incentives be on things you can't control and none on
5 the things you can control? So I think you really ought
6 to consider some asset benchmarks as well.

7 RPEA opposes a bonus for failing to meet the
8 investment benchmark. We pushed back on that for years.
9 We finally got the practice stopped. We thank the Board
10 for that. We do not want to see regression. TPA was
11 adopted to give the staff more control and to generate
12 higher expected returns. To use it as an excuse to return
13 to rewarding failure to meet the benchmark is
14 unacceptable. If there is more volatility, it is because
15 of the choices that staff made.

16 On a personal note, I have argued for 20 years
17 that the incentives ought to be risk adjusted, and I would
18 encourage -- I would again encourage the Board to at least
19 think about risk adjusting the incentives so that people
20 are not rewarded simply for taking more risk. On the
21 other hand, not necessarily punish for simply saying this
22 is the time to take less risk. So I urge the Board to
23 consider that.

24 Thank you.

25 CHAIR PALKKI: Thank you.

1 Next, we have Item 5b, Ms. Tucker.

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

5 Item 5b is also an information item. To comply
6 with the Board's policy incentive metrics are reviewed
7 annually by the Board's primary executive and investment
8 compensation consultant, Global Governance Advisors.

9 GGA will present their initial analysis and
10 observations on the incentive metrics for the Committee's
11 consideration and discussion today. Based on the
12 Committee's feedback, they'll return in June 2026 with
13 final recommend -- final recommendations for
14 implementation in fiscal year '26-'27. Final
15 Board-approved metrics will be included in some
16 combination on incentive plans for eligible executive and
17 investment management positions.

18 That concludes my opening remarks and once again
19 we can invite Mr. Landers and Mr. Kelly to begin their
20 presentation.

21 PETER LANDERS: Thank you, Ms. Tucker. I don't
22 believe this will be up on the screen, but you all have
23 access to it on your -- on your Board portal.

24 Going to try and streamline this a little bit and
25 focus just on the key takeaways from this -- from this

1 review memo. There's a lot of obviously material in
2 there. We -- obviously every year, we look at sort of,
3 you know, how do your investment metrics align with the
4 market. We've added in some comparison to TPA aligned
5 funds in this year.

6 I think some of the key takeaways there is
7 definitely having that total fund -- hundred percent total
8 fund weighting is still misaligned with the majority of
9 U.S. funds who do have that asset class component to it
10 that was mentioned in the public comment. However, when
11 you look at TPA aligned funds for the most part, you would
12 be in line with those TPA aligned funds.

13 So again, that gives us a level of comfort that,
14 you know, staying with that hundred percent total fund
15 piece for now makes a lot of sense. And there's no reason
16 under a TPA approach to really move away from that.

17 One of the big items that we also have come
18 across is -- through our analysis is the need, of course,
19 on the total fund side of things to look at those hurdle
20 rates relative to the reference portfolio. That's
21 probably the biggest key thing that we need to bring
22 forward in June. We're going to again use a mixture of
23 historical internal analysis, look at external pieces like
24 we talked through in the education session, look at, you
25 know, what the expectations that have been sort of

1 espoused publicly around what CalPERS can expect to
2 potentially, you know, outperform over time that reference
3 portfolio by -- and take that all into account in setting
4 what those hurdles look like. So again, we'll be coming
5 forward with that in June.

6 One of the things that came up, and this is
7 looking back currently, and Ms. Tucker or maybe Mr.
8 Hoffner can speak more to this, is on the stakeholder
9 engagement side of things, we had set a few years ago a --
10 basically a threshold in terms of the response rate from
11 those surveys, and sort of below that minimum level of
12 threshold, we would necessarily maybe not include those
13 results, because they wouldn't be statistically relevant.
14 So we're re -- you know sort of reintroducing that in the
15 event that, you know, we get to end of this fiscal year
16 and the stakeholder engagement does not hit that
17 statistical threshold, that we basically reweight equally,
18 take the weighting for stakeholder engagement and apply it
19 to the other metrics. So that was a key takeaway.

20 We had introduced that recommendation two or
21 three years ago, and we're just sort of reintroducing it
22 now, because it looks like it may come up at the end of
23 this year, so we wanted to give the Committee some
24 guidance on that piece.

