MEETING

STATE OF CALIFORNIA

PUBLIC EMPLOYEES' RETIREMENT SYSTEM

BOARD OF ADMINISTRATION

PERFORMANCE, COMPENSATION &

TALENT MANAGEMENT COMMITTEE

CALPERS AUDITORIUM

LINCOLN PLAZA NORTH

400 P STREET

SACRAMENTO, CALIFORNIA

TUESDAY, APRIL 19, 2022

8:30 A.M.

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

APPEARANCES

COMMITTEE MEMBERS:

Rob Feckner, Chairperson

Eraina Ortega, Vice Chairperson

Lisa Middleton

David Miller

Jose Luis Pacheco

Theresa Taylor

BOARD MEMBERS:

Ramon Rubalcava

Betty Yee, represented by Lynn Paquin

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Matthew Jacobs, General Counsel

Pam Hopper, Committee Secretary

Michelle Tucker, Chief, Human Resources Division

APPEARANCES CONTINUED

ALSO PRESENT:

Elnora Hunter-Fretwell, California State Retirees

J.J. Jelincic

Brad Kelly, Global Governance Advisors

Peter Landers, Global Governance Advisors

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PROCEEDINGS

CHAIRPERSON FECKNER: Well, good morning. We're going to call the Performance, Compensation and Talent Management Committee to order. The first order of business will be to call the roll, please.

COMMITTEE SECRETARY HOPPER: Rob Feckner?

CHAIRPERSON FECKNER: Good morning.

COMMITTEE SECRETARY HOPPER: Lisa Middleton?

COMMITTEE MEMBER MIDDLETON: Present.

COMMITTEE SECRETARY HOPPER: David Miller?

COMMITTEE MEMBER MILLER: Here.

COMMITTEE SECRETARY HOPPER: Eraina Ortega?

VICE CHAIRPERSON ORTEGA: Here.

COMMITTEE SECRETARY HOPPER: Jose Luis Pacheco?

COMMITTEE MEMBER PACHECO: Present.

COMMITTEE SECRETARY HOPPER: Theresa Taylor?

COMMITTEE MEMBER TAYLOR: Here.

COMMITTEE SECRETARY HOPPER: Shawnda Westly?

CHAIRPERSON FECKNER: Excused.

COMMITTEE SECRETARY HOPPER: Mr. Chair, all is in attendance with an excused for Shawnda Westly.

CHAIRPERSON FECKNER: Thank you.

Agenda Item 2 is the approval of the timed agenda for today's meeting. What's the pleasure of the Committee.

COMMITTEE MEMBER MILLER: Move approval.

COMMITTEE MEMBER PACHECO: (Hand raised).

COMMITTEE MEMBER TAYLOR: Second.

CHAIRPERSON FECKNER: Moved by Mr. Miller, seconded by Mr. Pacheco.

Any discussion on the motion?

Seeing none.

All in favor say aye?

(Ayes.)

CHAIRPERSON FECKNER: Opposed, no?

Motion carries.

Item 3, Executive Report, Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Good morning, Mr. Chair and members of the Committee. Doug Hoffner, CalPERS team member. We have several items before you today. They'll be presented by GGA, Global Governance Advisors, the Board's independent consultant on compensation matters.

They'll start with a presentation to set the foundation for today's discussion, an overview -- sort of as educational presentation. We have additional items to follow. And they are seeking your feedback and direction. And I wouldn't be surprised if some of the items you might want to see come back in June later this year.

Following that presentation, they'll share perspectives and recommendations related to several different executive investment management positions and that's in Agenda Item 7a. And 7b, GGA will provide recommendations as part of their comp review. And following up to the February presentation with McLagan's data related to total compensation related to various positions within the organization.

And finally, they will bring an annual incentive metrics review as part of their annual responsibilities, they'll provide perspective, and feedback, and share direction, and seek clarity regarding certain items within that review. Again, that would be for the start of the fiscal year. So if any additional feedback is necessary, they could provide formal and final recommendations in the June meeting.

That concludes my report, Mr. Chair. Happy to take questions.

CHAIRPERSON FECKNER: Thank you.

Seeing no questions, move to Agenda Item 4, approval of the February 14th meeting minutes. What's the pleasure of the Committee?

COMMITTEE MEMBER TAYLOR: Move approval.

CHAIRPERSON FECKNER: It's been moved by Taylor.

COMMITTEE MEMBER MILLER: Second.

CHAIRPERSON FECKNER: Seconded by Miller.

Any discussion on the motion?
Seeing none.
All in favor say aye?
(Ayes.)
CHAIRPERSON FECKNER: Opposed, no?
Motion carries.
Item 5, information consent items. I have no request to remove everything.
We'll move to Item 6, information agenda item, Board education session. Welcome.
(Thereupon a slide presentation.)
MR. KELLY: Good morning, members of the Committee,
CHAIRPERSON FECKNER: Microphone, sir.
There you go.
MR. KELLY: Thank you very much. Good morning, everybody.
CHAIRPERSON FECKNER: Good morning.
MR. KELLY: Nice to meet you all in person finally. It's been a long time. Our suits are a little tighter, less familiar with travel, but we made it.
CHAIRPERSON FECKNER: Aren't they all?
(Laughter.)
MR. KELLY: And we appreciate your time.
As Doug had mentioned, we'd like to start out

just kind of setting the stage. This is something that we've been asked to annually provide as part of the Committee's education on compensation governance.

And so today, we're going to talk about some of the trends that we've been seeing recently, particularly through this pandemic situation that has resulted in some significant stress and pressures on compensation and compensation design throughout the North American market.

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MR. KELLY: So what we'll talk about is this new phenomenon that we've -- that we've experienced over the last two years called the -- it's been deemed The Great Resignation. Then we're going to talk about the disrupting force of remote work and the influence that that's had on the workforce. And we're going to talk about impacts on compensation practices, and particularly we'll get into impacts on public pensions, specifically at the end.

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MR. KELLY: So when we start out, we talk about like the pandemic has had a significant impact on compensation, on work environments, on the fluidity of the workforce. And it's led a lot of organizations to really look at how they're recruiting, attracting, and retaining their talent as they try and continue working their way through this pandemic situation.

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MR. KELLY: At our last -- I don't know if you recall, but our last session when we talked about incentive -- incentive trends within North America and in the public sector realm, we talked about the needs -- understanding the needs of your employees, the needs of your executive team. And we started out with this Maslow's hierarchy of needs and understanding this from a psychological perspective. The same thing holds through today. And actually it's become even more under the limelight right now, because a lot of organizations have looked at the fact that they have not been addressing the needs of their -- their employees and as a result have experienced some significant levels of attrition.

I'm not saying that this is the case here in CalPERS. I'm saying that it's something you need to be aware of, okay? This is just a trend that we're talking about. Unfortunately, it's not something that you've really been -- had fallen victim of over the last two years.

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MR. KELLY: When we talk about The Great Resignation, the term itself was first termed -- was first coined by a Texas A&M professor, Anthony Klotz. And he recognized the fact that en masse, there's a lot of employees who have just voluntarily resigned, as early as 2021. Not necessarily -- it was not something that was anticipated. It just started to happen. And as the trend progressed, it started to get exacerbated.

Some of the proposed reasons that are out there -- and there's a lot of theories around this. We're not saying that any one theory is correct. We're just saying that these are some of the underlying ideas around why we've experienced this phenomenon. First is, there's been an increased demand for front-line employees. A lot of organizations have gone through a lot of churn over their front-line employees, both from a health impact standpoint, concern impact standpoint, or even pressures on compensation.

Higher wages are one thing that has led to this, especially the front line, because a lot of organizations had to keep moving. They had to keep their businesses going, and so therefore, they fell victim to a lot of these pressures. It's less due to government programs unfortunately helped to exacerbate this, because people saw there as some sort of safety net established underneath them, so they could actually resign from their position and have some sort of social assistance -- stronger social assistance than what's normally available to help get them through in their day-to-day expenses. And so this also helped to exacerbate this, because there was a stronger safety net around them.

It forced many to start new businesses or to retire early, so we've seen tremendous movement on the entrepreneurial side, people who have just left their jobs and started up their own small business, oftentimes just run from -- running it from their own home.

And then also, there was an opportunity to move out of what they would see as an unpleasant working situation -- work situation, and to find what they would deem as more meaningful work. And this is when we talk about needs. This whole philosophy around meaningful work. Some people just all of a sudden had an epiphany and said I don't really align with the work that I'm doing, and therefore, I am going to just resign. And again, oftentimes resigning with this safety net in place, but also oftentimes without even a job lined up, which is a phenomenon that we've never actually witnessed before.

And then remote and hybrid work help to ease the limit -- many limitations, because people didn't have to go into the -- the office on a day-to-day basis. I'm sure we've all had colleagues or friends that have worked in organizations where they suddenly have had someone all of a sudden sweaty sitting there, and they're like, well, I'm -- I'm down in Caymans or I'm in Barbados, or wherever working, which, of course, causes taxation issues, and alarms, and things that people just never anticipated before, but people felt that if they could work from home, there's a greater sense of fluidity, where they could work wherever they could get access to an internet connection.

And then this also led to -- and this is really interesting, it led to greater opportunities for mid-level employees. And the reason why it did is because -- because of the remote work environment, there was less of an opportunity for organizations to have that one-on-one monitoring, and mentoring, and training in-house or on the premises. And so therefore, a lot of organizations felt that they could not take risks of hiring someone who did not have experience in that field, in that profession, in that area. And so this created a lot of benefit or a lot of opportunity for mid-level employees who had experience that was marketable, so that they could actually just go out and quickly get picked up by other organizations.

