MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

FECKNER AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, JUNE 16, 2026

10:00 A.M.

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

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

Gail Willis, PhD(Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Michelle Tucker, Chief Human Resources Officer

Prashant Yerramalli, General Counsel

Robert Carlin, Senior Attorney

APPEARANCES CONTINUED

ALSO PRESENT:

Margaret Brown, Retired Public Employees Association

John Frank, Retired Public Employees Association

J.J. Jelincic, Retired Public Employees Association

Peter Landers, Global Governance Advisors

Tom Toth, Wilshire Advisors

INDEX

PROCEEDINGS

CHAIR PALKKI: Good morning, everyone. Thanks for joining us for the Performance, Talent Management Committee. Can we start with the roll call, please?

BOARD CLERK LEMUS: Kevin Palkki.

CHAIR PALKKI: Good morning.

BOARD CLERK LEMUS: Lisa Middleton.

VICE CHAIR MIDDLETON: Present.

BOARD CLERK LEMUS: Deborah Gallegos for Malia Cohen.

ACTING COMMITTEE MEMBER GALLEGOS: Here.

BOARD CLERK LEMUS: Michael Detoy.

COMMITTEE MEMBER DETOY: Here.

BOARD CLERK LEMUS: Monica Erickson.

COMMITTEE MEMBER ERICKSON: Here.

BOARD CLERK LEMUS: Troy Johnson.

COMMITTEE MEMBER JOHNSON: Here.

BOARD CLERK LEMUS: Theresa Taylor.

COMMITTEE MEMBER TAYLOR: Here.

CHAIR PALKKI: Thank you very much. And we do have one Board member, Dr. Gail Willis, with us online. So I do need to read this attestation.

So good morning, Board members. Because we are not all are president -- present in the same room and Board members are participating from remote locations, that are not accessible to the public, Bagley-Keene requires the remote Board members to make certain disclosures about any other persons present with them during open session. Accordingly, the Board members participate remotely must each attest either that they are alone or if there are one or more persons present with them who are at least 18 years old and the nature of the Board member's relationship to each person.

At this time, I'll ask Dr. Gail Willis to verbally attest accordingly.

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

CHAIR PALKKI: Thank you so much.

And thank you for joining us.

BOARD MEMBER WILLIS: You're welcome.

CHAIR PALKKI: I do want to very quickly make a quick disclaimer before we hand it off to your executive report. If you are interested in joining the stakeholder discussion, that is next door. So just know that we are going to be talking about performance and talent management. And if you're interested in the stakeholder conversation, that will be next door.

So with that, the floor is yours, Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Good morning.

Thank you very much, Mr. Chair, members of the Committee. Doug Hoffner, CalPERS team member.

We have two important items before you today. Your primary consultant GGA, Global Governance Advisors, is here to present on those two items. And I want to acknowledge that Tom Toth with Wilshire Advisors is also here to help answer questions and has provided materials as well. The first will be a recommendation for fiscal year '26-'27 on incentive metrics. And then the proposed fiscal year, '26-'27 incentive plan for the Chief Executive Officer, these items will be before the Committee today for action. As this is a follow-up from The April Committee meetings where this material was presented earlier.

This concludes my presentation. Happy to answer questions. Thank you.

CHAIR PALKKI: Thank you so much. I am not seeing any questions, so we can move into our action consent items. Which is the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIR PALKKI: Move -- I have motion to move from Ms. Taylor.

COMMITTEE MEMBER JOHNSON: Second.

CHAIR PALKKI: Second from Mr. Johnson.

All those in favor say aye?

(Ayes.)

CHAIR PALKKI: All those opposed?

Any abstentions?

Thank you. I have not received any requests to pull any information items under Item 4.

So that brings us to Item 5, action agenda items.

Annual Review '26-'27 Incentive Metrics. Ms. Tucker

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you, Mr. Chair and thank you members of the Committee. Michelle Tucker, CalPERS team member. Item 5a is an action item.

To comply with the Board's policy, incentive metrics are reviewed annually by the Committee and the Board's primary compensation consultant, Global Governance advisors. Based on GGA's review of the existing metrics and input from the Committee at the April 2026 PCTM meeting, GGA will present their recommendations for incentive metrics for fiscal year '26-'27. This will be for incentive plan inclusion for executive and investment management positions. Final Board-approved metrics will be included in some combination on fiscal year '26-'27 incentive plans for eligible executive and investment management positions, including the CEO's incentive plan, which will be presented next in Item 5b today.

That concludes my opening remarks. And I can invite Mr. Landers to begin his presentation.

PETER LANDERS: Thank you, Ms. Tucker and thank you, Committee members.

As we talked about at the April meeting, we've, you know, looked at all of the metrics that you currently use within your incentive program and none of them are fundamentally broken. We actually think they all still make sense in the current incentive program. What we have done though is looked at a couple of adjustments that can be made, especially with the move to TPA, as of July 1st.

So one is a updated set of performance huddles in comparing total fund performance to the new reference portfolio of the fund and the second one is a slight -- a recommendation for a slight adjustment in weightings between the enterprise operational effectiveness metric and moving that into the total fund metric, just to align further with total fund performance and maybe to give a little bit of background.

As you know, through the April session, we talked about how certain funds, some leading funds, New Zealand, Australia, CPP have adopted a total portfolio approach and how they have looked at their incentive programs in making sure that it aligns with the foundation elements of TPA. And we walked you through what some of those performance hurdles looked like, what are some of the quantitative and qualitative portions that they put into the program. And one of the big ones was setting an appropriate level of performance hurdles for that total fund performance against that reference portfolio.

And so we went back after the April meeting and did analysis. And we looked at the updated performance roles under three lenses. So one was looking, okay, against a representative reference portfolio. Historically, how was CalPERS total fund performance performed against a reference portfolio? So we were -- we worked with Wilshire, your consultants, to analyze those performance results and they're included in the appendix of the memo that we sent out in advance of this meeting. So we look at that through one lens.

Another lens was to stay what -- when we looked at those other leading funds that have adopted TPA, what are the hurdle rates that they've set and we analyzed that and we've included that as well in the memo. And then the third lens was what are some of the publicly espoused expectations for TPA at CalPERS in particular? Your CIO has been in the media and shared, you know, some expectations in the media. I believe it was 50 to 60 basis points being sort of what that expectation was that he thinks is reasonable that can be achieved under a TPA approach. So we took that lens as well.

And what we've tried to do in setting the update performance huddles is try and take all three of those lenses and come up with what we feel is a fair and reasonable set of performance hurdles that both incent that additional alpha generation that you, as a Board, have wanted to incent under the program moving forward and that you've spoken about as one of your key objectives, but also making sure that the hurdle rates are still viewed as reasonable and not unattainable by the impacted participants.

