GLOBAL GOVERNANCE ADVISORS

Board Education Session on Compensation Structure Trends

CalPERS

November 2026

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Action Required For Today

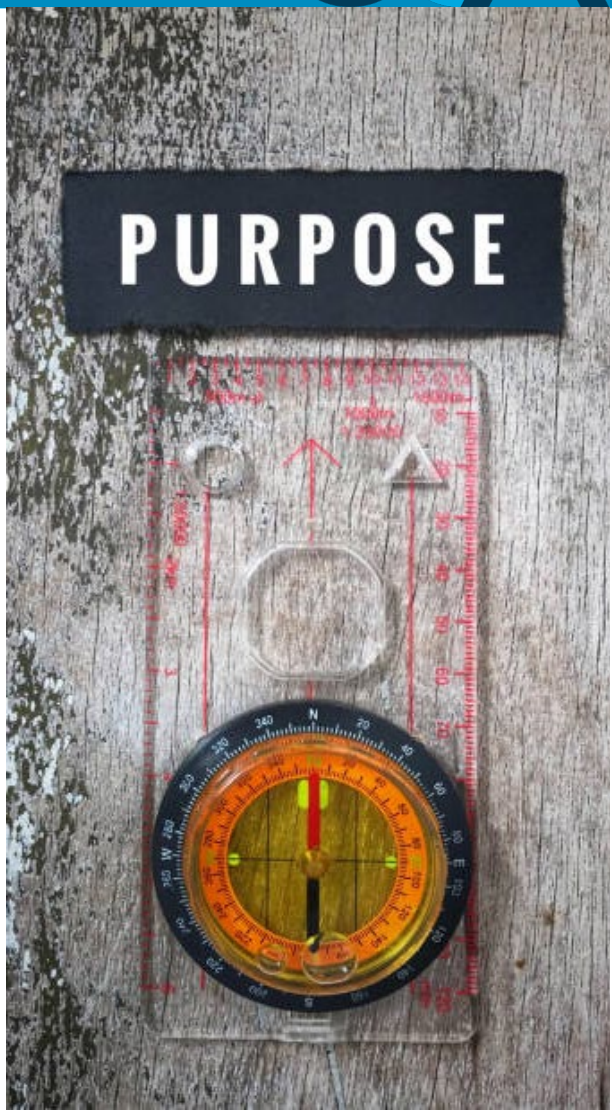
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The purpose of today's discussion:

- Discuss current trends in incentive compensation
- Review CalPERS' current compensation philosophy and peer group approach.

Coming out of the discussion:

- We require general direction on:
  - CalPERS' compensation philosophy
  - CalPERS' peer group approach
  - Potential updates that could be made to CalPERS' incentive design



Reviewing CalPERS' Compensation Principles

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Current Program Principles

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The compensation program is designed and managed to:

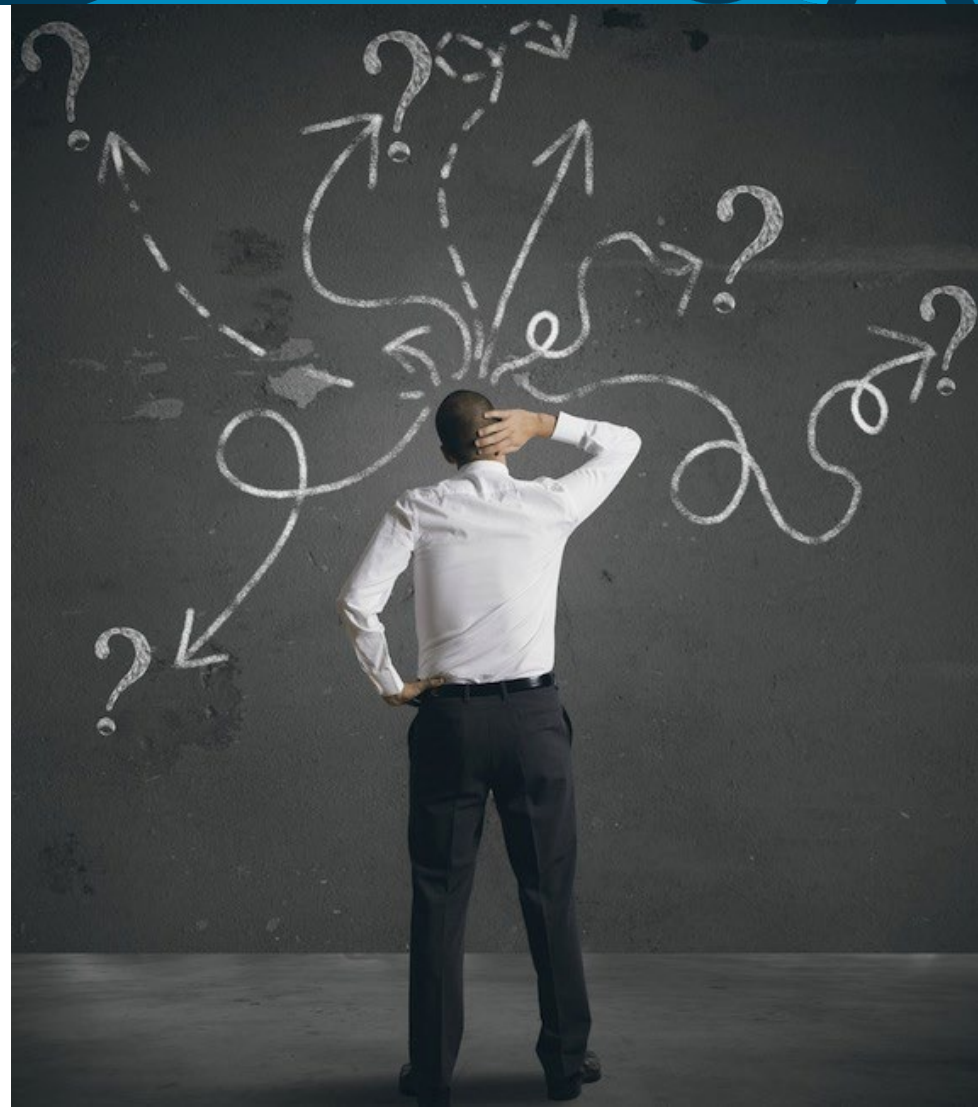
- Be both internally and externally fair and equitable
  - Base salaries and incentives should be competitively positioned at the median of the defined peer group.
  - Compensation should be aligned with CalPERS' commitments to internal diversity, equity and inclusion.
- Enhance the attraction and retention of highly skilled talent.
- Enable transparency for all CalPERS Board, leadership, team members and stakeholders
- Support a strong, performance-based work culture

Questions

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Is the Board clear on the current Program Principles?

Are there any major concerns?



Reviewing CalPERS' Peer Group Approach

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Current Peer Group Approach

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Currently, a blend of Public Pension Funds, Public Sector Agencies & Private Sector organizations:

	Public Pension Funds	Public Sector Agencies	Private Sector Organizations
Investment Positions	2/3 weighting		1/3 weighting (Endowments, Funds, Insurers)
Non-Investment Positions	1/3 weighting	1/3 weighting	1/3 weighting

Current Peer Group Approach

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The current criteria when selecting potential peers is as follows:

	Public Pension Funds*	Public Sector Agencies	Private Sector Organizations**
Investment Positions	Large & Complex U.S. & Canadian Public Funds	n/a	Asset Managers (incl. Investment Managers, Endowments, Insurers & Banks)
Non-Investment Positions	Leading U.S. & Canadian Public Funds	Select California-based agencies (incl. large locals)	Banks & Insurance Companies

* Public Funds should have ~$100B in Assets, internally manage at least 25% of their portfolio and have a sizeable investment in alternatives.