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MR. KELLY: What we do know, and this is -- this has gone on long before the pandemic that when there is some level of attrition, you tend to lose your high performers first. And the reason why is they're the most marketable. They have the greatest track record and they're in demand and they know it. And so what ends up happening is when you have significant levels of attrition, the first line to leave are your high performers. And that's where the risk is when you talk about attrition.

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MR. KELLY: Again, in terms of the impact on employers, in terms of The Great Resignation, again this led to high levels of employee turnover. I've seen a number of market studies out there that have said going into this fiscal year, 2022, organizations should be expecting anywhere between 45 to 55 percent extra levels, or higher levels, of attrition than they normally would anticipate. This has again created some consternation with organizations trying to manage their -- their workforce.

It has forced a lot of organizations to work on greater workplace flexibility in terms of what is the work environment, what are we providing to our employees, what is the expectation in terms of coming into the office or working from home, what are the work-life balance challenges that are around this. And I know when we had our one-on-one meetings with a lot of you, we were just at the beginning of the pandemic, and I'm sure -- I apologized to a lot of you because my kids were at home doing, you know, virtual schooling. And at 4 and 6 virtual schooling is not something that they can stay focused on. A lot of parents really struggled with this and had experiences where they were working and at the same time dealing with family pressures and all kind of working underneath this pandemic environment.

And then recognition practices really started to hold true where they were saying, well, how do we manage and monitor performance, how do we properly incentivize our employees to get the work done that needs to get done, and then how do we recognize them for actually achieving the performance benchmarks that we put in front of them.

And this has heightened the importance of attraction or retention strategies writ large throughout North America. There has been significant or compensation adjustments. The most recent market studies here in North America has shown that companies expect -- most organ -- most organizations through all sectors of North America and economy expect a median compensation adjustment of about 3 percent. And this is high across the Board. Usually it's around 2 percent or so. So 3 percent shows that there's an upward pressure on merit increases strictly for that retention concern that they have.

It's also -- it's also led to adjustments in the incentive structure itself. There's a greater risk of what are called restricted share units in the private sector. A neighbor of mine was just offered an executive position with a large online retail distribution company. I'm sure you can understand who they are. And the offer that he got was 100 percent retention based. It was all, you know, time based, stay in the job, you'll receive your incentive. But at no point were there any performance elements in this, which was -- is incredibly unique. I've never seen this before. And all it -- all it said to this individual was stay in this job for the next couple years and you'll be paid out every step of the way, as an executive. I've never seen that before.

But this is what we're seeing in the market and we're seeing this in other sectors as well in terms of the use of time-based restricted awards which strictly reward the fact that you've stayed in the job for a duration of time. And then also this has led to a greater increase in long-term incentives. And as you all know, long-term incentives are based on the premise of long-term performance expectation. And the ability for you to get that award is premise -- is prefaced on the fact that you have to stay in that role.

So again, it's a retention award that is utilized. And a lot of organizations are realizing the retentive value of their long-term incentives when they look at the overall incentive structures right now.

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MR. KELLY: And we all know that attrition has a material impact on organizations. I'm sure if anyone was to talk to Michelle about what is the material impact of attrition in terms of posting a job, finding the resources to do the search, the interviewing. I'm sure all of you went through this when you were looking for your new CIO, finding time to do the interviews, the search, it's -- there's -- there's a material impact here and organizations are really waking up to this fact.

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MR. KELLY: When we talk about remote work, this is something that has been -- we've all read various, you know, theoretical novels in the past on everyone is going to work from home and everyone is going to work on the internet to no one has to go in the office, and it's going to change the workforce. And that never really materialized, until it had to materialize, because we were, you know, thrown into this global pandemic situation. And organizations suddenly had this new view of work from home and how it could be managed and some organizations said, wow, productivity hasn't actually decreased at all and our employees have been able to get work done.

Others have really said this is a struggle and don't know how to deal with it. And it's led to this bifurcation of philosophies on what is the future environment of work and how is this going to impact the workforce?

It was definitely a game changer. It forced a lot of organizations to implement remote work policies, and practices, and technologies that they hadn't invested in in the past. And a lot of organizations really, really moved quickly. And from an investment standpoint, if you had invested in some of these technologies earlier, you saw some, you know, massive escalations in valuation over time, because organizations were looking at what is off the shelf that we can readily implement that we can utilize that will help us to get our work done.

It led to flexible employee hours, where, you know, people could actually put a load of laundry in in between meetings and then come back. But then also, it led to employees working easily late into the evening at night, because their laptop is sitting right there, and they still have work to be -- work to be done.

My reference earlier about organ -- organizations realizing that employees were working outside of the state, outside of their city, outside of their country led to some consternation. It's led to some significant issues around taxation and where your work is actually being completed, and where are your tax obligations in various jurisdictions around the world. A lot of organizations learned the hard way over the last two years about those implications, and the tax administration around it, which has led to stronger policies around if you are working remotely, where can you work, where must you work for us to comply with local, state or federal tax laws.

It also showed employees, as I said, better work-life balance, where you could walk the dog or go out and do a load of laundry or what have you. And it led to more autonomous control over your own time, and some employees really, really loved that. And it led them to say, well, you know, my next employer is something an organization that this is what I want to do moving forward. Others have said, I don't feel right sitting at home all day long and I really miss that comradery, that team spirit, and I want to go back into the office.

But it's -- again, it's led to this bifurcation of the workforce. We've seen some heavy stances. New York were the first. New York community -- the investment community, banking community have said if you want New York wages, you're going to come into our New York office and you're going to work in New York. Other organizations, like the tech sector, have said work anywhere in the world, work on the beach. We don't care as long as you get your work done. There's extremes on both side. And I think over time, we're going to see some sort of happy medium in terms of a hybrid. But at this point in time, it's still in flux and it's still something that organizations are struggle -- are struggling through.

In many cases, it proved that product work can still get done, even though it's not being done at -- in the office itself. And it's broke down geographic limitations in terms of where you're hiring from, because if they can work remotely, you don't have to limit your search to your local community.

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MR. KELLY: I'm now going to pass it over to Peter and he's going to talk about the impacts that it's had on compensation practices.

MR. LANDERS: Thanks, Brad.

So what is the real impact, especially as it relates to public pension plans? The key thing is more options are now available, so employees have the upper hand in a lot of cases. You know, oftentimes we're hearing that as, you know, you're looking to recruit new candidates, you have to show value and you have to assume that the candidate has two offers that they're potentially looking at and comparing, in terms of, you know, the competitiveness of each offering. So it's important to realize that as, you know, staff is looking to bring in talent.

Relative competitiveness and retention are becoming even more important in today's marketplace. Brad mentioned some of this earlier. You want to make sure you have clear objective incentive plans. So very clear, how am I -- what do I have to do to earn that incentive? And if I do that, what is the potential award that I can hope to earn at the end of the day?

Looking at making some improvements. Always looking at enhancing their incentive plans, making it easier to understand, making sure that the metrics are relevant to what the person is working on. Especially if they're, you know, a senior exec -- senior executive and what have you, tying some of that potentially to the total fund overall results really is a positive thing in the sense that they're working towards, along with the team, towards those collective results, so things like that.

And then looking at renewed interest in long-term incentive plans, so looking at, you know, long-term incentive. Stretching that out three, four, or five years helps you to retain those individuals, especially as you have overlapping grants over, you know, multiple years, that carrot that's out there, especially if you're trending at target or above, that sort of 7 percent threshold, that can become very lucrative. And if someone is going to resign and leave their employer, they're going to be giving up a lot of money by taking that off the stable. So that's where the long-term incentive really comes into play.

And Brad mentioned this earlier, base salary adjustments, you know, in that 2, 2 and a half range historically creeping up to 3 percent. We're even seeing organizations going as high as 5 percent in the private sector, because of those retention challenges and making sure that they can adequately compete for talent.

It's also looking at, you know, and striking a chord in terms of the importance of those incentive programs, not having everything be just a fixed base salary, but looking at tying that pay to results specifically on both an annual basis and over the long term. And so recognizing that contribution. There was a recent McKinsey study that looked at employees, they real want good pay and good benefits. They're cognizant of that. They want to feel like they're valued. So beyond just the pay, beyond just earning a fair and competitive wage, they want to feel like they're valued and working on something that is, you know, really doing the public good.

And that's where, I think, pension plans can really benefit.

And that's why we always say you don't have to pay full Wall Street pay levels. You just have to bridge some of that gap, because there are other factors, whether it's the pension program, whether it's the ability to do good work to sustain the pension for members over the long haul. All of those things help in terms of bridging some of that gap, but you need to make sure, of course, you're competitive -- competitive and within range. And I'll talk about that in a second in terms of figuring out how to measure how competitive you are.

You have to set realistic expectations. Make sure that, you know, that minimum expectation is fair and challenging, but also that you're not making that stretch goal too unachievable, so that it's not motivating to the individual, so that they're not sit -- sitting there saying, oh, there's no chance that we have of making this goal, of hitting this objective, because really then it becomes a disincentive, and they really feel, well, there's not much I can do. Once I hit this certain point, it's going to be, you know, very -- very difficult, if not impossible, to hit that goal.

And doing multiple check-in points. And that's why we often say having that mid-year check-in -- and I know you do this at CalPERS -- and then that final year-end check-in on performance is a really good step, because you're starting to then see where are we tracking, where are we falling behind, where are we also ahead schedule, what can we do to get things back on track, things like that. So it's important to always be doing those check-ins. And I think that, you know, mult -- mid-year check-in is a really good step that CalPERS has put in place.

And, you know, incentives are less of a fringe benefit and more of a necessity. Asking yourselves, is it what we intended to do? Is it incenting people to achieve the results that we want to achieve? And if, for some reason, the Committee feels it isn't, well, let's make the appropriate changes, so that we feel that it is incenting the types of performance that we want. And also, what is our underlying intention? What do we want to get out of this program? What do we want to see our people achieve and are we comfortable that if they hit this certain level of performance, we're comfortable at the end of the day with them earning that level of reward.