And so, what you'll see in your materials is we have drafted up expectations that at threshold, that minimum level of expectation, will still be set at zero basis points. So you still have to match the total -- the reference portfolio to start earning any incentive. So that's a key performance-driven factor. When you look at a group like CPP, they actually allow for underperformance against the reference portfolio. We didn't think that was fair to your stakeholders and that that didn't necessarily set the right message in terms of a pay-for-performance philosophy. So we've kept that sort of -- that minimum expectation to start earning anything of zero basis points or meeting that total -- that reference portfolio.

We've set the target at 40 basis points above the reference portfolio. And we -- again, we think that that's fair, given that when you look at the results both at CalPERS, but also historically at all funds that have adopted total portfolio approach, performance against the reference portfolio, especially over short time periods a year or two, tends to be more volatile. You can have some downward swings. You can have some upward swings.

So we felt like a 40 bps target was a fair and reasonable set. And then similar to how you set hurdles in the, that maximum or that sort of outperformance level is set at 80 basis points, so double what the performance expectation at target is. And if you recall under your current SAA based total fund, you have 0, 10, 20 model. So that follows that same sort of, you know, 200 percent of target expectation.

And again, when we looked at the historical results, both of over a one-year, but also over a five year time periods, we were comfortable that that stayed within a reasonable range. And I won't obviously speak for Wilshire. You can definitely have Tom Toth talk to this, but in reviewing his memo that he shared, they looked at 0, 40, 80 and they viewed those hurdles as being reasonable as well.

So, you know, I just wanted to point out we tried to be balanced. We tried to make sure. Yes, make it a pay for performance philosophy so you have to at least beat the benchmark, the total, that reference portfolio in order to start earning anything, but we also wanted to take into account that this is the early stages of the program, allow for that little bit of added volatility. And so we wanted to make sure that we balanced all of those things out along with the publicly espoused expectations that you have for the portfolio.

One other thing I wanted to point out on this is we also are recommending a grandfathering approach of TPA into the formula. So you'll see in your materials, what we're suggesting is you'll calculate the TPA based or the reference portfolio performance for this upcoming one-year performance cycle, so '26 to '27. And then the other four years will be measured against your current SAA based benchmark. That's 0, 10, 20. And we feel that's reasonable and fair, because again when this program started, you were not telling your people that are under this program that they have to hit this reference portfolio. We feel it would be unfair to the participants to say, no, you must hit automatically this new TPA-based benchmark, when they really haven't had the time nor the mandate over that, you know, four- or five-year period to really do so.

Also, when you look at how other funds typically adopt, you know, material changes like this, where you're changing how you're measuring relative performance, they will also tend to follow a grandfathering method where you're sort you phasing in the new level of performance and mixing in with the former weigh of calculating it. So what you'll see is we've recommended a phasing in over the next five years, of which over time more and more of the weighting within that investment performance calculation will be based on TPA, and ever decreasing weighting is being placed on the old SAA based benchmark. And again, we feel that's fair and reasonable and very common market practice to see.

The only other piece I'll mention, you know, all the other performance hurdles rates we're generally comfortable with. We think they're still fair and reasonable. But one thing we did look at, again when we looked at what is one of the foundation elements of a TPA-based incentive program, was having a meaningful and a higher weighting than what is currently at Cal -- at CalPERS on that total fund, that reference portfolio performance. And so you'll see that we've suggested for certain roles that an adjustment upward in terms of the weighting on that total fund performance be adopted. And we can talk about it more during the CEO discussion in a little bit. But we recommend that as well to be in line with the TPA philosophy and that a corresponding decrease in the weighting be placed on the enterprise operational effectiveness metric to put it more in line with the other sort of non-investment related metrics as well.

So those are really the key takeaways. I just wanted to summarize that and again say that, you know, the new target is 40 basis points, what we feel is reasonable, and then we're allowing for that higher level of out performance to really dictate that higher level of incentive payout.

But happy to take any questions on this topic.

CHAIR PALKKI: Thank you very much.

Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Hi. Thank you. Yeah, it makes sense to grandfather it in for sure. One thing that struck me though is that I didn't see any discussion of risk. And since our TPA is really centered around allocation of risk, and you will see more volatility with this approach, why are we not benchmarking performance on how much risk we're taking as well?

PETER LANDERS: Great question, Ms. Gallegos. A couple reasons for that. One is it is not that common to see that used within even TPA-based approaches. You'll see that there's really not that much prevalence of measuring risk within the performance criteria. The other piece that I think is important is to make sure that, you know, we always say that it's also good to make sure that any plan design is relatively easy to understand and administer. And sometimes when you get into risk-based factors, some people may not be able. It's just won't be as easy to understand. Sometimes it can create added levels of complexity that again starts to feel to some people like there's a bit of a black box, and things like that.

And so, for those reasons, we've shied away from doing so. One thing I will point out though is this is just year one of the TPA program. What I failed to mention earlier is this is something we are going to review on an annual basis and make sure that the program is working as intended. And if there definitely is a view that, you know, we haven't placed enough emphasis on risk, if there is a measure of risk that everyone feels comfortable with, that's definitely something we can look into in the future.

I think in year one it was more about baby steps. Lets just make sure we get those performance hurdles right, but we're definitely open in the future. If there is the will of this Committee definitely look into that, but it is not that prevalent in the marketplace, so shied away from it for now, but that's definitely something we can look into in the future, if it's the view of this committee that we should continue to look in that direction.

ACTING COMMITTEE MEMBER GALLEGOS: I would -- I would just ask the Chair to make that a part of next year's study, because I think doing something because it's not prevalent or doing something because it's -- it might be considered a black box, which risk isn't, and given it is such a big piece of the TPA, it really should be considered as a part of this exercise.

Thank you.

CHAIR PALKKI: Thank you. I was just writing my note real quick.

Ms. Erickson.

COMMITTEE MEMBER ERICKSON: Michelle, I don't know if this is a question for you, but I'm just wondering if every -- with this change, if everybody meets the kind of incentive payouts, has there been an analysis done on what's going -- that's going to do to the budget for your operating budget?

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you very much for that question. So in, let's see, one of the agenda items, this is an attachment to 5b, there's a discussion of our proposed budget. So there is a proposal for budget and fiscal impacts for both the annual incentive award along with LTIP in that. So, the proposed budget for this year is 43.5 million annual incentive awards. So this would be one factor amongst those payouts. And again, those are at risk and subject to performance against the standards that Mr. Landers just presented.