25 Maybe Mr. Hoffner looks like he may want to

1 comment on this.

2 CHIEF OPERATING OFFICER HOFFNER: Yeah. Thank
3 you. I just want to provide some feedback. As of Friday,
4 our current response rate is 4.5 percent, so -- and that
5 survey should be open until the end of April. So we're
6 hopefully to get to the five or higher. So we'll provide
7 additional feedback, but I just wanted to make sure we had
8 that latest information today.

9 PETER LANDERS: So, yeah. So hopefully it's a
10 moot point and we will hit the five percent statistical
11 threshold, but wanted to highlight that in this memo as
12 something to be aware of that, you know, might come
13 forward in June and then would impact those performance
14 calculations in September should that methodology have
15 to -- have to be hit.

16 The one other area that we wanted to talk about,
17 and we mentioned it a little bit in the education session,
18 is this idea of what do we do with TPA performance in
19 terms of grandfathering it or not, over a five-year time
20 horizon, because you are just adopting it for the first
21 time starting on July 1st. And so the idea is what are we
22 going to do. We measure performance on the investment
23 side over five years.

24 And what we've done in this memo is highlighted
25 four potential alternatives, and as well highlight our

1 referred alternative, which is the first one, which is to
2 grandfather a TPA performance in over time. What does
3 that mean? That means that in the first year, that sort
4 of July 1 2026 to June 30th, 2027, we would measure five
5 years of performance, but we would measure the most recent
6 year, the one year on how you did against TPA and then we
7 would look at the performance for the four years before
8 that, based on your old SAA strategic asset allocation.

9 And the rationale for that is, you know, staff,
10 namely the investment staff, but, you know, even your CEO
11 and others, were impacted by it. We're not necessarily
12 being asked to follow obviously a TPA approach in prior
13 years. And so the idea is would it be fair to just say as
14 of this date, we're going to go back five years and
15 measure you against a total portal approach with a
16 different reference portfolio that you weren't necessarily
17 knowing that you had to beat benchmarks against and things
18 like that.

19 So the idea is to be fair to the people is to
20 over time, assuming we want to keep five years of
21 performance in the -- in the equation, is let's measure
22 them on, as we grow and as we use -- get into year two,
23 three, four and five of TPA grow that weighting over time
24 that's placed on the TPA performance, lower over time the
25 weighting that's put on that historical SAA performance in

1 those earlier years, and then after five years, everything
2 is just based on TPA and you just have rolling five-year
3 cycles.

4 We feel like that's fair to the participants. It
5 aligns with the mandates and the -- sort of the
6 performance frameworks that people are being asked to
7 measure against. And it's something that we do see
8 commonly when organizations make these call it more
9 material adjustments to methodology and how they're going
10 to measure performance is having that sort of weighted
11 approach.

12 And we've seen this, even as low a level as on
13 the asset class. Let's say you, you know, change a
14 benchmark within fixed income or within private equity,
15 you wouldn't necessarily go back and say, well, we're
16 going to measure everyone historically just against this
17 new benchmark, you would usually phase that in over time,
18 new benchmark and old benchmark. So that is sort of our
19 thoughts to that.

20 Obviously, the cost of that is, you know, some
21 people might argue you're measuring on a TPA approach.
22 That's the new philosophy. Should you -- should people
23 still be getting rewarded under the old one? It is more
24 complicated to administer for HR and staff, because you're
25 having to measure multiple time periods and different

1 approaches, so there is a little bit of added complication
2 to how that's administered.

3 But overall, we think the pros outweigh the cons
4 and that's why we suggest that one. But there are other
5 alternatives. So one of the other alternatives is we sort
6 of forget the past and just look on a forward-looking
7 basis and say starting this year, year one, we're going to
8 measure say one year of TPA and then next year we'll go
9 two and you'll start of build up. So you'll have like --
10 you'll measure one year performance in the first year, two
11 years in year two, three years in year four up to five
12 years, and then it will just be a rolling five years.

13 The problem with that is it's very misaligned
14 with the market. Pension funds look at longer term
15 performance objectives. They don't typically look at
16 one-year or two-year returns and measure it that way. So
17 you'd be pretty far off in terms of being misaligned with
18 the market. It also ignores, especially being longer term
19 investors, any accomplishments that you've had sort of in
20 the past over that sort of four year time period and sort
21 of building upwards in that time frame.