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MR. LANDERS: If we look at pension systems in particular, they're rethinking their approach. So they're looking at expanded peer groups. If we looked historically, a lot of pension funds, especially those that, you know, didn't have as much internal investment management, you know, they would often be very focused on public sector, State agencies, and things like that. But what we're seeing is as they get more and more complex, as you're bringing in more internal investment talent, as the pool of money goes into the hundreds of billions of dollars, you're seeing these expanded peer groups that, yes, definitely have a very strong impact and weighting on public sector comparisons, but also mix in a private sector peer group, because to be frank in the investment world, you're not just competing with State agencies, or public sector, or other pension funds, you are competing for talent both to recruit in, but also losing talent from the private sector.

And so it's important to understand where that market is and what those individuals are paying. Again, I remind you, we're not saying you have to go all the way up to the private sector rates, we often -- you know, that's why we advocate for a blended peer group, because you're getting that mixture in and that's a very good comparison and a lot of pension funds are moving in that direction. And then you have to make sure that the opportunity that you're providing to your people is competitive. And not only through salaries, but also the incentive opportunity.

That doesn't mean they're going to earn that full amount of the incentive, but they have the opportunity to earn that level of reward.

And so I think that's an important distinction. We're not advocating that actual pay levels should be at the -- the maximum levels. They should only get there if they're achieving the total fund results that you want, if they're achieving the enterprise effectiveness results that you want, the cost results that you want, the individual results. Over the five-year period, they're beating that 7 percent return, if not exceeding it to that 8.4 percent level.

But in making sure that that opportunity is there, that if they do shoot the lights out, they can earn a market competitive legal. And if they hit the targets that you've set out, they you're at -- around that median of your peer group. And if you're doing that, that's going to keep you nice and competitive and hopefully help in attracting and retaining that talent.

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MR. LANDERS: Old ways are not working. So old compensation benchmarking, looking at public sector peers, looking at just say salary levels or just salary and annual incentives, it's the old paradigm. It's not the way we're looking at it. When someone, especially I'll say in the investment world, but also increasingly in the senior executive world as you're bringing people in, they're looking not only for that annual salary, they're not only looking at, okay, what annual incentive can I earn, but what's my long-term opportunity? If I stay here for 5, 6, 7, 8, 9, 10 years, what can I potentially earn in that long term-inventive? And they're going to be comparing that, especially if they're coming from the private sector to what the -- the private sector will pay.

And again, we're not saying you have to get all the way there, but the structure of that pay and the opportunity to earn an amount that creeps up and covers some of that gap is key to towards making sure that you can bring people in.

And then evolution -- evolving those plans to really focus as well on sustainability. And sustainability when we typically of it is more -- we think of it environmentally. It's cutting greenhouse gas emissions. It's cutting environmental incidents. It's being, you know, good on community relations. But in the pension fund sense, sustainability is also about making sure that you have the right talent in place that can ultimately meet that long-term pension promise. And that is a mixture, of course, the administrative -- stration and benefits side of things, but also the investment side, and earning that 7 percent return over the long run. And so you need the right people in place to make sure that you can successfully hit that 7 percent return and guar -- and try to guarantee that long-term sustainability for your fund.

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MR. LANDERS: When we look at those annual incentive plans, what is the sort of structure, what are the trends we're seeing? Definitely, there is a focus on total fund results. That's a key priority. All incentive plans have a tie-in to total fund results. Obviously, for those roles, like the CIO position, who has sort of influence over the overall strategy, we see a lot higher weighting on total fund results, that one team approach, but at least some weighting, even if it's 15, 20, 25 percent of that annual incentive, needs to be focused on total fund, because you want to make sure that everyone is working at a team and working together towards that common objective at the end of the day.

We're also seeing organizations though incorporate asset class performance, especially for asset class professionals. Those people working in public equities, fixed income, private equity, making sure that they have, again from a line of sight perspective, in terms of being able to have influence over the results and how they're being rewarded, making sure that you're tying it into their specific asset class that they have more control over, as part of that incentive is an important thing.

Looking to focus as much as possible to weighting on quantitative performance. And we highlighted that in our incentive metrics review that we'll talk about a little bit later, but that is an area where we're seeing, especially for investment focused staff, 70, 80 percent weighting on quantitative results, and then leaving that 20, 25, 30 percent on the qualitative side, because it's not always about just the number results. It's also recognizing how did we get there, how did we achieve the results that we did, are there specific individual objectives that you can't necessarily measure quantitatively. So there is always an aspect of that, but it usually is a very -- a lower weighting within most incentive plans especially in the Investment staff.

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MR. LANDERS: The other focus is long-term incentives. What are some of the trends we're seeing there?

Tendency, they're always based on a total fund aspect. You're working towards the long-term results, the long-term performance of your fund, so always focused on total fund. And everyone who participates in the plan, whoever is eligible, is using the same plan. So they're all measured under that same plan over the long term. It typically will include investment professionals and as well increasingly more and more senior, what we'll call, non-investment executives or executive level positions as well. And this typically covers a 3- to 5-year period. So 3 years on the lower end, 5 years definitely on the more longer end of things.

And if you look at the chart, you know, the check marks in that table really indicate where it's highly prevalent to see those types of roles participate in such a plan, albeit at different opportunity levels. So the more senior roles will be eligible for more, the junior levels eligible for less. And then you do see, and this is where we'll get into it a bit as part of the compensation review piece a little bit later, mixed prevalence and eligibility for some of the roles like COO, CFO, Actuary, General Counsel. And that's where I think this Committee has to have a good discussion to really say what do we want to do with these roles? Do we want to make them long-term incentive eligible, where we see a mixed prevalence? Do we feel like it sends the right message that it's driving towards the results we want long term, or are we comfortable as a Committee keeping these roles not eligible for long-term incentive for now and really just focusing on that salary and annual incentive piece.

You could go either way. We have a preference and we'll talk about that as part of the compensation review section. But it's something that I think this Committee needs to have a good discussion about and make sure that you're all comfortable in whatever approach you want to take moving forward.

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MR. LANDERS: And then when we look at, you know, those senior non-executives, specifically, so COO, CFO, General Counsel, those types toss of roles, they tend to be more prevalent in the leading Canadian funds, which are part of your peer group. They're also highly prevalent in the private sector, so in the private sector part of your peer group. Where they're not as eligible is when you look at State agencies, when you look at other endowment funds, when you look frankly at other U.S. pension funds, long-term incentive, you are a market leader in that -- in that space.

So that's where again the debate comes on what do we want to do? Do we want to be more in line with private sector and some of our leading Canadian funds or are we comfortable -- you know, we still want to just be tied to the State agencies and other U.S. funds. That's a debate for this Committee to have, but that's, you know, typically where we see the marketplace.

And then on the lower end, the Associate Investment Manager, that's where you tend to see a lot of times the, what we call, the front office staff, the ones doing the deals and working on the investment specifically, typically being eligible for these types of things. And sometimes the back-office staff, more the investment services staff, that are supporting those investment professionals, that's where we see the more mixed prevalence, where you don't necessarily always see those roles eligible in the marketplace.

So again, I think it's a good discussion for this Committee to have. And we wanted to sort of set the stage as we go to talk about that in a little bit.

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MR. LANDERS: And I'll pass it to Brad to finish things off.

MR. KELLY: So as most of you know, Peter and I work with pensions all throughout North America. And we also teach at the State association level, at the federal level with regard to fiduciary duties, trustee, good governance, and compensation and incentive design. And when we get engaged with a new organization, as we did with your organization, we have one-on-one interviews with each of the Board members. And when we ask about, you know, practices, historic trends, one of the most frequent responses we get is that's the way we've always done it. That's the way it's always been. This is the way it's always happened well before my time as a trustee here.

And our answer is always complacency is the kiss of death for any organization, especially for public pensions in an environment like this. You know, believe it or not, there are still pensions out there that still have the original 60/40 split in their asset classes and are still passively in -- and completely passively managing that. That's dangerous. You've evolved. You've actually changed and we applaud that. And we see you definitely as a market leader in that aspect.

But again, when you look at compensation practices, you can't look at status quo and say that that's always going to cut it. So you always need to be looking at what are the market trends, what are -- what are the impacts that you're seeing out there to make you an employer of choice. And that's what you want to be always, an employer of choice, where the top -- where the top talent says I want to work at CalPERS, where I know I can be the best person I can be and reach the realization of my professional capabilities. That's what you want.

And so, you know, our recommendations are not based on any one individual or any one constituency need. Our recommendations that we bring forward to you and all our clients are based on the needs of your members and the sustainability of your fund. And I think that's something that you always need to keep top of mind, that this is not a status quo process, where you're going to make a decision today and it's going to hold true for the next 10 years, and all your predecessors will follow suit. This is something that you need to continue -- consistently look at and continue to evolve over time.

And with that, that brings us to the end of our education session. Are there any questions with regard to this morning's session?

CHAIRPERSON FECKNER: There are. And thank you for the presentation.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Am I on?

There we go. I'm going to go back. So one of the things I found interesting is that I find it a little interesting that rethinking in terms of incentive is 3 to 5 percent from, what, 1 to 2 percent?

MR. KELLY: Roughly around --

COMMITTEE MEMBER TAYLOR: Oops.

MR. KELLY: Roughly around 2 percent annually would be the North American merit increase.

COMMITTEE MEMBER TAYLOR: The merit -- regular merit increase and not --

MR. KELLY: That's the salary.

COMMITTEE MEMBER TAYLOR: -- incentive program. That's salary.

MR. KELLY: Not the incentive, just the salary, yeah.

COMMITTEE MEMBER TAYLOR: Okay. And what is the -- didn't really real go into it, other than you're kind of outlining what incentive programs should be focusing on, is there a from-to in incentive programs as well?