PETER LANDERS: And the only thing I'll add to that is obviously these are big numbers. We're not saying that they're not big numbers. I think it's important though to realize and to do additional analysis to say, if they do outperform, what is that as a percentage of the value-added performance that it generates for the fund, what is that as a percentage of just overall assets under management? And obviously, it's -- you know, it's easy to just go to the highlighted numbers the 43 and a half million, but I think it's important to obviously take that in the context of how much value did the team generate for the fund. And what you often will find -- and I remember we did this analysis a few years ago when we were looking at some of the changes to the incentive opportunities when we were doing the pay benchmarking, and it ends up being a fraction, a very, very small fraction of the actual value-add that you're generating for the fund.

So, yes, obviously it's a big number the 43 and a half or whatever the numbers end up being. But I think to take it into the context of the potentially billions of dollars that value-add that are generated is important to keep that as part of the context as you're thinking through the reasonableness and fairness of the payouts.

CHIEF HUMAN RESOURCES OFFICER TUCKER: I would add that last -- pardon me. And I would that last year across all of our incentive programs, which again include the CEA as well as some of our Investment Officer IIs and IIIs, we paid out 29.9 million for annual incentive awards. And again, that's across all the programs. So even though more is budgeted, the actual payout tends to be less.

CHAIR PALKKI: Ms. Middleton.

VICE CHAIR MIDDLETON: Okay. Thank you. Mr. Landers, thank you, and to Mr. Peters for all of the work that you've put into this and it's appreciates. One of the questions I have is to what extent -- what is the percentage of the possible payout that's based on qualitative measurements, as opposed to quantitative measurements founded on the performance of the Investment Officer?

PETER LANDERS: Perfect. So that -- I mean that will differ depending on the seniority of the Investment Officer. But my understanding is most of the individuals are on a 60/40 weighting. So 60 percent of their performance is based on investments performance, 40 percent is qualitative. Now if you recall from April, part of that qualitative assessment, especially at the more senior investment level ranks, has a collaboration component to it, which is another huge factor that you want to incent as part of the TPA approach.

When you get to Marcie, it's a much smaller portion on the investment side. We're actually recommending a five percent adjustment upward on that. And we can talk about that, I guess, as part of agenda 5b. But for the Investment staff as a whole, this is 60 percent of the -- of the performance. And then when you factor in the grandfathering that I talked about earlier --

VICE CHAIR MIDDLETON: Right.

PETER LANDERS: -- I'm trying to do some mental math here, that means that I believe 12 percent of the overall incentive will be based on TPA in year one and 48 percent will still be based on the SAA based benchmark performance. So hopefully that addresses that question.

VICE CHAIR MIDDLETON: Do we have any data on the 40 percent approximately that's qualitative as to what has been the range of ratings and incentives paid out in comparison to the range of payouts that comes from the quantitative measurements?

PETER LANDERS: So for exact numbers -- and I don't know of Michelle and her team have that. I'd defer have to defer to her. But I do -- and I can talk about this through anecdotal evidence, I know that Marcie and Stephen in the past couple years have, you know, definitely on the qualitative side of things tried to calibrate to a pretty fair and representative performance levels. Marcie might even be able to comment to that. So I know they've tried to not have it so it's skewed too high where everyone is, you know, getting, you know, maximum levels of performance. I can't speak to specific ranges, but I know there has been a concerted effort in recent years to calibrate that level of performance more in line with a reasonable range. But I'll defer to Marcie and Michelle on that.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you, Mr. Landers. So, yes. So that's correct. For the majority of the investment roles, it's a 60/40 split, with 50 percent based on the total fund performance, which Mr. Landers just described, 10 percent Invo CEM, which is a measure of operational efficiency and performance. And then the other components are 20 percent leadership behaviors, which includes a special focus this year, where 10 percent under Mr. Gilmore's leadership, is focused on collaboration. And then the remaining ranges again at around 15 percent is individual business objectives. So it's a range of those.

We do have data -- I don't have it at my fingertips in terms of performance, but we do work really closely with all of the investment leaders and Ms. Frost and Mr. Gilmore to really try to have that curve, where we have, you know, some really exceptional extraordinary performers. We, you know, have some folks who aren't meeting, and the majority are meets. So that's really our target is to have meets be the standard. And that's by far the largest population of those team members.

VICE CHAIR MIDDLETON: So I -- personally, I would be interested in looking at that data and seeing what it's telling us. With our investment professionals, we have the advantage of having true quantitative numbers. There's actual performance of the PERF and how they have performed. And I am editorializing now, but I find it relatively straightforward to go to our stakeholders and say we paid an incentive to our investment professionals, because they produced "X" in the way of results above a benchmark. There's more than a bit of suspicion when we are talking about superlatives that are not based on actual quantitative numbers.

PETER LANDERS: I can just quickly chime in. Definitely take your points into account. If you recall from the April education session, one of the things that we did note that historically I would -- you know, to your point, Ms. Middleton, the weighting probably was a little bit low on the quantitative side for Investment staff. But when you actually again look at those funds that have adopted more of a TPA based approach, you actually see that a 60/40 split is actually pretty much in line and in line with those TPA-based funds.

So actually again, forward thinking maybe, you actually are in line. And that's why we have very little concern with the current 60/40 split, because I know it's tougher to say, oh, we don't have a fixed number to go in. But the reality is under a TPA-based approach, you can't just focus solely on the numbers. You get to the numbers by doing things like collaboration, all of these different individuals factors. And so you have to have a specific weighting that ties to that. And again 60/40 to us aligns quite well with those funds that have gone to a TPA based approach.

But, you know, definitely if you look at the broader SAA-based market, you could definitely argue that, but we feel quite confident under a TPA-based approach that the 60/40 is a good ratio to have between the two.

VICE CHAIR MIDDLETON: Okay.

CHIEF EXECUTIVE OFFICER FROST: Yeah. And I won't talk about the ratio. I'm not really allowed to do that. But I can talk about the process that we use for calibration and also the transparency to the Board. You receive every single measurement on the quantitative side and the qualitative side during the September meetings person, by person, by person or -- so we have a lot of transparency for the Board. Obviously, can't make all of that information public. But what we try to do is calibrate, as Michelle Tucker indicated, around a meets, which is around a 1.0. So the range is the same on the qualitative side as it is on the quantitative side, but they have key business objectives that are in their performance appraisals that they have to meet in order to get a certain rating. But we are calibrating on that more Bell curve.

And I would say, we were not always so great at that, in the past, but we've been much more restrictive, much more disciplined about giving each of the teams the opportunity to calibrate around 1.0. And if they don't do so, then the large group that Stephen and I are involved in, we ensure that we have that calibration. But lots of transparency and we'll have, you know, a lot of time to talk about that in September, in that's the Board's interest.

VICE CHAIR MIDDLETON: Fair.

You know, compensation matters. These are -- and it matters that are our investment professionals believe that they are being challenged appropriately and fairly. I'm very pleased that we are phasing in this over the course of essentially five years. I think you mentioned that we will review this at least annually. Personally, I would like to see us coming back in six months from the July start and really taking a look at what has actually occurred during that time, so that when we get to the annual review, we are prepared to make any adjustments that are necessary.

