



GLOBAL  
GOVERNANCE  
ADVISORS

# Opinion Letter

May 28, 2026

## 2026-27 Chief Executive Officer Annual Incentive Plan Performance Metrics Recommendations

Prepared for:

Performance, Compensation & Talent  
Management Committee

400 Q Street  
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This memo is in response to your request for Global Governance Advisors (“GGA”), in its role as CalPERS’ Board compensation consultant, to review and propose the CEO annual incentive plan measures and weightings for the upcoming fiscal year 2026-2027.

## Overall Framework

As presented at the April 13<sup>th</sup> PCTM Committee meeting, GGA continues to agree with the core performance areas since the establishment of these measures for fiscal year 2016-17. GGA assessed the general competitive balance between Quantitative and Individual Key Business Objectives (previously referred to as Qualitative measures) for the CEO position and found that the current weightings are within GGA’s observed market norms.

As a result, GGA recommends CalPERS continue to adhere to its historic performance measures with a slight adjustment in the weightings for Total Fund performance and Enterprise Operational Effectiveness (“EOE”) performance for the upcoming 2026-2027 fiscal year, given the transition to a Total Portfolio Approach (“TPA”). Adjusted performance expectations for Total Fund performance relative to the new Reference Portfolio are also required so that they incent more alpha generation while maintaining challenging, yet fair expectations for the CEO and the provision of value to CalPERS members. With the move to TPA investing, GGA anticipates further tweaks may be required to investment performance expectations over the next few years as CalPERS settles into the new strategic investment methodology.

## Proposed CEO Incentive Plan Measures and Weightings

### CHANGE PROPOSED

GGA recommends slight adjustments to the weightings of certain metrics used in Fiscal Year 2025-2026 while adjusting performance expectations for Total Fund Performance.

FY2025-2026 Plan Weight	FY2026-2027 Plan Weight	Measure	Assessment Type
25%	25%	Organizational Leadership Priorities	<b>Individual Key Business Objectives</b>
15%	20%	Total Fund Performance	<b>Quantitative Objectives</b>
20%	15%	Enterprise Operational Effectiveness	
10%	10%	Investment Office CEM	
15%	15%	Customer Service	
15%	15%	Stakeholder Engagement	



## Organizational Leadership Priorities (25% Weighting)

### NO CHANGE

Established from Board expectations and insight, the CEO is to provide organizational leadership in support of the following priorities from July 1, 2026 to June 30, 2027:

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

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

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

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

## Total Fund Performance (Increase to 20% Weighting)

### CHANGES PROPOSED TO WEIGHTING & PERFORMANCE EXPECTATIONS

This metric is based on fund performance against the policy benchmark for the five-year period of July 1, 2022 through June 30, 2027. Payout ratio for intermediate results will be determined by interpolation. Performance for the period of July 1, 2022 to June 30, 2026 will be measured against the current SAA-based Total Fund benchmark with performance for the period of July 1, 2026 to June 30, 2027 based on the new Reference Portfolio.

#### 2026-2027 Metric Relative to New Reference Portfolio (for 1 Year of Performance from July 1, 2026 to June 30, 2027)

Performance (bps)	Payout Ratio
+80	1.50 (150%)
+40	1.00 (100%)
0	0.00 (0%)

#### 2026-2027 Metric Relative to Current Total Fund Benchmark (for 4 Years of Performance from July 1, 2022 to June 30, 2026)

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

Additional details on how GGA arrived at the proposed 2026-2027 performance expectations for Total Fund Value Add performance relative to the new Reference Portfolio is provided in a separate memo titled, *Annual Incentive Plan Metrics and Additional Considerations*, dated May 28, 2026. The proposed material change to the performance hurdles is the higher level of performance required to earn a Target or higher payout given the desire to incent more alpha generation from the CalPERS portfolio, while simultaneously considering the greater level of volatility in results under a TPA model relative to a simpler Reference Portfolio.

Ultimately, relative performance expectations against the Reference Portfolio should be reviewed on an annual basis in earlier years of TPA adoption and evolve over time based on the maturity of the TPA approach within CalPERS.

## Enterprise Operational Effectiveness (Reduce to 15% Weighting)

### CHANGE PROPOSED TO WEIGHTING ONLY

This metric for 2026-2027 is defined as Overhead Operating Costs as a percentage of Total Operating Costs (“OOC”) and is measured based on year-over-year improvement.

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

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

A more detailed review of the EOE metric and underlying calculation in this area is expected in advance of Fiscal Year 2027-2028, which may lead to changes in the calculation and associated performance expectations in future years.

## Investment Office CEM (10% Weighting)

### NO CHANGE

This metric for Fiscal Year 2026-2027 is determined by CalPERS annual participation in the CEM benchmarking survey and shows how CalPERS' investment costs and return performance compares to a customized peer group over a five-year period.

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

## Customer Service (15% Weighting)

### NO CHANGE

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

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

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

## Stakeholder Engagement (15% Weighting)

### NO CHANGE

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

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

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

GGA re-iterates that a minimum 5% response rate be required in order for this metric to be included within the annual incentive program calculation.

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

Sincerely,

### Global Governance Advisors



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cc: Brittany Emmons, CalPERS