MR. KELLY: Well, what -- what we're seeing mostly recently, as I mentioned, is that a lot of incentives are really focusing heavily on the retention value and not necessarily on performance, which we don't necessarily agree with. We think that performance-driven programs are the best that you can ask --

COMMITTEE MEMBER TAYLOR: In the investment professionals?

MR. KELLY: Especially on invest.

COMMITTEE MEMBER TAYLOR: Wow.

MR. KELLY: Because your -- the sustainability and the future life-line of your members', you know, financial well-being is based on their performance.

COMMITTEE MEMBER TAYLOR: Right.

MR. KELLY: And so you need to always keep that top of mind, so you need to have, you know, achievable, attainable goals that are out there. And this is something we're going to get into in the next meeting, in terms of a study that we did. But you need to focus on your performance and have the retention element associated with it, and particularly, how competitive are you against the general market to make sure, because everyone talks.

COMMITTEE MEMBER TAYLOR: Well, so maybe I'm confused here. So I guess the question I'm asking is the from-to to in the incentive program now is not based in benchmarking. It's more based in retention, is that what you're saying?

MR. KELLY: It's heavily weighted on retention right now.

COMMITTEE MEMBER TAYLOR: Heavily weighted on retention. So if we have a mix of both, you know, long-term incentive, that kind of thing, that gives us a little more advantage. But what would be -- and I guess then that leads me to my next question, what's a retention? What's -- besides the long-term, right, is there work-life -- you went through the whole beginning that talked about --

MR. KELLY: Um-hmm.

COMMITTEE MEMBER TAYLOR: -- work-life balance, all that stuff. So what is a -- kind of a -- what you're seeing in the investment world, what is that? Is that more remote working? Is it more just recognition? You said kind of all of it, but --

MR. KELLY: Yeah.

COMMITTEE MEMBER TAYLOR: -- what is it in the investment world?

MR. KELLY: Well, it -- actually, I'm sure your -- a lot of your external money managers you've seen a lot of fluidity, especially around the ESG teams --

COMMITTEE MEMBER TAYLOR: Right.

MR. KELLY: -- because ESG has become top of mind for a lot of investment entities and -- and so that expertise has become a hot commodity right now. I know of a couple private funds that had their entire ESG teams raided, just taken right out.

So again, you need to make sure that you're being fair and competitive on the incentive side, that -- Peter referenced the McKinsey study. McKinsey study said you need to go beyond this to look at, you know, what is that work-life balance element, what are the mentoring structures that you have in place, do people have new development opportunities that they can -- they can leverage and to, you know, act -- realize their full potential.

These are things that organizations are really starting to recognize. And I'm sure Michelle's team is right on top of that right now in terms of, you know, some of these other externalities beyond just the compensation element that we're talking about that have a complementary impact on retention.

COMMITTEE MEMBER TAYLOR: So --

MR. LANDERS: Yeah. I think it is part of -- as well as setting that sort of career path, especially if you are, as you're recruiting in even more junior level investment staff having them be able to see the progression and where they can get to in their career. And I think, you know, your policy obviously lays out the compensation opportunities, but, you know, all the other factors, whether it's development programs and things like that, being able to provide, you know, again flexibility, being able to give them, you know, maybe it's one or two days a week at home, and then two or three days in the office. All of those things I think are adding to -- and are being considered a lot more now than solely just the compensation aspect.

And one thing that I think pension funds have a really positive case to be made is really the public good that you're doing, in terms of, you know, people, you know, working on Wall Street, your -- we're just working to maximize profits. You work at a pension fund, you're obviously working towards the sustainable futures for, you know, thousands upon thousands of members. So you have that -- also that compelling argument that should help as well in being able to, you know, do a little bit more public good than just trying to maximizes profits.

So it is a combination of different things and I think it's about making sure that, you know, you have that right balance at the end of the day between all the different elements.

COMMITTEE MEMBER TAYLOR: Well, ours has always been mission driven, so I think that's -- that adds to people wanting to be here, right?

MR. LANDERS: Exactly.

COMMITTEE MEMBER TAYLOR: There's a difference. Yes, we may not pay Wall Street wages, but we are mission driven.

MR. LANDERS: Exactly.

MR. KELLY: Exactly.

COMMITTEE MEMBER TAYLOR: All right. Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Ortega.

VICE CHAIRPERSON ORTEGA: I have a question for

Brad. On the -- just wondering if you're seeing anything in innovation around measuring, you know, whether it's -- whether you want to call it performance or success on the non-investment side. So I -- one of the things that, you know, I think we've struggled with in this state is looking at, you know, the old style of managing based on being able to see someone in the office and then turning that into how do you manage analytical work or project-based work. And I haven't seen anything yet that's really kind of getting into innovating how you could measure that as an organization. I'm wondering if you've seen anything.

MR. KELLY: One -- this is another thing that we teach you on is incentive design, and incentive trends, and the psychological impact of incentives within organizations. If someone can actually come up with a -- you know, a tried and true definitive way of doing that, I think they'll make a lot of money in today's marketplace. But what I am seeing and what we see in all our clients is that an iterative process where you -- you take most of the subjectivity out of it, find ways to establish, you know, performance benchmarks, or time-based award -- time-based results, or something like that, that you can point to and track over time is something. And then also really focusing on what those objectives are and not having a laundry list.

I started my career in the public sector. And as a manager, I was often asked to, you know, come up with what are my key priorities? And I'm not exaggerating here, oftentimes I would have like three pages of objectives and -- on, you know, realistically what was really only like a 4 percent annual incentive.

And so you'd say, well, what's the probability of me really working hard on objective number 52 that's worth, you know, 0.0002 percent of my take-home pay? Very low. But if you can really prioritize what are the key things we want our staff to do, what do I really need you to do before the end of this fiscal year, and how am I going to reward you for that, that's the way to really come with a narrow -- a really clear perspective that people can focus on, sink their teeth in, drive, and be rewarded for it. And that's the key thing is again trying to find focus within it and getting away from, you know, really long, broad expectations over time.

MR. LANDERS: And the only thing I'll add to Brad's points is really about, you know, going beyond just the total fund investment return aspect. And that's where we have seen like, you know, CalPERS does, looking at other things like member satisfaction, customer service, those are areas where, you know, on the non-investment side, you have control over that in terms of administering those pension benefits, answering members concerns. And you should be measuring them, because that is, you know, the whole other side of the business that's also very important. We look at things likes if it's a year where you're doing an asset liability study, you know, pushing that potentially through. Years, like this year where you're working on a Strategic Plan, we've seen organizations look at, you know, do they have sort of confidence in the Strategic Plan that was presented, are there lots of questions, things like that, looking beyond just the pure investment results at, you know, other areas where the non-investment staff can do good work. And that usually is on the efficiency of the operations, the member satisfaction, the customer service that you're providing, moving forward on that Strategic Plan, presenting a Strategic Plan that I think the Board has, you know, lots confidence and a high level of degree of comfort with.

All of these things are typically where we see, I'll call it, the non-investment staff measured against in particular those areas. And then there always is, like we mentioned, a qualitative component, so specific things that you need the General Counsel to do or the CFO to do that are specific to their role and responsibility. That's where, you know, typically that individual or qualitative aspect comes in.

So there's a lot of things that you're already measuring that I think do a good job of looking at beyond just investment results what these non-investment staff can have control over on -- on sort of the member -- the member side of things, satisfaction, administering benefits and things like that.

MR. KELLY: And that's also why, when we look at incentive plans, we always like to have that -- on the pension side, a total fund aspect to everyone -- and I mean everyone's incentive plan. And some organizations will question us on that. But what's -- what's most important is that everyone within a pension understand that regardless of what your roll is, you will have an impact on that bottom line. If you're driving inefficiencies within your team, your department, within your own budget, that takes away from investment opportunities your members. That can get rolled over over time and snowball into, you know, a higher, you know, funded status.

And that's -- that's the real aspect that a lot of organizations, a lot of pensions are starting to look at is to say regardless of what your role is, you will have an impact on this bottom line and our overall annual success. And so therefore, we want everyone to be measured on at least part of your incentive on that top line item.

CHAIRPERSON FECKNER: Anything else?

All right, Mr. Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you. Thank you, Brad, and thank you, Peter, for your presentation. My question is actually back on page 8 your presentation, 22, regarding The Great Recession -- Great Resignation and the impact on employers. You mentioned I this it was that the -- there's a high turnover in the private sector. But how is it in the -- in the public sector and do you see that trend happening more in the public sector, especially in our -- in our world, in the pension -- public pension world?

MR. KELLY: This is a phenomenon that we've seen through all sectors of the North America economy. So it's not just the public, or the private, or retail versus, you know, IT. This is something that we're seeing throughout the entire North American market right now.

COMMITTEE MEMBER PACHECO: And you -- and you see it as a -- as a trend as -- over the next foreseeable future or just --

MR. KELLY: I don't -- I don't think anyone really knows if there's going to be an end to this. You know, there's various theories that this is a great awakening of the workforce. I don't know. Is this -- is this repercussion of people, you know, having to work from home for months on end? I don't know. I don't think we ever will know until we get out of this pandemic situation and the new -- the new work environment becomes normalized.

So I think the expectation is there will be some flex going on, some instability over the next little while. But I think as things start to normalize, you're going to see organizations start to, you know, institutionalize, you know, what is that work expectation being hybrid, remote, internal, external. And then they're probably going to, you know, rationalize how much office space they still need or what have you. There's going to be a lot of that reconciliation that's going to happen over time, but I can't predict where this is going to go, because we're -- I think we're -- we can all say we're in uncharted territory right now.

COMMITTEE MEMBER PACHECO: Well, I totally agree with you with that respect. Thank you very much.

(Laughter.)