And I also want to acknowledge that I have noticed that we are grading much more, I think, fairly, some would say toughly, but that is -- that is certainly what we should be doing. I recall when you and Brad first came, the pitch was that exceptional performance should be -- should receive exceptional rewards.

Modest performance should not, and that's what we are striving to do. So this is a work-in-progress and I'm going to be able to support this.

I will make note that we -- with a very limited exception, we were unable to hear from our CEO and our CIO in this process. And that's something that I understand may require change in law. We need to do everything that we can to change that law, because it should be Marcie and

Stephen sitting at the middle of this table right now.

PETER LANDERS: Perfect. I know I've already made a note of Ms. Gallegos point about risk. So we'll definitely be looking at that as part of this sort of first year analysis. Definitely look and see how things are tracking. But yes, definitely we'll be coming back here next year potentially after review and seeing if we need to make any further tweaks to the program. And I like your comment about it being a work-in progress. So you know.

And we had some discussions even with the -- some of those leading TPA funds, and even they admit, they don't think they've gotten all the way there and they've had much more time than you all have to put this into place. And they were even asking us, oh, is there anything that you guys can share with us that we might be missing? So, you know, it's always a work-in-progress. Nothing is ever going to be perfect, but I think this is a good starting point, and then we'll see and we'll let the program evolve over time and maybe add in a metric or two if we need to to meet all the needs under a TPA. So I really appreciate those comments and we'll definitely take that under advisement.

VICE CHAIR MIDDLETON: Thank you all.

CHAIR PALKKI: Thank you. Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you. One comment and one question. I would just like to echo Ms. Middleton's request that we come back more frequently to discuss and have interim discussions about performance, so that we're not left at the end of the year with a very long meeting, where we haven't had a chance to digest everything. I think we requested this last year. So if we could put it into place this year, that would be terrific.

And then the second thing is will you remind me, the 40 percent that is qualitative, is that based on managerial input? Is it 360? How do we gather that information?

CHIEF HUMAN RESOURCES OFFICER TUCKER: Yeah. Happy to respond to that. So for the 40 percent that is qualitative, there are three different components to it. There are the leadership behaviors. There is collaboration, which is a particular call-out that was already part of leadership, and the business objectives. Each of the key business objectives are different for each individual. They tend to roll down from the CIO's plan to each of the next. And they're all smart, so they're specific, they're measurable.

We work really closely with the Investment team to make sure that they're all smart objectives. They have a mid-year check to see how they're performing and there is a performance component by the team leader or the manager. So the team member appraises themselves mid-year, says how they're doing. The manager praises them. They say how they're doing. Ms. Frost just described our year-end calibration process. We also have a mid-year calibration process, where the intent is to check in and see how everyone is performing, if there are people who need more help, more support, we can provide that. If we need to help folks course correct, we're able to do that at that point.

Leadership behaviors likewise, we use our CalPERS seven leadership behavior competencies. So there's some specific descriptors of those behaviors that we expect for each one. So each one of those seven leadership behaviors gets its own score, and then those are blended into an overall score for the leadership rating.

The collaboration is going to be an interesting one. So this is the new addition. And last year, under Mr. Gilmore's leadership, we did a -- something kind of akin to a 360, but it was really a multi-reader feedback, where each member of the CIO huddle, or the program leads provided input to each other, in terms of their collaborative behavior.

This year, we have two additional measures to help with that. We added a subset of questions to our annual engagement survey for all of our CalPERS team members to measure collaborative behavior in each division, under each manager. And then we do a pulse survey in the Investment Office this spring, which the results we got back about a month or so ago measuring how collaboration has improved since the fall. And in three out of the four statements, we did see improvement. We did a meeting with the overall -- the whole -- it's -- I think we call them the CIO Town Hall. So Stephen did a presentation to the whole team in terms of the collaboration and how well that was performing. And then there are specific examples that each team leader will call out. So those are some of the things that go into the measurement for those.

ACTING COMMITTEE MEMBER GALLEGOS: Great. So it sounds like it's a combination of top-down self-evaluation. And then at least in the collaboration component, there is a broader group that contributes to the assessment?

CHIEF HUMAN RESOURCES OFFICER TUCKER: Yes. I would actually say that a broader group contributes to all of it, because our collaboration process is -- it's -- it truly is -- sorry our calibration process is collaborative, because it's all the program heads together talking about performance. So I think a nice addition that we did this year was where the team goes around and they call out specific actions on other teams that they've seen that have been positive and helpful for collaboration. So it really is the whole group kind of agreeing together on who were those high performers. They don't see each individual leadership component in terms of those seven items, but they see the overall leadership rating for all of the participants, that group of about 13 people that collab -- calibrate together.

ACTING COMMITTEE MEMBER GALLEGOS: And 10 of the 40 percent you said was related to the TPA this year?

CHIEF HUMAN RESOURCES OFFICER TUCKER: INVO CEM is 10 percent. Oh, when this plan is approved, then TPA -- well, total fund will still be 50 percent and TPA will be added into that on a rolling basis, with -- that's a measure of five years. And so the first year --

ACTING COMMITTEE MEMBER GALLEGOS: Okay.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Next year will be one year.

ACTING COMMITTEE MEMBER GALLEGOS: Your point was it's going to go up over time. That was my point.

CHIEF HUMAN RESOURCES OFFICER TUCKER: It will go up over time. Thank you.

ACTING COMMITTEE MEMBER GALLEGOS: Okay. Great.

And then just one last comment, I'm sorry, based on something you said. It sounds like maybe the interim discussion at the Board level might make sense to have following the mid-year review that you all have.

CHIEF HUMAN RESOURCES OFFICER TUCKER: I think that probably -- that timing probably would align, because we do have the February PCTM meeting, and we usually have those conversations around that same time, around February. So I think we could -- yeah, I think --

ACTING COMMITTEE MEMBER GALLEGOS: Just so we have results too at least to focus on.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Yeah.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you so much.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you.

CHAIR PALKKI: Thank you very much.

Mr. Miller.

VICE PRESIDENT MILLER: Yeah. I just make sure all the Committee members have had a chance before I jump in. Yeah, it's kind of hard to articulate all the thoughts I have on this. But as some of you may remember, I have some significant kind of theoretical issues with pay-for-performance kind of schemes, but I won't pontificate on that today.

I think the thing that kind of strikes me, I worry that with the way we set some of this stuff, it's kind of seat of the pants. It's not scientific. And I worry that we'll fall into some of these heuristic traps where we do something, oh, this is based on roughly this or double that. And when I look at this, one of the things that I see that's most important in many respects is how will prospective team members, and team members we've got, view this when they look and say what does this mean for my compensation that I would expect -- I would reasonably expect when considering staying with CalPERS, when considering taking a job with CalPERS?