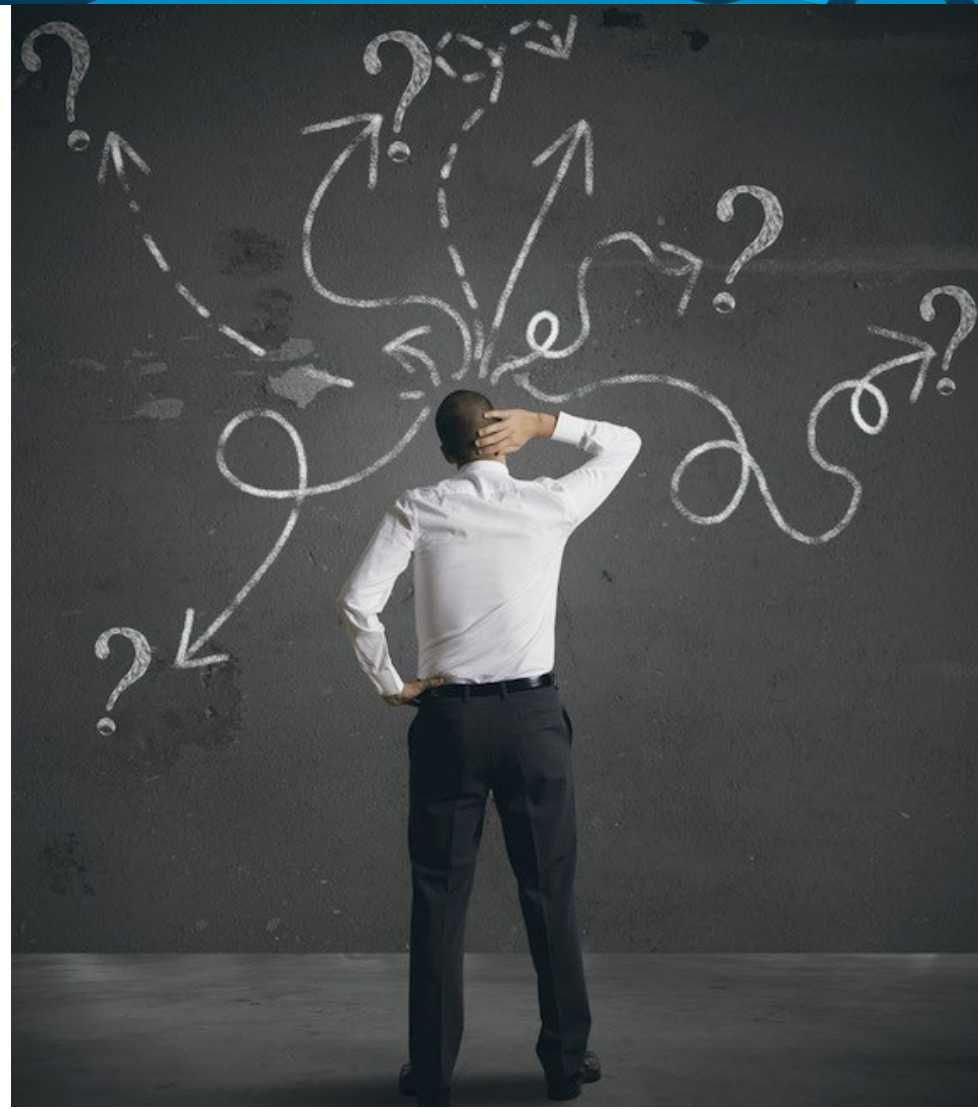
** Comparable sized managers defined between 0.33 and 1.25x CalPERS' AUM.

Questions

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Is the Board clear on the current Peer Group approach?

Are there any major concerns?



How Investment Performance is Measured at CalPERS

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How Investment Performance is Measured at CalPERS

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- Annual Incentive: 5-year rolling average performance against the Reference Portfolio
- Long-Term Incentive: 5-year rolling average against CalPERS' actuarial threshold

Annual Incentive

Year 1 | Year 2 | Year 3 | Year 4 | Year 5

RELATIVE Performance against Reference Portfolio

Long-Term Incentive

Year 1 | Year 2 | Year 3 | Year 4 | Year 5

ABSOLUTE Performance against the Actuarial Threshold

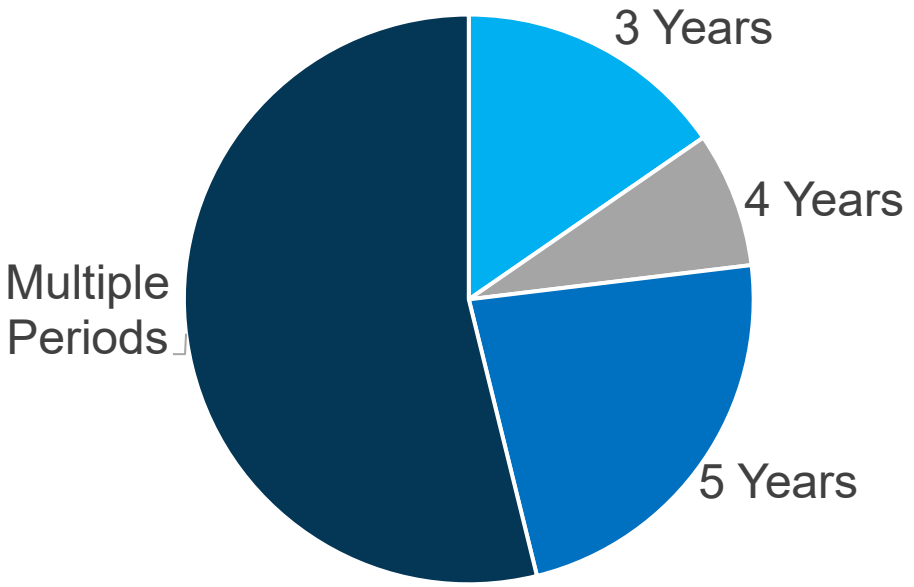
Annual Incentive Trends: How Investment Performance is Measured

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Trends in Measuring Investment Performance – Leading U.S. & Canadian Funds