CHAIRPERSON FECKNER: Thank you.

Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you. Thank you for the presentation. Brad, I was curious about a couple of things that you said earlier on in the presentation. And, you know, at CalPERS, we are -- we have a one-fund approach, which I think is important, because we're all trying to get to the discount rate and ensure --

MR. KELLY: Um-hmm.

ACTING BOARD MEMBER PAQUIN: -- the long term sustainability. But I think you started off the presentation by saying that right now employers are nervous about losing their top talent. And how do you reconcile the one-fund approach versus a need to try to use these incentives to hold on to the top performers. And I think you mentioned your anecdote about your neighbor.

And I have a relative who I think works at the same company. I and I think the reason why they don't have any performance metrics in those incentives is because if you don't perform, you're gone. And, you know, at a public fund, it's a little bit different. So how do you reconcile that approach?

MR. KELLY: It's a very interesting question. Well, what I can say is that Peter and I have been quite vocal since day one working with your organization about the one fund philosophy. We feel that a fund performance element is very key, as I just mentioned, for everyone's incentive, both short and long term, because that's what you're focused on is your long-term sustainability and hitting that actuarial benchmark on an annual basis. That is going to keep this -- this pension sustainable and allow you to meet your pension promise over time.

However, we often -- we look at it and we say that you do need to have an element especially to recognize individual- or team-based performance. And this is something we're coming back to this Committee on in terms of reintroducing asset class performance, to recognize individual and team performance, because that -- that is very important to differentiate your true top performers versus your non-performers.

And on the trend -- the public pension trend of, as you referenced, the possibility of being terminated if you're not -- a non-employer -- or a non-performer, we can honestly say that most of the so-called transformed funds in the market today have adopted that philosophy. If you don't perform, you will be asked to leave. If you don't comply with our Investment Policy and due diligence practices, even though you have some autonomy on the investment side, if you breach that responsibility in any way, automatic grounds for dismissal and they are dismissed and walked out. It's a different mindset, but it actually really helps to reinforce that accountability model and the performance expectations of your team.

You're seeing a much more -- I wouldn't -- I wouldn't call it a professionalization, but more of a private sector practice or market practice within these investment entities, because they see themselves not so much as public pensions, but really competing investment entities, because at the end of the day, CalPERS is competing against the BlackRocks of the world, right? When you're going out after an asset, there's -- there's thousands of funds out there, both public and private, that are after the same assets. And, you know, the opportunity doesn't actually play favorites here, so you need to find a way to be as competitive and as opportunistic as you can to again protect that -- that pension promise that you've made to your members.

ACTING BOARD MEMBER PAQUIN: Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. Brad, Peter, I want to go in a little bit different direction with a question. In public service across the U.S., and I suspect across North America and many other places, it's an increasingly angry environment. And we see various places where that's playing out. And for those who are in public service, they're finding themselves exposed to significantly higher contention and frustration with their work being expressed, certainly compared to what I remember when I started too many decades ago. That has a significant role to play in terms of how satisfied people are with their work. If you don't feel like you can ever succeed, it makes it very frustrating to go back at it.

Are there organizations that you're finding that are doing a better job of providing better insulation, or better protection for their staff, or just simply better communication with the stakeholders, so that there is some diminished anger that -- that our staff has to face?

MR. KELLY: Ms. Middleton, ironically enough, I can share this. When I started my career with the Canadian federal public service --

COMMITTEE MEMBER MIDDLETON: Um-hmm.

MR. KELLY: -- I worked on the renewal of the Canadian public federal public service. And I helped to spearhead a group that created a number of recommendations and ultimately made recommendations from a youth perspective, and, you know, what we'd like to see. And one of the key things we said was -- and this is years ago. I think this is in the 90s we recognized this exact trend. And that -- you know, the media unfortunately their mantra is if it bleeds, it leads.

COMMITTEE MEMBER MIDDLETON: Um-hmm.

MR. KELLY: And they want to, you know, expose everyone's skeleton. And that's -- that's what everyone wants. And the public service -- philosophically, I can say, having worked in the public service for well over a decade, the public service has allowed that to happen and has never really got a handle on talking about the social good and the impact that it provides communities, states, countries.

COMMITTEE MEMBER MIDDLETON: Um-hmm.

MR. KELLY: And it's allowed this negativity to prevail over time. So can I point to one organization, No. What I would encourage you to do is to start to objectively track -- and this is a conversation we've had with all of you when we first started, which was understand the facts, understand the numbers, understand how to defend the decisions that your Board is making on the compensation and governance side, so that when there are the naysayers out there that are throwing out, you know, skewed data, or misinformation, or old data that no longer applies to what's being discussed today, you have the -- the wherewithal and the objectivity to refute that in public, and to communicate better with your members to say this is what the perception is or this is what you might have heard, but here's the underlying principles behind it, and here is how we compare objectively to the market, and here is how we're protecting your pension promise, and here's how we're shoring up the performance, and the accountability framework within our organization to guarantee you get the returns you need.

And if you can do that in an objective way, as we always say, you'r taking the wind out of the sails of the naysayers, and you're actually, you know, truth -- truth has power. And so speak the truth, know the truth, and I think over time -- and be proud of it, and over time, you know -- I may be an optimist here, but over time I think people -- and as Peter mentioned, youth -- and this is way before the pandemic, studies came out that, you know, recent graduates were willing to take up to a 30 percent pay cut in their first job, if it had purpose. This is a purpose-driven generation that we have now. And if you can show your purpose, and amplify that, and show how you're making impacts, then I think you'll -- you will not have a problem in attracting or retaining the talent you need.

COMMITTEE MEMBER MIDDLETON: Thank you.

CHAIRPERSON FECKNER: Thank you.

No other requests to speak. Thank you.

Anything else on this item?

I guess not.

Then we move on to Item 7, action agenda item, the review of the Board's Compensation Policy. Ms. Tucker.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Good morning.

CHAIRPERSON FECKNER: Good morning.

HUMAN RESOURCES DIVISION CHIEF TUCKER: And thank you, members of the Committee. Nice to be with you today. Michelle Tucker, CalPERS team member.

Item 7a presents initial recommendations from the Board's primary compensation consultant, GGA, on proposed revisions to the Board's Compensation Policy for the executive and investment management positions.

Periodic reviews allow for revisions to ensure policy provisions remain aligned with CalPERS strategic goals and Board priorities. GGA has conducted an in-depth review of the policy and will present their observations and recommendations today.

The revisions can be categorized in two ways. First, there are certain key topics for the Committee's consideration. And those are denoted in red text on your attachment. And then second, there's several administrative or non-substantive changes that add clarity to program administration, participants, and stakeholders. And so those are denoted in green text on the second attachment.

We anticipate that some of the key topics will require Committee discussion and input, so recommendations can be finalized and then presented at the June 22 meeting in time for implementation for fiscal year 22-23.

So that does conclude my opening remarks and I'd like to invite Mr. Landers and Mr. Kelly to begin the presentation.

CHAIRPERSON FECKNER: Thank you.

(Thereupon a slide presentation.)

MR. KELLY: And thank you very much. Again, to point out, that we did our best -- there was a lot to unpack here when we were first asked to review the policy, and -- and instead of providing you with a red-lined version that would be very, very difficult to follow, we tried our best, as Michelle pointed out, to -- to indicate to you clearly in a visual way what are the substantive changes that will require your concern, and your decisions, and your -- your active engagement on this and what are just, you know, elements of additional clarity and better defining what it is the policy is meant to achieve over time.

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MR. KELLY: So we'd like to start out just to be clear, this is an iterative process. We've just started here. So these are some of the key findings that -- that we'd like to talk about today. And -- and then as we -- as a Michelle had mentioned, we'll be coming back at the next -- at the next meeting in June to have specific wording and specific changes based on today's discussion.

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MR. KELLY: First off, when we -- when we took a look at the policy, one of the key things that stood out when we started was that your policy doesn't have defined principles up front. Usually, there's a purpose and principles -- foundational principles upon which everything is premised. And we noticed that this is a key element that is missing. Some of the principles and concepts are blended in with the opening purpose of the policy, but they're not definitively stated. And so we're recommending that definitive principles be established and articulated up front.

And because this is a policy that will affect your executive team, and principally will affect your Chief Executive Officer, which is the principal individual that you're responsible for in terms of your fiduciary duties, we are -- we're asking that the members of this Committee work with us in helping to define what those principles are. Because again, this is a policy that your -- your Board needs to own, and in so doing, you need to participate in defining.

Peter and I could unilaterally do it, but that doesn't reinforce the fact that this is your policy, and this is something that you need to own and your voices need to be heard in terms of establishing these principles.

Any questions on the first item?

We're just going to go item by item here.

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MR. KELLY: The timing of the compensation assessments. When we look at the timing -- and we'll get into this in the next item when we talk about the compensation benchmark assessment and our recommendations around that. What we noticed is that there's been a significant amount of time that's gone on between deep dives, or strong benchmark practices, or exercises. And as a result, you know, it's not a surprise that you're now, you know, more misaligned with market than you typically would or should be.

And so looking at this, if you -- the longer you wait in between assessments, the longer that -- or the wider that gap that could actually exist. One of the key things we've seen is that there's -- as we mentioned in the education session, there's a lot of discussion around incentives, and the purpose of incentives, and the need and importance of incentives. And a lot of pensions have opened up to the need for pensions. For the longest time when Peter and I talked about incentives with the pension community, we get blank stares, and we were told no absolutely not, that's not in the cards. Now, all of a sudden, it's something that is -- it's much more prevalent. We've just been asked to speak at a national conference and do, you know, a general session on that exact issue, which is the prevalence of incentivization within public pensions within the U.S.