22 Also, as we talked about, TPA does have a lot of
23 volatility, in terms of results. So you're going to have
24 wild swings potentially in performance in year -- in one
25 year or two year results that really isn't doing a great

1 job of measuring the success of TPA, and, you know,
2 probably is either overly rewarding or overly penalizing
3 people in those early years of the plan, if you were to
4 adopt that. So again, we feel like there's a lot more
5 cons to that approach, which is why we're not necessarily
6 suggesting it, but it is an alternative you could
7 consider.

8 The third one that we have thought about as well
9 is looking -- and just looking at -- we're just going to
10 go back five years and just say this is the TPA benchmark.
11 As of this year, we're just going to look back and say
12 what's the trailing five years against TPA, and we'll just
13 measure it on that one consistent benchmark.

14 The con -- the -- you know, it's simple. It's a
15 very simple way to do it. The cons that we say is is it
16 really fair to the participants, because they weren't
17 being asked for four years, let's just say in year one of
18 this five-year period, to perform against the reference
19 portfolio. They weren't being asked to implement a TPA
20 approach. So is that really fair to people who had been
21 working under on set of assumptions and now they have new
22 ones and they have to go back and -- so, to us, that
23 doesn't seam fair.

24 Two is also like looking at -- you weren't
25 measuring TPA under that approach. So again, is that

1 really something that, you know, from a performance
2 perspective in terms of performance attribution that you
3 can look back and say, yeah, you know, this is really tied
4 to their performance. Again, they weren't being motivated
5 or asked to achieve those objectives. It also is fairly
6 misaligned with the market when you make a material change
7 like this. So this concerns there, but it is simple to
8 administer. But again, we feel like the cons outweigh the
9 pros.

10 And then that the last one, which again we're not
11 huge fans of, but sometimes we'll see put in place is this
12 concept of we're going to measure TPA performance sort of
13 over one, two, three, four, five years. We'll still
14 grandfather it in with SAA, but we'll actually create a
15 bit of a floor. So we're almost creating an artificial
16 level of performance that says, you know, in those earlier
17 years of the plan, even if we really don't do well against
18 TPA, we're going to sort of set and say you get say 75
19 percent of target or 50 percent of target as the years
20 build on.

21 And the idea behind that is because this is a new
22 sort of -- a new framework, because it's -- again, we're
23 working out some of the kinks, it provides a little bit of
24 a level of assurance to the individuals that are affected
25 by this. Of, you know, some level of payout, even if

1 there is a level of underperformance.

2 What are the cons?

3 One, as we talked about and we've heard even
4 through public comments, what are the optics of sort of
5 giving that, putting that floor in place and saying, you
6 won't fall below this minimum. Even if you greatly
7 underperform, people are still receiving a payout. So the
8 optics are not the greatest from setting these sort of
9 floors in place, because you're sort of artificially
10 putting in a plug as opposed to relying on real
11 performance. So that's a huge concern.

12 It's not that common to do this and it would
13 stick out as being, you know, less typical with typical
14 market practice. And again, I think there is a real
15 concern to be like, why -- do we really want to be
16 introducing, for lack of a better term, artificial results
17 into the formula?

18 And so, again, we feel like the cons sort of out
19 sort -- outweigh the pros in terms of measuring this and
20 putting that floor in. It's also a bit of a complicated
21 process to try and explain to people as well, and explain
22 to the public, and explain to members, and to legislators
23 and things like that. So, again, it's an alternative, but
24 we don't feel it's the best alternative. And so our
25 preferred alter, but again we welcome any feedback that

1 you all have is, to grandfather this in over time using
2 always like the realized results, but over time building
3 up the level of weighting on TPA performance and then
4 gradually over time decreasing the weighting on the old
5 strategic asset allocation over time, as the TPA approach
6 continues to build. And then, of course, once you hit
7 that five year time window, everything is on TPA and
8 there's no more look back at SAA.

9 So that would be our preferred approach, but we
10 welcome any feedback that you all have on this, as part of
11 these discussions, and we can take under advisement when
12 we come forth with a final recommendation in June. But I
13 think those were the key takeaways. The other ones, which
14 are more under the CEO and CIOs discretion, but we wanted
15 to highlight in our memo, was based on what we had found
16 under TPA approach, looking and relooking at should we put
17 a weighting on the total fund performance against the
18 reference portfolio to roles like the COO, the CFO,
19 General Counsel roles, is that something that should be
20 considered?