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Performance Period Used:

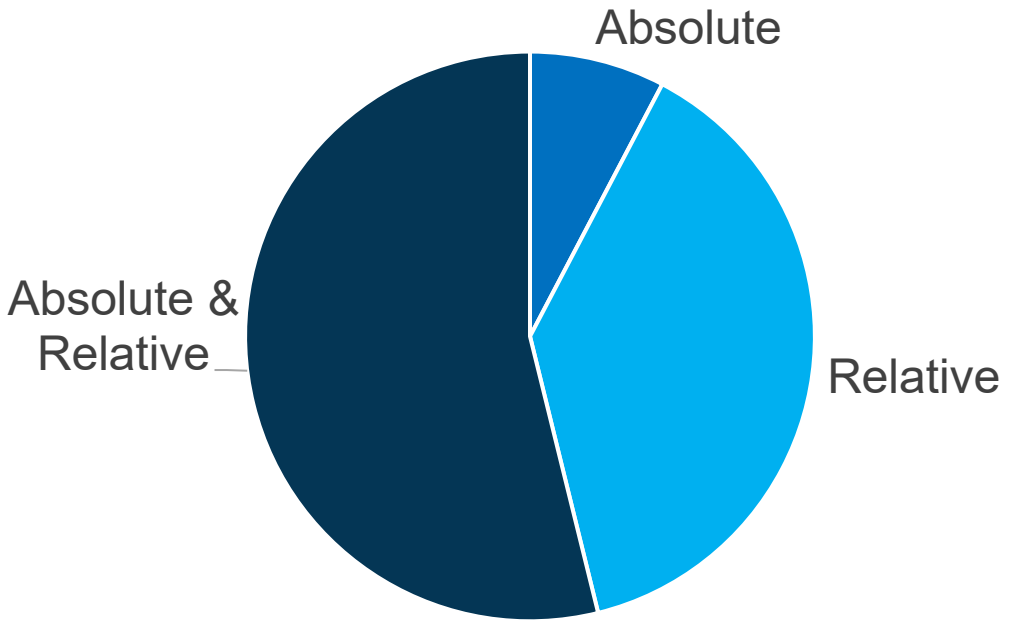


The majority of the Pension peers use Multiple Periods in measuring performance

Trends in Measuring Investment Performance – Leading U.S. & Canadian Funds

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Type of Performance Used:



The majority of Pension peers use <u>Absolute & Relative performance</u> in measuring performance

REMEMBER – TPA-Focused Funds

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Australian Future Fund:
Uses 3-Year Absolute Total Fund Return vs. CPI +

New Zealand Superannuation Fund:
Uses 4-Year Relative Value Add vs. Reference Portfolio &
4-Year Absolute Total Fund Return vs. 90-Day T-Bill rate

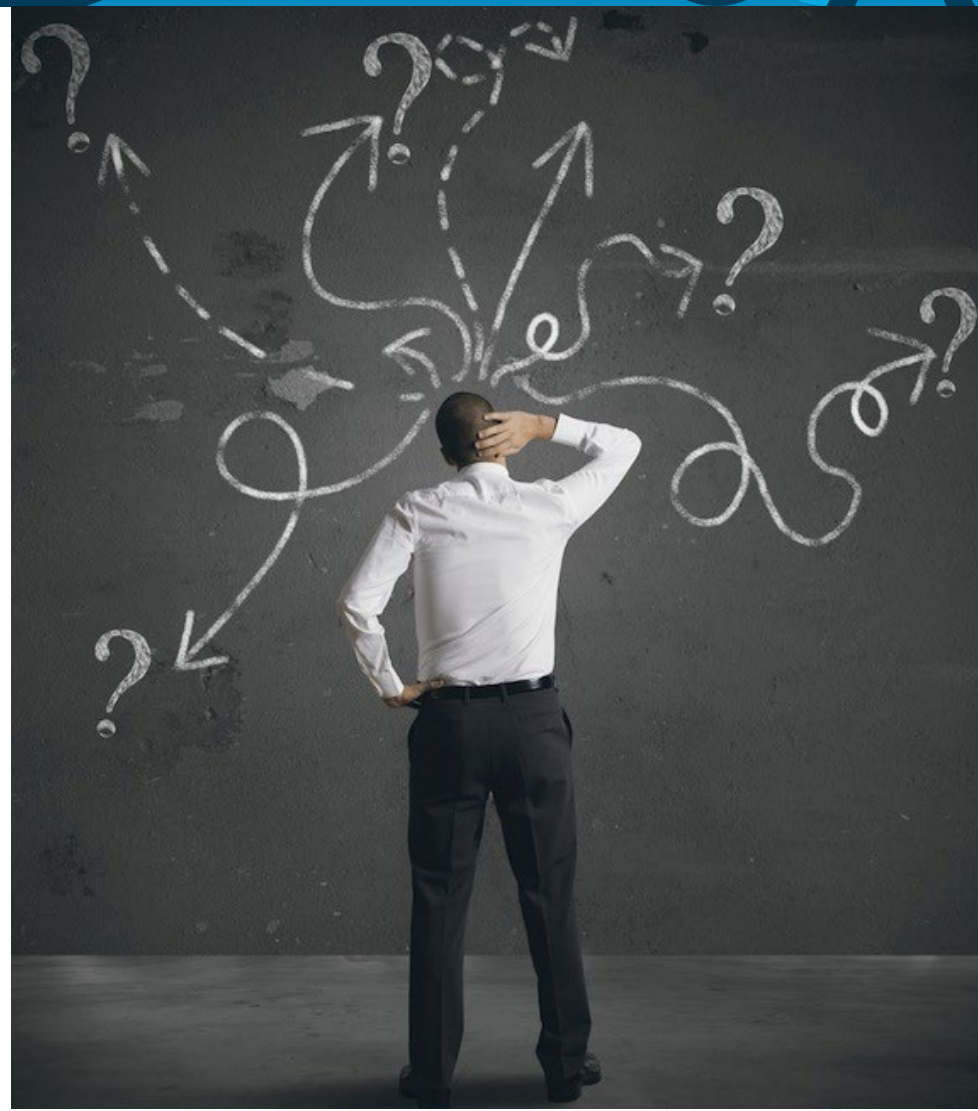
TPA-Focused funds also use performance periods under 5 years and do not solely focus on Relative performance.