And so looking at that, you know, evolution of incentives, you've now found yourself, you know, off or misaligned to what that -- the market median is. And so to minimize that -- that impact, what we're recommending is that as a point of the policy, you reinforce the fact that you will commit to doing one of these market studies, at least every two years, so that if you do find that you're misaligned, they're minor -- minor changes that aren't as material, that are just minor tweaks, and not any -- are not material adjustments, okay?

CHAIRPERSON FECKNER: Before you go on, Brad. Can you back up to the previous slide.

Down in your recommendation, it says you'll work with members of the Committee. How is that? Is that at this meeting forum, or is that one on one? How do you envision that?

MR. KELLY: We would propose to have open dialogue with each of you one on one and get your views and opinions, collect them, and then we would consolidate that into, you know, what would be viewed as the collective agreement, or preference of your Board members.

CHAIRPERSON FECKNER: So given that -- because that's I thought where you were heading. Given that, I think it might be more advisable that you do that meeting with all the Board members, not just the Committee members, because that will stop some back-end stuff later on, because they weren't involved in the process. So if you're going to gather that information, it probably should be from all Board members, even knowing that the Committee will be making the decision.

MR. KELLY: That's fair and we're happy to address that concern.

CHAIRPERSON FECKNER: Maybe not.

CHIEF EXECUTIVE OFFICER FROST: No, I was not going to disagree with your comments, Mr. Feckner, but we would need to work with GGA to make sure that we comply with all the Open Public Meetings Act requirements

CHAIRPERSON FECKNER: Sure. All right. Thank you.

MR. KELLY: Are there any questions on the timing element?

CHAIRPERSON FECKNER: No questions.

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MR. KELLY: Moving to the private sector peers. One thing that we noticed within the policy is that you have a definitive outer limit in terms of the size of the private sector peers. I recall it's roughly about 350 million. Again, that dates your organization, because again it sets an expectation of assets under management that no longer apply to your organization.

And so what we would recommend here is that you adjust that from 350 to one and half to two times, which is really a fluid market standard. We would -- we want you guys to continue to grow. We want to see you over half a trillion and beyond. And so therefore, we don't want to actually just benchmark you against a steady state number. We'd rather have something that's more of a range that allows you to, you know, continue to evolve.

But that being said, how many organizations are out there that are of your size? Not many, and that's part of the struggle that you have and that's also part of the methodology that we'll have to consider moving forward.

MR. LANDERS: The only thing I want to add is while this specifically relates to private sector peers, we are not suggesting that you go to a full private sector peer group to benchmark pay. This is just speaking to, as part of that blended peer group that I was talking about earlier, the private sector component of that blended peer group. So we still recommend and we've -- you know, as you'll see in the policy document, there still will be, of course, a public sector comparison against other pension funds, other State agencies for the management level staff as well. So this is just speaking to that private sector component of the blended peer group. So I don't want anyone to think we're advocating for a full-blown private sector peer group only.

CHAIRPERSON FECKNER: All right. Thank.

I have Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Thank you.

I do have a little bit of hesitation on this one. I do feel like bringing -- making this change, looking towards future assessments of where the fund is, as compared to the market, we're going to end up with that outer bar growing -- you know, every time, because you've brought in these larger funds. I think it would be very helpful to though what is -- who's coming in then? What -- what are we -- what are we going to then start comparing ourselves too?

I don't feel, at this moment, that I have a lot of insight into who's in the comparator group now in terms of the private sector side. And so making that an even larger group and at a higher dollar amount, it just feels a little like it's just a -- I'm just put up a warning flag that it feels like it's just going to result in a bigger gap as compared to market, but maybe those aren't really, you know, truly good comparators for CalPERS. So I'd like a little more information about who that is before we do that.

MR. KELLY: Mr. Ortega, that -- that's a very good point. And that raises the question with regard to who are you attracting your talent from and who are you losing it too? And that's what we always need to be -- you know, take into consideration when we look at this. You are a -- an investment entity, first and foremost. You -- you've been entrusted with managing and overseeing close to a half a trillion dollars on annual basis.

And so therefore, when you look at this, you can't look at it strictly from a public sector or private sector view. And if you were to say that we're only going to benchmark against specific organizations of a specific size, there has to be some fluidity in that peer group, because peer groups evolve. Even some of the pensions, you'll see some pensions will amalgamate, right, and they will no longer be in existence, become State funds as opposed to, you know, iterative or smaller funds.

So there's going to be evolution in the market, so your policy needs to reflect that evolution. And so this is something that on an annual basis, when you ask an organization like McLagan who has just done your recent benchmark study, who's in that peer group? Who are they and have them listed. Then you can take a look at it and say, yes, this definitively represents CalPERS and who we are. You always want to compare apples -- what we say apples to apples, in terms of size and scope for the organization, and the responsibilities, and skill level required to manage and to operate that organization.

And so we always would advise not to have a steady state in mind, but understand what the parameters are for you defining that peer group, so that each time you go to market, you have those parameters that you can go to your external benchmark service provider and say here is what our policy states. We want you to work within these parameters.

And that will allow you to consistently compare yourself to an applicable market, where, again, you might lose talent to or be able to retain talent from.

VICE CHAIRPERSON ORTEGA: Yeah, I think -- if I may, Mr. Chair.

CHAIRPERSON FECKNER: You're still on.

VICE CHAIRPERSON ORTEGA: On that point, I would like to see a little bit of data when we come back to this on June in terms of where we are recruiting our folks from and where they're going to. You know, from the CalHR side, we look at all of this data very closely, typically by bargain unit, not by department. But the information I have suggests that we're not actually recruiting that many people from the private sector from outside of State government, at least at the executive level at CalPERS.

So I think it would be helpful to see what information the Department has -- what CalPERS has on that when we talk about this in June.

MR. KELLY: And we would be happy to help you with that. One thing that I'd like to say is that as CalPERS continues to evolve, and as CalPERS continues to evolve its investment practices, and its investment capabilities, and its competitiveness in the marketplace, you're going to see that you're going to need to compare yourself more and more to the private sector. I think the most recent hiring that you've made at the CIO level is a testament to this, bringing this individual in from the private sector. She has public sector -- or public pension experience, but you, more or less, recruited her from the private -- private market.

When you look at individuals who are working in or supporting organizations of $100 billion or more in assets under management, it's a smaller pool. And as you continue to evolve, that pool will become smaller and smaller. And so you need to always be competitive to continue to evolve. And not so much -- and I mean this in the -- the most respectful way -- not so much as a public sector entity, but as a competitive investment entity, because that is where you're going to make the biggest bang for your productivity buck to say going forward.

And this is where the -- what we would call the transformed funds have really evolved. And as I mentioned before, the accountability structures are very rigid. The termination policies are very rigid, but the compensation has evolved too.

And when you look at some of these entities who now have active investment offices all over the world and are able to quickly get immediate access to the really good investment opportunities and assets that become available, this is the world that you need to compete against more and more. And this is where we would encourage your fund to move forward evolving its internalized investment practices and capabilities, relying less on external entities, and taking those savings and rolling them in to greater investment opportunities for your members.

That is the -- the Canadian recipe. We hate to use that term, but it's a transformation recipe that has shown that, you know, funds that are now fully funded or overfunded right now, they've adopted that strategy earlier on and have abled -- they've been able to really effect change within their organization, and generate savings that have again gone into investment opportunities to really shore up their -- their funded levels.

VICE CHAIRPERSON ORTEGA: Thank you for that. And I think that is a very fair point on the investment side. I think the data that I've seen doesn't quite show that same argument holds up on the -- on the administrative side. And, you know, Sacramento is a small employer base, right?

MR. KELLY: Um-hmm.

VICE CHAIRPERSON ORTEGA: We have a lot of State employees. And the majority of the employees are coming from within State government that come to work on the admin side. So I just feel like there's a little less of the comparison on the folks that you get into some of these other executive level administrative roles.

Just one last thing on the data that would be helpful to see. In the February meeting, there was a discussion about a turnover study that I think CalPERS was going to get. I looked at the transcript and it said

CalPERS was going to be invited to participate in it. And I think perhaps CalSTRS was participating in it as well. And it was -- there was a discussion about how that would be made available to us at some point. So I just wanted to follow up on that as well.

CHIEF OPERATING OFFICER HOFFNER: Thank you. Doug Hoffner, CalPERS team. That data from McLagan is not still available and it won't be probably even by June. So they did present that comment, but it's not necessarily at our fingertips at the moment, yet.

VICE CHAIRPERSON ORTEGA: Okay.

CHIEF OPERATING OFFICER HOFFNER: So we can circle back --

VICE CHAIRPERSON ORTEGA: Okay.

CHIEF OPERATING OFFICER HOFFNER: -- but unfortunately that's not -- we could talk about CalPERS related specific retention and those kind of things --

VICE CHAIRPERSON ORTEGA: Sure.

CHIEF OPERATING OFFICER HOFFNER: -- and bring it up, but it's not something that they even have completed yet. So I think they unfortunately got a little bit ahead of themselves in that statement.

VICE CHAIRPERSON ORTEGA: Okay. Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you.

I appreciate the discussion. I appreciate Ms. Ortega raising these issues. And we would really appreciate being able to see some of that data too for the June meeting least for the CalPERS side. And I think it would be helpful, even on the investment side, to see where we are recruiting from, which private firms, and where are our staff going to.

MR. KELLY: When you look at the recruitment in terms of comparison to the public and private, as Peter mentioned earlier, we strongly advocate that you have what's called a blended peer group, both public and private, because you are a public institution, but at the same time you're competing against a private market.

And one caution that I'll raise with this Committee this morning is that definitely look at the McLagan data, look at the attrition levels, but don't base your opinion on, you know, whether or not you're experiencing significant levels of attrition.