21 As you can tell through our TPA that is something
22 we see adopted but all of the TPA aligned funds is that
23 they do have that total fund component for all of the key
24 executive roles as well. So that's something we're
25 bringing forward, and again welcome any feedback. And

1 then the other piece was Stephen has put in that
2 collaboration, sort of call it carveout, within the
3 individual performance ratings at the sort of senior
4 investment leadership level, is that something that we
5 should be potentially putting in place for, you know,
6 other levels below that level within the Investment
7 Office.

8 And so that's again something we've brought
9 forward that I know Marcie and Stephen will definitely
10 take under advisement and will either accept or not
11 accept. As we said, we can only make recommendations.
12 But those are some of the key takeaways from our memo that
13 we just wanted to highlight. And we definitely open it up
14 to any questions or feedback that you have.

15 CHAIR PALKKI: Thank you both for that
16 presentation. I don't have any questions, but I do want
17 to invite Tom Toth from Wilshire to add any thoughts from
18 your perspective

19 TOM TOTH: Thank you very much. Good afternoon.
20 Tom Toth with Wilshire Advisors.

21 Just a couple of things I wanted to add to the
22 discussion, as GGA pointed out. We agree the current
23 structure is actually pretty well aligned with moving
24 towards TPA at a very high level. But as we get into the
25 specifics, I think it's important, as you think about

1 what's likely to come, the Board is clearly stated a
2 desire to see more explicit active risk taking in the
3 portfolio. And you did that through the establishment of
4 the four percent active risk budget.

5 And it's really important to remember that the
6 successful utilization of the active risk budget versus
7 the reference portfolio is not just a nice-to-have, it
8 really is necessary in order to meet the long-term return
9 objectives of the portfolio. And the incentive comp
10 threshold should be set to align with those Board
11 expectations of a higher level of value-add versus the
12 reference portfolio.

13 So there's more quantitative work to be done, and
14 GGA noted they're going to be digging into that and coming
15 back with the specifics at the June meeting.

16 Now, as GGA also mentioned, the incentive comp
17 program is really put in place to attract and retain
18 investment professionals. But you want to attract and
19 retain the right investment professionals to work under
20 the TPA framework. And so what does that mean? We talked
21 a lot about the culture and collaboration. All of those
22 are true points and I won't belabor them.

23 But one of the other ways you can really, I
24 think, encourage the utilization of active risk, and
25 really build that culture within TPA, is to utilize the

1 program's ability to adjust team member's compensation
2 based on qualitative factors. Top performers need to be
3 rewarded when they exceed expectations and those who are
4 falling short of expectations need to be penalized. The
5 dispersion there is important. And so I would encourage
6 the utilization of that -- that dispersion in a world of a
7 competition for capital, which is what TPA is, is a
8 positive.

9 And there's a qualitative range built into the
10 structure for good reason. And it really is to send the
11 right message to the team and to help them thrive within
12 that TPA framework and build the right culture of success
13 there. So I'll stop there. I'm happy to answer any
14 questions from the Board or I can turn it back to the
15 Board.

16 CHAIR PALKKI: Thank you very much.

17 Ms. Middleton.

18 VICE CHAIR MIDDLETON: All right. Tom, thank you
19 and I really appreciate that. And I think all of us are
20 listening when you talk about making sure that we are, in
21 fact, rewarding those who have achieved superior
22 performance and making it known to those who have not that
23 there are consequences for that.

24 I want to shift gears a little bit though to
25 another issue that arises whenever we get into this area.

1 And that is because of some legal impediments, the
2 inability of our Chief Executive Officer and our Chief
3 Investment Officer to provide guidance and insight to this
4 Board regarding these programs that are absolutely
5 instrumental to the success of TPA and other things.

6 So first, I would like to ask Brad and Peter just
7 to talk about your experiences in other pension funds in
8 terms of the value that a CEO and a CIO bring to
9 discussions in this area.