Questions to Consider for Spring 2027

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Is the Board still comfortable with measuring Investment performance over 5 years?

Is the Board still comfortable with measuring only Relative Investment performance?



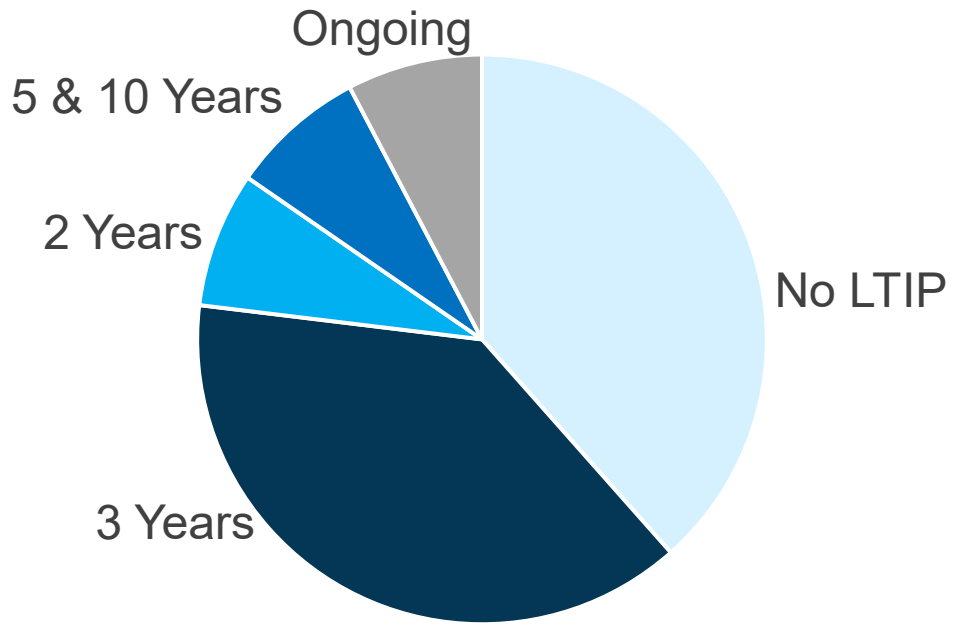
Long-Term Incentive Trends: How Investment Performance is Measured

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Trends in Measuring Investment Performance – Leading U.S. & Canadian Funds

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Performance Period Used:

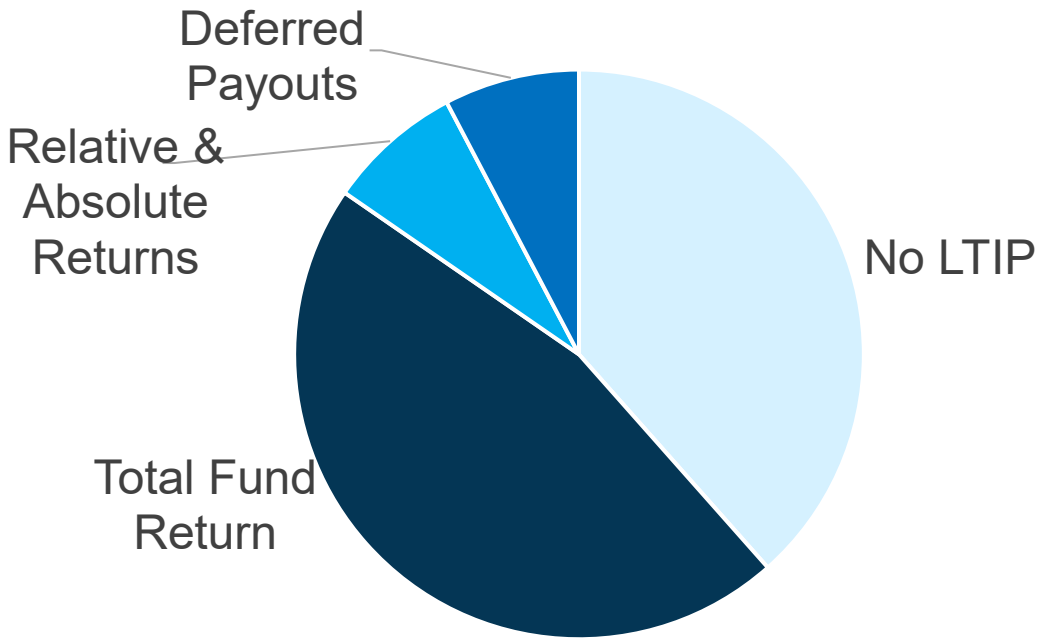


The majority of the Pension peers with LTIP use 3 Years of Performance in measuring performance

Trends in Measuring Investment Performance – Leading U.S. & Canadian Funds

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How Payouts are Determined:

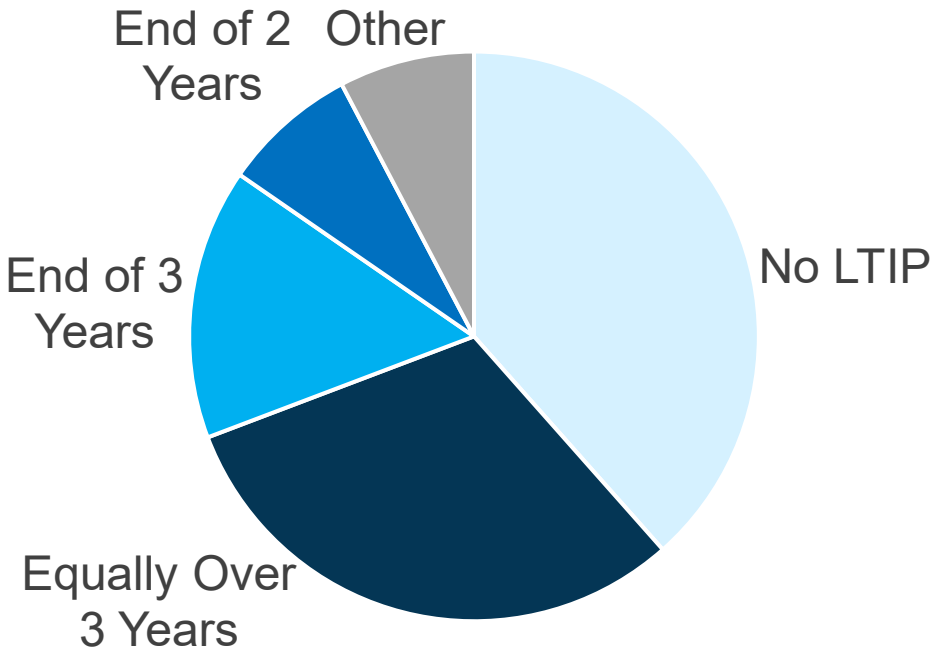


The majority of the Pension peers with LTIP allow the Total Fund Return to determine final LTIP payout levels

Trends in Measuring Investment Performance – Leading U.S. & Canadian Funds

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When Payouts are Made:



The majority of the Pension peers with LTIP make LTIP payouts
<u>At the End of or Equally Over 3 Years</u>

REMEMBER – TPA-Focused Funds

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Australian Future Fund:
Uses 4-Year Relative Total Fund Return vs. Reference Portfolio

New Zealand Superannuation Fund:
Do Not Have Long-Term Incentive

TPA-Focused funds use performance periods under 5 years and do not solely focus on Absolute performance.