And I'm very, very optimistic. And I sure Stephen and the team are very optimistic and that, you know, 50 to 60 basis points on that end of the spectrum is very optimistic and would be phenomenal. As a betting person, how much would I bet on 80 basis points out of this, and anytime soon with something we're new going into? And I guess I would ask with some of these much more mature high-performing organizations that are doing TPA at anything like this scale we're thinking about doing it, how many of them are doing 80, 90 basis points?

And if I was a job seeker, would -- you know, how much would I be betting on that? And so I just worry that using these kind of heuristics, or rules of thumb, that aren't really based on anything empirical that we can point to, to set something up this critical, I think we might want to give that a more analytical look.

And I really do appreciate the comments that we should be looking at this more frequently and with more analysis. And like Director Middleton, I really wish we could have our executives' input on this, because those qualitative factors are really going to be critical, especially at the outset of building a team, building a culture, and learning. And to hold us up to a standard based on organizations that have been doing this for many years, some more successfully than others, I think would potential handicap us.

And even just versus things like I understand our colleagues across the river are going to be trying to hire a couple hundred people over the next, you know, short period of time, and we're in that same market. And frankly, we've been, you know, their shopping ground. So I just toss those thoughts out there for your consideration.

PETER LANDERS: Just a comment on Mr. Miller's points. I would say that -- you know, I wouldn't say that we just drew these numbers out of thin air. As I said, we did follow sort of three different lenses to arrive at those -- at those numbers. If you look at some of the other leading funds, they actually, in some cases, allow for greater levels, or that maximum level is actually set at a much higher level than the -- than the 80 bps. If you look, definitely there's one example where I think it goes to 75. And so, yeah, that is one example of out there. I think what we tried to -- again, 50 to 60 was sort of espoused. We thought that 40 made sense in terms of being fair and reasonable. We looked at historical results, so empirical data as well. And when you look at some of the one-year performance results, actually I think there -- 80 bps was able to be attained in a few of those one-year parameters.

That being said, this is a work-in-progress. This is something that everyone has said, we definitely need to continue to monitor and make sure that it's working effectively that it's efficient, that we aren't having, you know to your point, any concerns over, you know, losing talent.

I would caution people from trying to compare too much these hurdle rates under TPA to other hurdle rates in the market used by any of your pension fund peers, because it's apples to oranges. This is TPA versus a reference portfolio. A lot of your other ones are still using a strategic asset allocation model that tends to, you know, be a little bit more customized, doesn't allow for as much level of a performance. So that is something to consider as well.

The other piece is again 40 bps is the target. So we've actually felt that it's set at a reasonable level. Your investment consultant has weighed in and also feels like the 40 to 80 at this stage is reasonable. And they are, you know, your investment consultant we well, so it's not like they're saying that seems way out of the ballpark. And we would never bring something forward to you that we felt was way out of the stratosphere in particular.

So I just wanted to clarify that as well, but I agree, we do have to continue to monitor this. We need to make sure are we creating any unintended consequences? Are we not incenting or not properly taking into account the level of risk under TPA-based approach?

And the last thing I'll say is we are grandfathering this in, so this is, you know, in year one only affecting 20 percent of that 50 percent weighting. And so I think that's also something to take into account. We will be increasing the weighting on TPA as the program matures, as we have more evidence, more data, and we can start to again potentially tweak those performance hurdle rates to better fit that historical data. But I don't think it's fair to say that this was just pulled out of thin air. I think there was a lot of different lenses and data brought into the equation to come up with these hurdle rates.

CHAIR PALKKI: Thank you.

TOM TOTH: And maybe if I could weigh in, Chair Palkki?

CHAIR PALKKI: Yes

TOM TOTH: Tom Toth with Wilshire Advisors.

So we brought I'll say an additional lens. And Mr. Miller I think this actually goes to your quantitative question. When we model the reference portfolio, it's just modeled as simple global equities and treasuries, and it comes to an expected return that's in the call it 6.3, 6.4 percent range. When we start to layer in the more complex asset classes, which are laid out in sort of the longer term plan for the actual portfolio, successful implementation in private equity, private debt, real estate, infrastructure, diversifying strategies, these are additive to the portfolio. And as we model that, that starts to get to that 60, 70, 80 basis points of additional return utilizing those additional strategies.

And so that starts to help us, I think, settle on targets, which we would consider, you know, solid performance at 40 basis points, the target, versus outstanding performance around 80 basis points. So there is a quantitative framework that can be used to analyze those for reasonable. That's what we did and that's why in our opinion letter we were very comfortable saying that we feel those targets are, in fact, reasonable.

CHAIR PALKKI: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you very much. I just want to caution our Committee members that we're not here to manage appraising the team. Our one person that we appraise is Ms. Frost. And I'm sure staff would be happy to go into the process a little deeper like you were talking about you didn't pull it out of whole cloth. I had no expectation that you did. And there was -- is it in the appendix where you went into those two different --

PETER LANDERS: Right, the three lenses.

COMMITTEE MEMBER TAYLOR: Yeah, the three lenses. I'm sorry.

PETER LANDERS: The historical --

COMMITTEE MEMBER TAYLOR: Yeah. Yeah. Yeah.

PETER LANDERS: -- results, and then the other two lenses about the current peer, TPA peers, and then the expectations that have been shared publicly by CalPERS.

COMMITTEE MEMBER TAYLOR: Yeah. So once it's set in place -- and I think it's important for us to look at these three lenses, and maybe if we have other ideas, sure, but that's our strategy to set, right, and then it's

theirs to enforce, not us?
So we shouldn't be looking at more -- looking at this more often unless we need to change it, right? So I agree that if the 80 bps isn't working, then yeah, but we get to meet with GGA quarterly anyway. So we can say, hey, I'm hearing from staff it's not working, so, right? So we can do that. But other than that, I just really want to caution you guys. This isn't our wheelhouse. Let's not get too down into the weeds.
PETER LANDERS: And yeah, I -- again, I don't want anyone to think we are definitely open. That's why we say this is a work-in-progress. This is year one. We will at least minimum on an annual basis, but definitely, you know, we can check in, you know quarterly, or semi-annually. We anticipate coming back, relooking at the hurdle rates. Do they seem fair and reasonable? Taking into account other lenses, if we are hearing about, you know, hopefully not, but, you know, big turnover or something. All that can be taken into account and we definitely are open on an annual basis to relook at these hurdle rates. But at this specific time, we feel like the hurdle rates that are set are fair, and reasonable, and challenging to the participants.
CHAIR PALKKI: Thank you. Mr. Detoy.
COMMITTEE MEMBER DETOY: Thank you, Chair. Thank

you for the presentation. Just looking at those appendices, thank you for those. They were very helpful to have a look back on the last 10 years and, you know, what -- if these were in place, what the achievable hurdles would have been. I noticed the CPP had the 178 bps. Do they have a higher threshold? You know, do they have multiple categories and really like kind of 3-0 -- let me scroll up, 0.51?