10 BRAD KELLY: Thank you very much, Ms. Middleton.
11 As -- and we've stalked about this in the past. Working
12 in California is, from our perspective because we work
13 throughout all of North America, unique in the fact that
14 there are limitations in terms of what we can and cannot
15 talk about. And we have been entrusted with working with
16 your senior leadership team and yourselves as trustees of
17 this pension system to put something in place that's
18 impactful, that's meaningful, that psychologically
19 incentivizes people to perform. It's difficult for us to
20 do our work and it's difficult for us to interact with the
21 senior leadership team when we have these impediments of
22 what can and cannot be discussed.

23 From a governance perspective, Marcie is your
24 delegate. You have entrusted her with delegated authority
25 to manage this \$600 billion juggernaut on a daily basis.

1 Compensation is a key element of managing that, of
2 operating this system. And if she can't talk to us openly
3 about what she needs to achieve and what she's trying to
4 do with the staff, and how she's trying to effectively
5 fulfill the mission, vision and long-term strategy that
6 you've put in place, it makes it very difficult.

7 We did have a conversation with the leadership
8 team, with the Investment team a little while ago, and we
9 talked about their aspirations and what cultural things
10 they wanted to achieve. We couldn't talk about the
11 incentives. We couldn't -- and so it makes it difficult.

12 So with that, I would say that it has definitely
13 been an impediment. With other pension systems outside of
14 the State of California, it's much easier for us to have
15 these conversations. It's much easier for us to identify
16 what will have a meaningful impact and it's much easier
17 for us to work with the leadership team primarily on what
18 they see on the ground and what they're trying to
19 implement in terms of achieving some of the strategic
20 direction they've received from their board.

21 Peter, is there anything you can -- you want to
22 add?

23 PETER LANDERS: Yeah, I will -- I will say this.
24 Definitely, you know, California has its -- has its
25 challenges. I would say the U.S. in general though, in

1 general, operates a lot more -- there tends to be a lot
2 more restrictions and regulation. Even in speaking with
3 the Australians, the New Zealands, while they still are
4 viewed definitely as, you know, part of the government and
5 like a public -- you know, a public agency or an arm of
6 the government, there is a level -- certain level of
7 autonomy for them to make, you know, decisions --
8 independent decisions.

9 In Canada, of course, the Canadian funds we deal
10 with, they have a lot of autonomy. So there's a lot less
11 of these restrictions as well. Obviously, the challenges
12 in the U.S., there's a lot more public meetings some of
13 the Canadian funds in that operate.

14 So there are -- there are, you know, sort of
15 structural challenges in the U.S. that I feel like, Brad
16 makes a good point, it makes it difficult for us to do our
17 work. And we would prefer to not have that level of
18 difficulty, but I feel like we've tried the best that we
19 can to work within the system that is in place to try and
20 get to what we need. But, yeah, is it perfect? No. I
21 think there, you know, are structural things that ideally
22 in a perfect world would not be in place, and, you know,
23 long term Ideally will be removed. But I feel like we
24 have done the best we can working with your Legal staff to
25 make sure that we are collecting again -- not asking about

1 pay, or incentive design, or anything like that, but just
2 understanding motivations, culture, what's trying to be
3 achieved, and then using that to form our recommendations.
4 But, yes, it definitely makes it more difficult for us to
5 do our work.

6 CHAIR PALKKI: Tom, is there anything you would
7 like to add?

8 TOM TOTH: Just briefly. I'd greed with
9 everything Peter and Brad just said, and just reiterate in
10 my experience working with public plans, incentive comp
11 programs outside of California, without exception there's
12 input from senior leadership. And I do think that allows
13 you to make, you know, better decisions about those
14 structures moving forward.

15 VICE CHAIR MIDDLETON: So, Mr. Chairman, I think
16 we, as a Committee, need to hear from our Legal department
17 as to exactly what are the legal impediments that prevent
18 our CEO and our CIO from engaging with us. And if there
19 are legislative fixes or other fixes that are appropriate
20 to remedy this, we need to go on record as a Board
21 insisting on here is what is -- these restrictions are
22 meaning for CalPERS as an organization in defining what
23 our incentive programs are going to be and the
24 effectiveness of our programs.

25 CHAIR PALKKI: Okay. Thank you. And I think we

1 can add that to Committee direction. But also, if we
2 could possibly get -- maybe at the next PCTM meeting, we
3 could have Legal give us some background of what's in
4 place and what we can do or -- bottom line, I think we're
5 trying to find ways how we continue to push for
6 excellence.