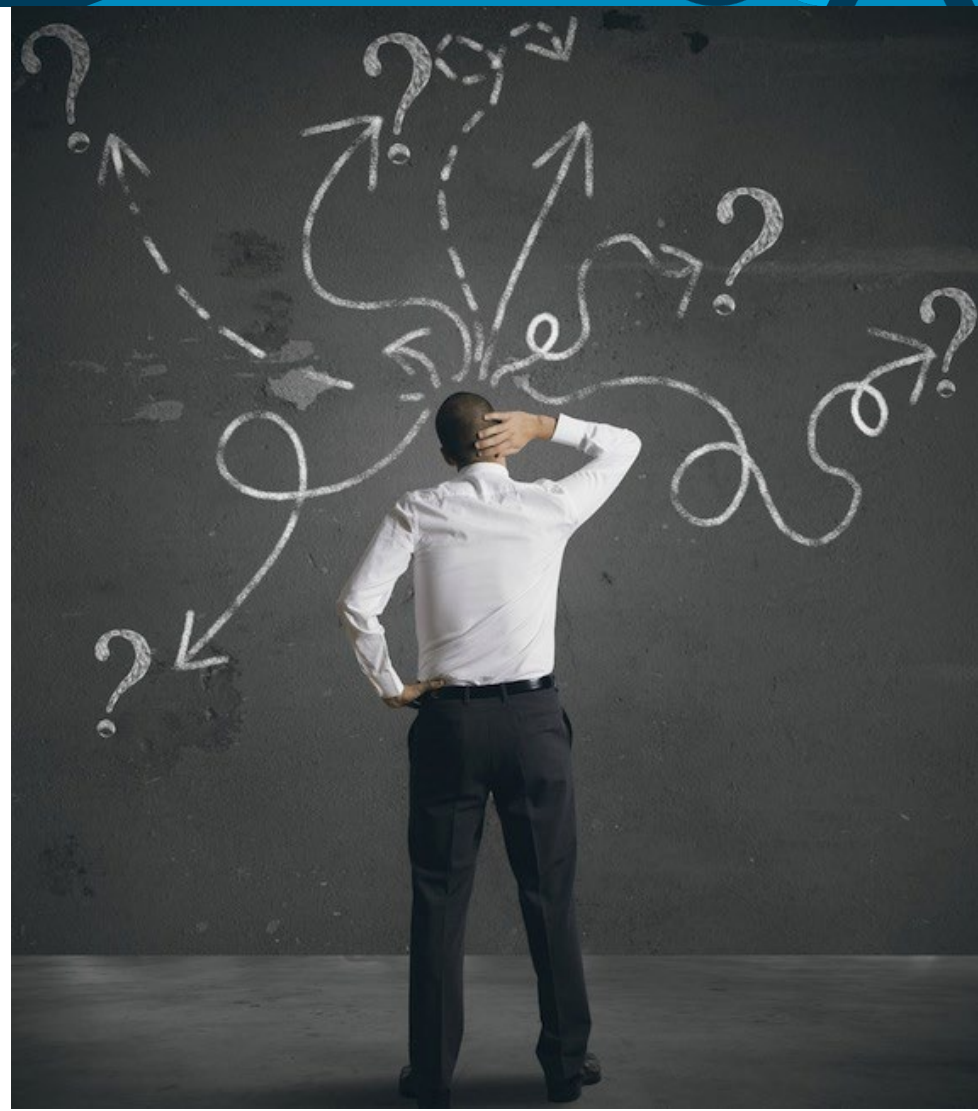
Questions to Consider for Spring 2027

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Is the Board still comfortable with measuring Investment performance over 5 years?

Is the Board still comfortable with measuring only Absolute Investment performance?

Is the Board still comfortable paying out LTIP at the end of 5 years?



Incentive Design Comparison

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Incentive Design Alternative – Total Incentive Opportunity

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- The following illustration provides an overview of a Total Incentive opportunity split into an Immediate Cash payout and a Deferred Cash payout

Total Incentive Calculation Result (0 – 150%)

* Mix of multi-yr. investment performance & annual org. results

X

Total Incentive Opportunity (% of Salary)

=

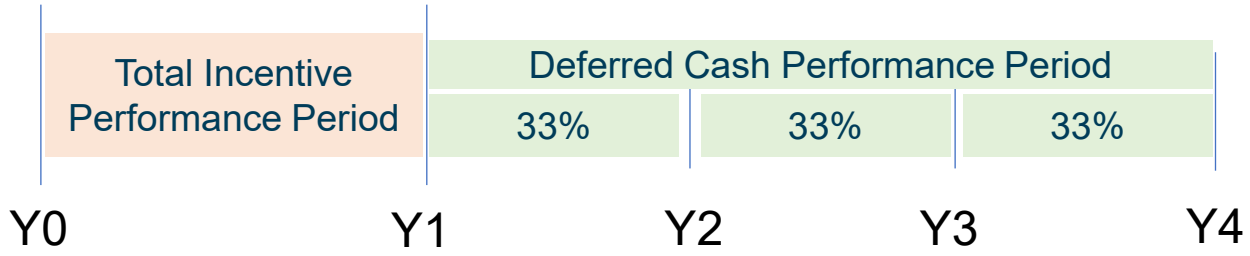
50%

Annual Cash Award ("Immediate Cash")