PETER LANDERS: Yeah. So CPP is the one that they have the widest spread in terms of performance. They're the ones that actually allow for underperformance relative to the benchmark. So I think it's up to 100 basis points of underperformance where you can actually start to earn some level of reward. We didn't feel like we needed to create that big of a spread. We didn't feel like that set the right message here with you stakeholder groups. And so that's where the zero came from. We still feel like the majority of peers set, you know, hurdle rates starting at zero and -- but to that effect, when you look at the data that's why again we feel the 40/80 is reasonable because we are setting, you know, to a certain extent a more challenging downward sort of expectation. We need to make sure that that maximum or that top end, that capped level is still reasonable and feels like it's attainable. And so again that's where the 40/80 to us seems fair and reasonable and tries to take into account those effects.

But yes, typically what you'll see is those peers that allow for greater levels of overperformance or require greater levels of overperformance to exceed, typically will also set potentially a wider range on the downside. And so we didn't want to have too big of a range on the downside. Here, we feel like we want to set that pay for performance philosophy and set that sort of -- that stake in the ground at zero and then allow for just outperformance to lead to some level of payout.

COMMITTEE MEMBER DETOY: So -- but does CPP kind of have the three categories of thresholds, if you will? Again, we have the threshold, the target and maximum. Do they still have three categories of that or do they have a wider spread and the larger percentages, you know, across the Board?

PETER LANDERS: I think to your point they set sort of that threshold target and maximum. And then performance called it interpolated between those levels of performance. So, yes, hypothetically if you fall between the minimum and the target, you'll get a payout somewhere in between minimum and target, and the same thing with between minimum and -- or the target and that maximum level, you'll earn sort of a payout in between those levels. So there's a level of interpolation where you can earn any number between -- in that range from zero to, I, think there's is 200 percent of the target. So I hope that answers your question.

COMMITTEE MEMBER DETOY: Well, the question -- just looking again at the Attachment 1 for the one year total fund value-add performance lookback, I mean some of the ones that we surpass the 80 bps were massively, you know, 736, 155, 113. So I didn't know if there was a benefit of having, you know, a category on the more aspirational or exceptional years to kind of double down on what Director Middleton said, you know, exceptional pay for exceptional work.

PETER LANDERS: Great question. That is definitely something we could look into moving forward. I don't -- I would say categorically I don't see that too often in the marketplace, but we do have one client in Canada that specifically has, yeah, sort of four -- they have like a fourth category, which is that sort of exceptional level and they can then earn a higher level of payout if they hit that higher level. Again, I would say that's not that prevalent in the marketplace. So I just caution on that, but if that is something that this Committee and the Board wanted us to look into, we could definitely look at what that might look like.

But I would say again, we tried to err on, you know, set -- let's make sure we get the thresholds, targets and sort of that maximum level achieved, but that's definitely something we can look into as part of looking at potentially adding a risk element, and things like that, if that was something. Again, it would be sort of market leading, so it always comes down to, you know, how far ahead do you want to be relative to your peers, but that's something we could definitely look into, if that was the pleasure of this committee.

COMMITTEE MEMBER DETOY: I just want to say thank you for the work and again having the value-add is -- the CIO has talked about consistently is what is the team doing to add value and to have it against the reference portfolio would be -- would be important looking forward. So thank you.

CHAIR PALKKI: Thank you very much. Tom, any other additions, since we have you up here.

TOM TOTH: No other additions. I'm happy to a questions.

CHAIR PALKKI: Thank you. I don't see any other questions. I will simply state thank you for the work, both Tom with your letter, from Wilshire as well as the work done by GGA. I truly will stand behind anyone that pushes for excellence. And I don't -- I'm a strong believer that excellence is not easily achievable, so -- but that's what makes excellence excellence.

So with that, I have a couple public comments and then we will take a vote. So, I'll call up J.J. Jelincic and Margaret Brown.

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

You have a legal requirement to operate the system solely for the benefit of the beneficiaries. RPEA has pointed out year after year that your definition of success, and therefore where you pay bonuses, is way too low. I want to focus on the last two criteria, customer service and stakeholder engagement. Those levels of success were defined in 2024.

On customer service, the lowest annual performance between 2016 and 2023 was 95 percent. That level would pay a bonus today of 75 percent of the targets. The lowest recorded performance pays 75 percent of the target bonus. I would point out that 5.9 percent of all retiree warrants could be late every month for -- every month for a year and you would declare that a success. Management would still get a bonus. I will admit, as one manager pointed out, "But it's not the full bonus." And that's true, it would be only half the target bonus. But any bonus paid because less than six percent of retiree warrants were paid out late is a disgrace. I will tell RPEA does not define that as a success.

That level of performance would earn the CEO a bonus of $69,687. That is significantly less than the $209,000 bonus received for the exceptional performance, if only three percent of the checks are late. I will tell you RPEA would define that as an exceptional failure. The stakeholder engagement, the lowest annual performance 2018 to '23 was 78.8 percent. That would have earned no bonus. The next lowest was 79.64 percent. That would earn a bonus of 75 percent of the target. The poor CEO would only get $104,000 bonus for performance in that category. The second lowest score ever.

Bonuses should be paid for outstanding performance not merely for doing the job. Yet you pay bonuses for inconsistently meeting expectations, in other words for doing the job sometimes.

Finally, I know I'm going to sound like a broken record, but historically you and the consultant have not cared, but there is no fiduciarily sound way of evaluating and rewarding investment performance without considering risk. I want to acknowledge that for the first time since I left the Board, I have heard from the dais and from the consultant that, gee, maybe risks matter.

Thank you for your time.

CHAIR PALKKI: Thank you for your comments.

Ms. Brown.

MARGARET BROWN: Thank you. Margaret Brown, RPEA. I want to start out by thanking Ms. Middleton and Ms. Gallegos for your comments on not paying incentives when you don't beat the benchmark. I'm just categorizing it as that, but I appreciate those comments.

And also, Ms. Gallegos, your comments about risk. You know, we're taking a lot of risk with the portfolio risk we have and that needs to be calculated into how that bonus is factored. You know, when I was on the Board and we brought in this consultant GGA, we -- CalPERS was really interested in increasing salaries and incentives to bring in higher skilled or differently skilled staff, so that investments could be brought in-house, like the Canadian pension plans did, right? Bring it in-house, pay staff more, pay higher bonuses, but pay less to the GPs, don't pay big fees, don't pay carried interest, keep it in-house.