7 SENIOR ATTORNEY CARLIN: Yeah. Robert Carlin,
8 CalPERS team member from the Legal Office. I don't
9 disagree with anything I've heard from your consultants
10 and agree that the restrictions we have in California are
11 suboptimal from a policy perspective. We're in the
12 process of preparing a legal memorandum for the Board to
13 provide you with a detailed explanation of the current
14 restrictions and our thoughts about what may or may not be
15 able to be done about those, legislatively and otherwise.

16 So, apologies for not having had that ahead of
17 this meeting, but we will have that forthcoming before the
18 next meeting, so that you'll both have time to meet with
19 us individually for any questions you may have, and to
20 have you fully prepared for when the recommendations come
21 back.

22 VICE CHAIR MIDDLETON: Thank you.

23 CHAIR PALKKI: Thank you.

24 I am not seeing any other questions, so thank you
25 Tom, and Brad, and Peter. And thank you for that

1 presentation. Thank you so much.

2 That brings us to --

3 J.J. JELINCIC: Public comment.

4 CHAIR PALKKI: Public comment. Thank you. 5b.
5 Mr. Jelincic.

6 J.J. JELINCIC: Happy to remind the Chair.

7 J.J. Jelincic, RPEA.

8 We would encourage the Board to reexamine the
9 incentive metrics. For example, there is no incentive
10 metrics for health care. Yet, RPEA believes that health
11 care is an important issue that this Board deals with and
12 maybe the staff should be incentivized to try and hold
13 costs down, to improve quality.

14 We also believe that the standards you're using
15 to measure success now are too low. Let me give you an
16 example. If five percent of all the management checks in
17 think given month, their salary checks, were late, I'd say
18 without fear of contradictions, some heads would roll.
19 However, if 5.9 percent of all the retirement warrants
20 were late every month for a year, management would get a
21 bonus. That is not how RPEA would define success. Yet,
22 this Board gives perfor -- bonuses for that performance.

23 If 20 percent of all the stakeholders think that
24 PERS is not being responsive to their needs, is not
25 keeping them informed, and is not engaging with them, is

1 that success? It must be, because this Board would give a
2 bonus for that behavior.

3 We encourage the Board to really take a look at
4 what is success, how do we measure it, and what is an
5 acceptable level of performance.

6 Thank you.

7 CHAIR PALKKI: Thank you.

8 That now brings us to 5c, summary of Committee
9 direction.

10 CHIEF OPERATING OFFICER HOFFNER: Thank you, Mr.
11 Chair. One item was to bring back an item at the June
12 meeting related to the discussion that was just occurred
13 with the Legal Office. So I'll figure out how we're going
14 to -- the terms we'll use for that, but I clearly
15 understand the request.

16 CHAIR PALKKI: Thank you so much.

17 I don't have any other further public comment.
18 And that brings us to Item 6, Adjournment of meeting.

19 J.J. JELINCIC: Mr. Chairman.

20 CHAIR PALKKI: Yes

21 J.J. JELINCIC: In terms of -- J.J --

22 CHAIR PALKKI: You're not on.

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

24 In terms of the discussion you had earlier about
25 the 1090 problem, I would suggest that you invite the

1 Department of Justice to come in and talk to you about it.
2 You will get a more unbiased, less conflicted
3 presentation. I think that 1090 is -- everybody has an
4 opinion, and my opinion is that 1090 is being used as a
5 cover.

6 Let's get the Department of Justice who enforces
7 the law to actually come in and tell you what the law is.
8 You will get a less conflicted viewpoint.

9 Thank you.

10 CHAIR PALKKI: Thank you. Mr. Jelincic, can you
11 fill out a public comment form just for that line item.
12 I'd appreciate it.

13 J.J. JELINCIC: I will do that.

14 CHAIR PALKKI: Thank you. Just so we have it on
15 the record.

16 That concludes our Committee meeting and we will
17 reconvene with the Board of Administration tomorrow
18 morning. See you all then.

19 (Thereupon the California Public Employees'
20 Retirement System, Board of Administration,
21 Performance, Compensation, & Talent Management
22 Subcommittee open session meeting adjourned
23 at 2:15 p.m.)

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