50%

Long-Term Cash Award ("Deferred Cash")

Deferred Cash = 50% of Total Incentive Calculated Annually



- Deferred Cash value fluctuates based on Absolute Total Fund Return results over performance period.

Incentive Design Alternative – Total Incentive Opportunity

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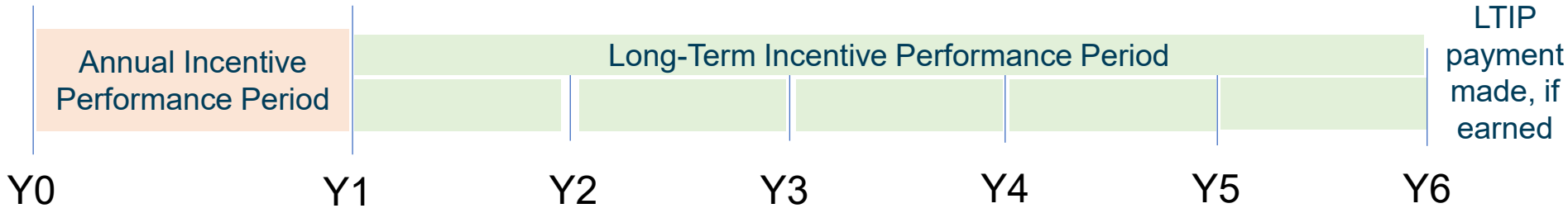
Pros	Cons
• This type of plan design is used by many leading Canadian funds, so is a relatively common design. • Simpler to explain and administer as there is one set of metrics and one payout calculation. • Strong line-of-sight which allows for the Board and eligible participants to better understand the link between performance and compensation. • Can reduce overlap between plans and avoid double counting for the same performance. • With Deferred Cash amounts still tied to longer-term Total Fund performance (both on a rolling and forward-looking basis) there is still a clear link between pay and investment performance.	• This type of plan design is not common in the U.S. pension fund market. • Can have the appearance of placing too much emphasis on Annual results. • If not enough weighting is placed on Non-Investment performance within the payout calculation, important metrics may not get as much attention. • The typical plan does not have rigorous performance targets for the Deferred Cash portion of the Incentive, so there may be a perception of less alignment between pay and performance for the Deferred Cash portion.

Incentive Design Alternative – Separate Annual & Long-Term Plans

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- The following illustration provides an overview of separate Annual and Long-Term Incentive Plans. This is the current incentive design in place at CalPERS.

Annual Incentive Calculation Result (0 – 150%)	X	Annual Incentive Opportunity (% of Salary)	=	→	**Annual Incentive Award (Paid at End of Each Year)**
Long-Term Incentive Calculation Result (0 – 150%)	X	Long-Term Incentive Opportunity (% of Salary)	=	→	**Long-Term Incentive Award (Paid at End of 5 Years, if earned)**



- Long-Term Incentive based on Absolute Total Fund Return results over performance period.

Incentive Design Alternative – Separate Annual & Long-Term Plans

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Pros	Cons
• Quite a common approach in pension fund industry. • Demonstrates strong alignment with the long-term pension promise. • Has the appearance of demonstrating better balance between Annual and Long-Term performance. • Can better protect against short-term risk taking if a sizeable portion of Incentives are tied to longer-term results. • A separate Long-Term Incentive Plan can promote stronger retention. • May be perceived as promoting stronger governance by stakeholders.	• Generally is more complex to understand and administer due to the use of multiple plans and different performance periods. • May promote weaker line-of-sight as it may be hard for a professional to understand how a current decision will impact future performance. • If the metrics used under the Annual and Long-Term plans are not rigorously reviewed and made to align with the fund's strategy then eligible participants may get confused on what the fund's ultimate priorities are.

Session Wrap Up

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Summary: Action Required For Today

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Did we achieve what we set out to do?

- Specifically, is there clarity on:
  - CalPERS' Compensation Principles
  - CalPERS' Peer Group Approach
- Did the Board provide additional direction toward potential incentive design adjustments that could be evaluated further in Spring 2027?



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