And so what happened? Salaries and incentives were raised and paid, but the investments were still outsourced. And as a matter of fact, they're even more outsourced than they were before. And so we're paying these huge salaries and huge incentive for our managers to manage managers. They're not actually making investments. They're not making the bets. They're man -- they're picking and managing managers. And that was not the plan back then when GGA was brought in to help out.

Going back to the issues with the incentive metrics, you know, I have two main issues with them right now in the allotted time I have. And one is using the CEM report as one of the metrics. It's a problem, because CEM is supposed using data, but that data is a secret. When we asked for it, it was provided and it was blacked out. And so to use blacked out data as an incentive metric saying it's a true measurement is false. If it can't be checked, if it's a secret, it shouldn't be used.

The other issue is the reference portfolio or benchmark. You know, here at CalPERS, we always seem to beat the benchmark, even when our performance is low, but we beat the benchmark and so we so get a bonus, unlike the Canadian pension plan that can't beat the benchmark. And that benchmark is public. It's 80 -- it's an 85/15 mix with global public equities and then bonds. So I want to make sure that we understand who is setting that benchmark, who is setting that reference portfolio, can it be checked, and can it be verified? That's how you'll know if they're truly beating the benchmark.

Thank you.

CHAIR PALKKI: Thank you for your comments.

So at this time, we do need to take a vote. So what is the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move the recommendation.

COMMITTEE MEMBER MIDDLETON: Second.

CHAIR PALKKI: I have a motion by Ms. Taylor and a second by Ms. Middleton.

All those in favor say aye?

(Ayes.)

CHAIR PALKKI: All those opposed pay say nay?

Any abstentions?

Thank you for that. Ms. Tucker, we can move forward to Action Item 5b, incentive plan for the Chief Executive Officer.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you, Mr. Chair. Michelle Tucker, CalPERS team member. Item 5b is presented Annually as part of the regular incentive plan cycle required under the Board's compensation policy for executive and investment management positions.

Recommendations for the Chief Executive Officer's fiscal year '26-'27 incentive plan will be presented by the Board's primary compensation consultant Global Governance Advisors and have been provided in Attachment 1 to this item. Based on the Committee's earlier discussion and action on Agenda Item 5a, the annual review of incentive metrics, the CEO's annual incentive plan for fiscal year '26-'27 will be updated to reflect the approved incentive metric and scoring thresholds. So with that, I can turn it back over to GGA for there presentation.

PETER LANDERS: Thank you, Ms. Tucker. I'll try and be brief, because we had a lot of great discussion on the biggest, I would say, update to the CEOs incentive plan, which was the updated performance hurdles against the reference portfolio, but what I will point out is the other major change to this is GGA's recommendation to shift a little bit of the weighting within the CEO's plan, so taking five percent out of the enterprise operational effectiveness metric and moving that to an increased weighting on the total fund performance.

And again, that is, in our view, in alignment with the move to TPA, what we've seen other leading TPA funds do is put a little bit higher weighting on total fund investment performance for the CEO position. It also again speaks to the importance of the success of TPA and of total fund performance for the organization, and, you know, aligns the enterprise operational effectiveness metric more in line with the other non-investment related, but still quantifiable metrics within the CEO's plan.

And I will say that this still results in 75 percent of the CEO's annual incentive being quantitative based, so you can actually measure our performance, and that's in the areas of total fund performance, the INVO CEM, enterprise operational effectiveness, customer service, as well as employee engagement or member engagement. And so we're still very comfortable with the 75/25 split that has that 25 percent weighting on those key business objectives and her leadership abilities. So again, tried to be pretty quick because there's not too many changes and we've already talked about the performance hurdles piece, but happy to address any other questions you have on the recommendations, specifically for the CEO's annual incentive moving forward.

CHAIR PALKKI: Thank you for that report. I'm not seeing any other -- I have Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Yeah. I would just echo what I said earlier about risk and incorporating that. I assume it would cut across all of the analysis we do.

PETER LANDERS: Yeah, definitely. So if we end up making any changes to the -- and I would say it's on the total portfolio, the investment side of the equation, then we would definitely incorporate any of that risk element within the CEO's specific incentive as well. So, yes, definitely we would do that.

CHAIR PALKKI: Thank you.

Ms. Middleton

VICE CHAIR MIDDLETON: Thank you, Mr. Landers. Essentially this plan is unchanged except for moving from 15 to 20 percent of the incent -- of the incentive being quantitative based on the performance of the PERF, correct?

PETER LANDERS: That is correct, yeah. And then the EOE metric goes down five just to get the math, but yes, essentially that's the only material change.

VICE CHAIR MIDDLETON: So I continue to have concerns regarding incentive programs for individuals outside of the Investment Office, but I will set those aside and support this change.

PETER LANDERS: And you've been quite consistent with that approach, Ms. Middleton, so I appreciate that.

VICE CHAIR MIDDLETON: Thank you.

CHAIR PALKKI: Thank you.

Ms. Gallegos.

ACTING COMMITTEE MEMBER GALLEGOS: Yes. So I'd just like to follow up on that, because I wanted to get from your perspective why there is such a big emphasis on investment performance at the CEO level.

PETER LANDERS: So I think it's important to realize that for the CEO, I know she obviously, unlike Stephen, doesn't have direct influence over the total fund performance and that isn't necessarily the only part of her role, but it is still a part of the CEO's responsibilities. When you look across the Board at pension funds of all different sizes, I can't look -- I can't think of one CEO that has an incentive program that doesn't have some level of weighting on total fund investment performance. I would say the ratio that Marcie has right now in her program is generally in the range of what we see for someone that doesn't have call it direct oversight over investments. Usually, it's in that 20 to 30 percent range with the following 70 percent being tied to other aspects, which, of course, relate to managing the entire operation, obviously the whole pension administration side of the business.

And so, definitely if we had seen that Marcie was -- say had 75 percent weighting on solely incentives -- on investment performance, that would obviously be a bit of a red flag. But given the role that she plays, given the level of oversight that she has versus what's delegated to Stephen, we feel like the range that she's in right now remains reasonable in line with market for CEOs that have a similar sort of oversight responsibilities. And I think it's important to realize that, you know, as the CEO, you know, she needs to be tied to the performance of the fund just so that everyone is sort of working towards the same direction.

One of the things that came out threw our research on TPA and some of the leading funds is there is that mentality that everyone is working towards that collective TPA goal of beating that reference portfolio, and therefore every single person, whether it's the CEO or Investment staff need to have some level of weighting on total fund. And so again that's another, I think, rationale and reason for why the CEO has some level of weighting on the total fund side of things.

ACTING COMMITTEE MEMBER GALLEGOS: I would just say that her influence -- because she's not managing assets, her influence is more on the culture and the collaboration. And so perhaps there is a way for us to build in more reward based on those metrics, which would lead to total fund performance, so that it's reflective of what she actually has control over.