And the reason why I say that is anyone who's been involved in managing a dike, when you look at it, you don't get alarms -- you don't sit back and wait for the hole to start in the dike. You need to do some iterative maintenance over time and be on top of it. And so I would stress that -- or I would ask this Committee to please take a look at the data, but not pause and wait to wait for there to be an alarming concern that you need to address. Don't be reactive, be proactive, and consistently look at, you know, how can you continue to be competitive to market.

In the peer group -- the blended peer group of both public and private organizations, it includes both investment and non-investment staff members. Even the private sector, a lot of these funds that you're comparing yourself too have executives that are non-investment staff, but are still helping to achieve the collective goals and objectives of that organization.

And so again, you need to be benchmarking against those individuals, looking at your non-investment staff to make sure that you're being fair and competitive in that market.

ACTING BOARD MEMBER PAQUIN: Thank you.

CHIEF OPERATING OFFICER HOFFNER: Mr. Chair, can I make one clarifying statement. So we did receive some material from McLagan that we did participate in, but it was all the return to office kind of data related to the public pension systems. So that's -- we do have that we can bring that in June. It wasn't -- it came in right before the Committee meeting, but it doesn't hit on Eraina's question.

CHIEF EXECUTIVE OFFICER FROST: Mr. Hoffner, I've already sent that to the Board.

CHIEF OPERATING OFFICER HOFFNER: Okay. Yeah.

VICE CHAIRPERSON ORTEGA: No. This was about turnover.

CHIEF OPERATING OFFICER HOFFNER: Correct. I've been saying there -- there's sort of -- I just wanted to make clarity that we did get some McLagan data, but it's not about -- it's more about hybrid schedules and plans, et cetera, and the other stuff is still not available yet.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Thank you, Mr. Chair.

I want to thank you both, Brad and Peter, for the presentation. As I've been listening to you and I wasn't going to talk, but as I've been listening to you, I keep hearing this -- the public-private, right, and we need to keep going, and we need to really measure ourselves against that, including, and you just finished saying, our administrative staff. And I just want to remind us that we have a civil service -- we are civil service. Canada is not the same as we are, by any means, neither is private sector.

And if we get too far out ahead of our civil servants, our actual rank and file civil servants, which we do have in the Investment Office, but of course all overrank CalPERS, you are creating an us and them situation that we have to be very careful of. And then in addition, the press that that would garner gets difficult to manage. So I think we need to, you know, take -- take in the information that you're giving us, right, and look at it with -- with the holistic view that we are still a civil service organization.

So I don't have a problem with making sure our Investment staff is appropriately compensated, but I don't want us to get too far ahead of our skis here and think that every manager, et cetera -- we have a civil service management tier that -- that we can't really break out of in a lot of ways, so...

MR. KELLY: And you'll notice in the policy that it still stipulates that executive positions, the blended peer group still would include State agencies. So those State agency roles would be included as a data point and that would have a downward impact on the overall factor --

COMMITTEE MEMBER TAYLOR: Yeah, and I just don't want to see us -- because rank and file is not going to appreciate the fact that, you know, the higher-ups at CalPERS are making 10 times to 50 times what rank and file is making. So I just want to make sure that we're not getting way out over our skis here, so -- but thank you.

CHAIRPERSON FECKNER: Thank you.

No other requests, please continue.

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MR. KELLY: Excellent. The next element that we note -- that we identified within the policy was a phenomenon that we'll see not just well throughout North America, which is this misperception that external resources have a higher value than internal resources. I don't now how this has evolved, but it has. And it's plagued organizations for the longest time to the point where some organizations, you know, internal employees feel that the only way to ever make it up the progressive ladder within the organization is to quit their job, work for an external organization, and then reapply for the job they really want within your organization. That causes a lot of, you know, productivity gaps, and material impacts on your workflow, and the cost of managing your human resources.

So when we look at your policy, one thing that we noted was that there was -- there was no way of objectively and equitably treating internal versus external candidates for any particular role. And so what we felt would be important was to have an objective methodology in place where hiring managers would go through and be able to score both internal and external candidates in an equitable way, so that there's fairness being addressed to both or all candidates. You never want internal candidates not ambitious to move up or feel that they're going to be treated or considered less valuable for an opportunity moving forward.

And so one of the things that we're recommending here is that we work with the CalPERS HR team to establish, you know, what will this framework be and how can this scoring methodology be put in place to again encourage your internal candidates to feel that they're going to be treated in the exact same objective way as any internal candidate moving forward.

And with no questions, we'll move to the next one.

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MR. KELLY: In terms of merit adjustments, we talked about this briefly in the education session. Most recent data coming out is around that 3 percent adjustment, merit increase -- expected merit increase, which is high in today's marketplace. And so when we look at 3 percent, we say, okay, well, you know, roughly your -- your workforce should be moving at 3 percent annually, and the lion's share of your employees should be at, what we would call, target performance. A lot of organizations say we're a high performing organization, but how do you differentiate performance internally? And that's what merit increases really should be looking at is, you know, what are your high performers within your organization, and how do you -- how do you identify and objectively reward this performance?

One thing that we do -- we do know is that the State standard is 5 percent at target for a merit increase, but we also recognize that the overwhelming majority of State employees don't have an annual incentive and don't have a long-term incentive. And if you look at a 5 percent merit increase that gets amplified by the percentage of that base in an -- in annual incentive and a percentage of that base in a long-term incentive, you can see how this can quickly rollout, and it could be seen as unsustainable.

So what we would -- what we would like to see is more of an objective standard be put in place, where managers would be told, you know, roughly -- to be aligned with market, as we stated here, roughly about 60 to 70 percent of your team needs to be around that target. And then only about 25 to 30 percent should be considered above target. And what we also would like to see to make it a little more difficult for managers to be honest is anyone that you deem above target, justify it, do some administrative work, put in a report. Why is this individual deemed higher than the rest of your team and why do they -- why should they receive a merit increase above what that standard is going to be?

And by doing so, you better calibrated the distribution of talent within your organization. And to be honest, it helps you to manage your HR budgets in a more and effective way, recognizing the fact that you're an organization that does have an incentive structure that's unique to the rest of the State. And that's the impact that we want to get out there, that, yes, you may not be getting the same increase -- merit increase as an external or non-CalPERS employee, but is amplified in your incentive structure. And so you have a higher opportunity at the end of the day. And that's the real benefit employee should be seeing on an annual basis.

CHAIRPERSON FECKNER: Thank you.

Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Thank you.

This would be another area where it would be helpful to see some data when we talk about it again in June in terms of the -- we talked about what the average merit increases are in North America. It would be helpful to see what the merit increases have been for the positions we're talking about at CalPERS over at least a few years.

I have a lot of concern about whether it's realistic for the organization to move away from that 5 percent as sort of the expected standard, because that is sort of the culture of how merit increases work in State service. And on the rank and file side, that five percent until you reach the max of the range is pretty common, unless there's a performance issue. So I don't want us to build a compensation system based on this ability to focus on a -- you know, this more closer to the 2 or 3 percent average, and then it's not going to really be implemented that way. And then the -- you know, the salary will escalate a little faster than what your assumption is base on. That will, as you say, amplify the incentive award.

And so I'd like to have everybody thinking about that a little more about whether that's a realistic change. And if not, maybe then adjust the recommendations to be consistent with if it should stay at the 5 percent. So it would be helpful to see if the number has been -- as I -- as I recall, there's quite a few 5s and 7s in the last few years as we've looked at the -- the decisions from the CEO. So thank you.

CHAIRPERSON FECKNER: No other questions.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Ms. Ortega, we can certainly pull the multiple years when we return in June. But for the last fiscal year, the average base pay increase was 5.2 percent for these covered positions.

VICE CHAIRPERSON ORTEGA: Okay.

CHAIRPERSON FECKNER: Go ahead.

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MR. KELLY: Excellent. Thank you.

The other element that we recognize was the treatment of prorated awards and this would be individuals that come into a role within the fiscal year or are terminated versus -- through, you know, multiple methodologies, retirement, disability, death, or just voluntary termination and how these awards are being treated. One of the things that we can address is the treatment of individuals coming in within a fiscal year. The typical practice that we see is that employees -- new employees are typically made eligible for an incentive if they come in within the first 6 months, right? If they come in within the first six months, they will have a material impact on that -- the realization of the performance at the end of the year, and the achievement of those objectives. And so therefore, they rightfully should receive a pro rata award for that year.

Where we see there being an atypical practice here is where individuals coming in the latter half of the year often are extended an incentive at the fol -- end of the following year with the additional tack on of the months that they came in earlier on in the previous fiscal year. This is a practice that we don't normally see. And it also leads an organization to be extending an award based on objectives that you, your Board, have defined as fair and defensible for that fiscal year. And now you're applying it to a previous fiscal year as well and a previous performance period, where the environment may have changed.

And so we're recommending that the organ -- that CalPERS identify the fact that individuals coming in within the first six months would be eligible, individuals coming in the latter half of the year would be made eligible for the next 12 month performance -- performance cycle and not receive a pro rata award that goes beyond that 12-month cycle. That's fair, that's defensible, and allows you to keep everyone focused on the objectives of that fiscal year.

And we see that as -- as a -- an optimal way moving forward. We also are looking at the use of discretion under special circumstances. And this would be through, you know, death, disability, retirement. We feel that the utilization of leave credits, especially around retirement can be problematic for organizations, because it allows individuals to stay within a role. And we're not saying that this is prevalent, but we're saying that we identified this as a possibility that someone could retire and then use their relieve credits to stay as part of a CalPERS organization, and remain eligible for inventive awards. So what we're recommending is that we work with CalPERS HR and we work with your legal counsel to better define the feasibility around the use of discretionary awards, and how you can better define the use of leave credits, and the level of eligibility that an employee would have to a pro rata award, especially at the tail end of their career.

CHAIRPERSON FECKNER: Okay.