PETER LANDERS: Great points. The only thing I will point out and I think Ms. Middleton brought up earlier, you know, the more you get into call it the qualitative side of things, then you get into the discussion of, you know, how do we, you know, not sell, but essentially how do we justify this to the stakeholders? And if you can point to quantitative results to say that, you know, we beat the benchmark by this basis points. This led to this level of value-add, so therefore that justifies the payout. I think it is that tricky balance between getting that quantitative and qualitative portion right. But that's definitely something we can look into. Maybe there is a slight shift that we do in the future around adding a little bit more qualitative on the collaboration side.

I think naturally through some of the business objectives and that 25 percent qualitative side, some of that I think takes into account Marcie's ability to lead the organization, to affect the culture of the organization. So that is -- I think it's built in already, but maybe there is a more overt way to make that clearer within the ratings. But again, We're pretty comfortable right now with where it's at, but definitely open to future suggestions, as TPA plays out, and maybe there is a greater emphasis needed on that piece.

ACTING COMMITTEE MEMBER GALLEGOS: Thank you.

CHAIR PALKKI: Thank you very much.

I don't see any other public comment, so I think we can move into -- oh, we can move into public comments. Thank you. We can move into public comment.

I have J.J. Jelincic, John Frank and Margaret Brown.

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

I made my comments on the last item. I had signed up for this just in case the Chair decided that public comment was unduly burdensome and was going to cut the comment period short.

Thank you.

CHAIR PALKKI: Thank you for your comments.

JOHN FRANK: Good morning, Mr. Chairman, members of the Board. My name is John Frank. I'm the Area 2 Director of RPEA and a retired director of Health and Social Services of the County of Humboldt.

I'm here primarily to talk about -- or to oppose your current plan to provide an additional bonus to our Chief Executive Officer. The basis of my opposition to this incentive is the demonstrated fact that we -- when I first became involved in RPEA, we were 175 million underfunded in CalPERS. The last report I could find that Marcie had provided that was public document says we're $179 million underfunded right now.

MARGARET BROWN: Billion.

JOHN FRANK: Billion. Excuse me. I'm sorry -- billion dollars underfunded. I question how you can give somebody a bonus making minimum standards of 150 percent and still say that you're doing an excellent job, or a good job, or a mediocre job. If the State Treasurer or the State Controller had a person in their employ who was making minimum standards, I would ask you do you give them a bonus or do you give them an improvement plan?

I took the liberty of mailing out to all my members the current salaries of all the people you give bonuses to. They unanimously, in the five districts that I represent, asked me to come down here and oppose this bonus plan, until they meet the minimum standards. And the minimum standards to me is certainly bringing CalPERS up to a hundred percent fully funded.

I would like to address the gentleman's comment over here that said that you have an opportunity -- or there's people -- 200 people across the river that are looking for employees. If they want her, be my guest, take her. Thank you.

CHAIR PALKKI: Thank you for your comments.

Ms. Brown.

MARGARET BROWN: Thank you. Margaret Brown, RPEA. My comments from 5a about the issues with the CEM, I'll repeat again here, again it's not quantitative if we can't see the data. It's not based on fact. The other issue -- I think customer service numbers are based on quantitative issues, and we do get reports on that, and we see those numbers, and I think that's fine. Stakeholder engagement is a problem. You guys, CalPERS cannot get people to respond to this survey. We get lots of emails saying please, please, please. We don't have enough people responding to the survey. I think maybe -- and I don't think the surveys are written scientifically. I don't know if CalPERS is writing them, but I would suggest that since you're weighting a bonus for the CEO on stakeholder engagement on these surveys, that it should be written and administered by a third party, and it should be scientific, so it really is quantitative, not qualitative.

I have an issue with the payout ratio. And I do agree with Ms. Middleton that there should not be incentives on non-investment staff. I think that's problematic. If you meet expectations, you should not get a hundred percent bonus. If you meet expectations, you should keep your job. Thank you very much.

If you consistently exceed expectations and you want to give the CEO a bonus, you could make that something like 10 percent. For Marcie Frost, that would be $60,000. And if you have exceptional performance, that number could be somewhere around 25 percent, but it should not be one and a half times her salary. Last year's bonus of $766,000 was outrageous, considering that we're probably closer to $200 billion in unfunded liability. You have to wait until the auditors come out with all the local agencies to actually get that number. But we should not be paying incentives -- these high incentives to the CEO or to other non-Investment staff.

Thank you.

CHAIR PALKKI: Thank you for your comments.

That concludes public comment on 5b, which brings us to a vote. What is the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move approval.

VICE CHAIR MIDDLETON: Second.

CHAIR PALKKI: Okay. Just so that I am clarifying too, we are moving for approval on the incentive plan of CEO as presented.

COMMITTEE MEMBER TAYLOR: Yes.

CHAIR PALKKI: And I have a motion by Ms. Taylor, and a second by Ms. Middleton.

So if there's no other discussion by the Committee, all those in favor say aye?

(Ayes.)

CHAIR PALKKI: All those opposed say nay?

Any abstentions?

The ayes have it. Thank you.

And just to clarify the vote on 5a was to approve the '26-'27 incentive metrics as presented. So I don't remember if I stated that in the previous motion, so -- which -- okay. So those both pass. Thank you very much.

We do not have any information items other than

Committee Direction. Ms. Tucker, Mr. Hoffner.

CHIEF HUMAN RESOURCES OFFICER TUCKER: Thank you, Mr. Chair. We have a few items noted for Committee Direction. One is to work with GGA to bring back consideration of risk for next year. Next is to look at having a mid-year checkpoint about risk as well as overall performance. Third, I had to bring back updates on availability of changing law or looking at the possibility of our CIO and CEO providing comment into these metrics. And then fourth is to have a discussion about qualitative ranges and performance in September.

CHAIR PALKKI: Great. Thank you for that. I do not have any items for public comment under 6b.

But I do want to state, since being on this Board, I've gone from one end of the border of California to the other end of the border of California. And since being on this Board, I believe I recorded mentally that we were roughly at $400 billion funded fund. We're now over 600 billion funded, which equates to over 50 billion each year, which is well over the amount that we pay in benefits on a yearly basis. So when I talk about people pushing for excellence, to me that's what excellence is, is not just making those benefit payments on a yearly basis, but pushing above that. And I thank everybody for doing that and pushing that needle forward.

So with that, we adjourn this Committee.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee open session meeting adjourned at 11:16 a.m.)

CERTIFICATE OF REPORTER

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Performance, Compensation & Talent Management Committee open session meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California;

That the said proceedings was taken before me, in shorthand writing, and was thereafter transcribed, under my direction, by computer-assisted transcription.

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of June, 2026.

James F. Peters

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