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MR. KELLY: And no questions, the next is the treatment of retirement again. As I mentioned before, again this would be a pro rata award. And we want to make sure that again your organization is treating retirement properly and again utilizing -- or better defining how employees can apply their leave credits moving forward.

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MR. KELLY: The discretion around eliminating, adjusting, deferring incentive payouts, one thing that we noted is that there was -- there could be a benefit to having more definitive, what we would call triggers, in place to best define, you know, under what circumstances would your Board have the discretion to eliminate, adjust, or defer any incentive awards, and also to clarify to employees what their expectations could be if, at any point, they were to, what we would call, have any sort of employment practices that would trigger any of these events that we've defined in the -- in the policy.

Again, this is for greater clarification, and again, it's for your Board to have a more definitive structure that it can utilize. Oftentimes, unfortunately, what Peter and I will see in these policies is a certain level of vagueness. And so what that ends up -- what it ends up leading to is a sense of complacency and inaction from the Board, to be honest, where the Board just says it's kind of vague. We don't know, so we're just going to let it go.

What we'd like to do is have a more definitive structure in place that provides clarity for your Board and for your plan members, so that everyone knows that, you know, what is within the purview of your Board's discretion and what can -- what can your employees expect if -- again, if they were to -- to do something that would trigger some of these events.

MR. LANDERS: Yeah. And the only thing I'll add to this is this is something that a lot of pension fund boards in particular, especially those, funny enough, with

June 30th year-ends really struggled with in terms of COVID in 2020. So they're really having a broad discussion to say, you know what, we've sort of hit our objectives, but we're in this environment where -- you know, where COVID has hit, our members are being impacted. And so while the financial results and the financial triggers didn't necessarily have it, they're having discussions around things like headline risk, and reputational triggers, and things like that.

And so this is where they start to really, to Brad's point, we want to say we don't want to keep it vague. We want to at least give our Board clarity and our affected staff members clarity on when these triggers potentially will hit. And that doesn't mean that you necessarily choose to eliminate, adjust, or defer, but it at least gives you the chance to have that discussion, to have a -- really a defined area to say, okay, we have these six or seven triggers. Were any of these hit this year? If not, well, we'll proceed as usual. If there was one or two hit, let's have a frank discussion. Do we feel that, you know, we have to eliminate, adjust, or defer?

What I can say in practice is a lot of boards, and I think a lot of it is due to some of the discussions we've had earlier about being market competitive, they don't necessarily always choose to use that discretion, but at least you have the ability and the clarity to have that frank discussion, when those specific triggers are hit. And I think coming out of situations like COVID and certain timing when you can have market downfalls at different points of the year, it's just important to have that level of clarity on when these triggers are hit, so that you can then have those discussions and figure out the appropriate adjustments to make.

CHAIRPERSON FECKNER: Very Good. Thank you.

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MR. KELLY: And then the next section here is just on some of the administrative items that we identified and are recommendations moving forward. One of the general ones is around the standardization of performance. Looking at the policy going through it, as it stands unedited, it utilizes, I believe, roughly about six different scoring methodologies, in terms of different levels, different definitions. And one thing, to provide some level of administrative clarity and ease of applying this policy, we are recommending that CalPERS adopt one generic standardization methodology, five levels or a five-tiered structured, so that anyone utilizing or anyone assessing performance within the organization has kind of a general understanding of what each of the five levels are, whether it's applied to the short-term inventive or merit increases. It's something that can be universally understood as opposed to trying to, you know, discern which -- which standard are we using, which methodology. We just feel that one -- one standard -- one universal standard would be the best way to move administratively.

CHAIRPERSON FECKNER: Okay.

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MR. KELLY: And then finally, this is something that we've been talking to your Committee and your Board about since we started our engagement with your fund, which is moving away from the subjective elements of the incentive plan, finding more ways to objectively score and communicate that scoring over time. And one of the things that we noticed that there was a bifurcation of the objectives. And it definitively said throughout the policy, quantitative and qualitative. And the qualitative side dealt with, you know, individual key business objectives, which could be quantitative, which could be objectively stated, could be what we would call smart goals. These are specific measurable, attainable results based, time bound, and ethical, and results-weighted or risk-weighted.

And so we -- we would ask that throughout the policy, even though some of these key individual objectives could be objective, they're still deemed as qualitative, which has this notion of subjectivity to it. And again, that could open you up to criticism. What we would like and what we're proposing is throughout the policy anything that is -- was deemed qualitative refer to what it really was meant to be, which is the key -- individual key business elements and then continue to evolve that side to find ways to objectively score, and record, and communicate the results going forward.

CHAIRPERSON FECKNER: Okay.

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MR. KELLY: And that leads us to the end. Are there any general questions with regard to the policy? Again, this is an iterative process. This is our first -- first step, and that -- at the June meeting, we'll be coming -- coming forward with more definitive changes or definitive wording around a lot of the suggestions we made today.

CHAIRPERSON FECKNER: Ms. Ortega.

VICE CHAIRPERSON ORTEGA: I had more of a process question in terms of like the items where you say you'll be working with CalPERS HR and Legal, and when this comes back, will it be kind of a recommendation, this is what everyone thinks works or how do you envision that working?

CHIEF OPERATING OFFICER HOFFNER: Yeah. So I think -- Doug Hoffner, CalPERS team. So I think the point that they were trying to make there is to bring clarity back and that there would be a red-lined policy --

VICE CHAIRPERSON ORTEGA: Um-hmm.

CHIEF OPERATING OFFICER HOFFNER: -- at the end of the day, so you have sort of the top level items that me mentioned, but also that clarity there. I mean, there's some questions are the IRS tax codes implicated in, I think, two slides making sure that there's nothing. We're clear about that. There's recommendations, but I think we need to just double check and make sure that those are consistent with those tax practices, et cetera, so -- but I think that we'd just be bringing back with a top line -- red-line document for full approval. Otherwise, we have the existing policy that's still in place come the new fiscal year, so --

VICE CHAIRPERSON ORTEGA: So just to clarify a little bit, the policy that will come back in June will have Legal and HR sign-off that those items work. I'll give you a specific example. The discussion about retirement and people -- you know, it seems like it's sort of getting into people burning leave or something. Those are things that may not -- you may not be able to just say we're not going to have that, right? There's other State requirements.

CHIEF OPERATING OFFICER HOFFNER: Oh, for sure.

Sure.

VICE CHAIRPERSON ORTEGA: So that's what I'm getting at.

CHIEF OPERATING OFFICER HOFFNER: Oh, no, for Sure. Understand.

VICE CHAIRPERSON ORTEGA: It may be a practice in the private sector, but maybe --

CHIEF OPERATING OFFICER HOFFNER: And I guess that was point is trying to clarify that, that these may be industry practices --

VICE CHAIRPERSON ORTEGA: Yes.

CHIEF OPERATING OFFICER HOFFNER: -- are they applicable to system --

VICE CHAIRPERSON ORTEGA: Yes.

CHIEF OPERATING OFFICER HOFFNER: -- in the State of California --

VICE CHAIRPERSON ORTEGA: Right.

CHIEF OPERATING OFFICER HOFFNER: -- and California law, et cetera. We need to make sure that those are fully ironed out so --

VICE CHAIRPERSON ORTEGA: So the one that comes to us in June will have all the -- vetted all of those things?

CHIEF OPERATING OFFICER HOFFNER: Yeah, that would be the plan.

VICE CHAIRPERSON ORTEGA: Yeah.

CHIEF OPERATING OFFICER HOFFNER: Yeah.

VICE CHAIRPERSON ORTEGA: Got it.

CHIEF OPERATING OFFICER HOFFNER: Sorry. Thank you for clarifying that.

CHAIRPERSON FECKNER: It doesn't mean there won't still need to be more.

VICE CHAIRPERSON ORTEGA: Sure.

CHAIRPERSON FECKNER: Right.

Mr. Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Again, thank you, Brad and Peter, for your presentation. I just want to ask a question about on page -- back on the triggers, with the eliminating, adjusting, and deferring incentive payouts. So in your experience with other boards, you mentioned that other boards, you know, either will -- when they get trigger, they will either voluntarily do something about it or not do something about it. In your pro -- in your experience, should -- should a board do something about it or just let it be passive? It's -- I -- it's a very good -- I just want to understand that process. Thank you.

MR. LANDERS: And I hate to say it depends, but it depends I think on the level of infraction. You can imagine that, let's just say we've put out an example of an investment performance trigger. Well, if you miss the benchmark by like one basis point over your threshold, that's different than missing it by 400 basis points from your -- from your standard sort of threshold level of performance.

You know, you might have some egregious act that an individual has -- has made that's causing headline risk or it's causing reputational risk that, you know, you want to set an example for, where there might be some broader ones where you're just saying as a board, well, it's tough time. Our State employees are having a salary freeze. Should we really be making an adjustment or making an incentive payout? Well, that's a little different. That's a scenario where, yes, there's a potential for negative, but it's not an egregious thing that, you know, a person or the staff have done that's caused that reputational risk. That's a perceived one.

So it will come down to I think the nature of what we're talking about, what trigger has been hit, the amplitude or the magnitude of how that trigger has been missed, or not adhered to. And that's really what a lot of boards really I think take into consideration. And that's why I state that the majority of times, it is usually something that's pretty close to hitting a threshold, or there's five different thresholds and you've missed maybe one out of the five. You haven't missed like all five of them. So then usually the Board will use its discretion, say, we'll generally, you know, still pay it out as intended, or we might reduce it a little bit, but it's -- it's very rare that you see them decide to completely eliminate the award, unless it's an egregious action or a material, you know, like total fund missed by, you know, 500 basis points or something. Like it's something really egregious.

COMMITTEE MEMBER PACHECO: Or it has something to do with reputational risk --

MR. LANDERS: Exactly. Exactly. So it will be -- come down to the circumstances I think and how egregious or how much you underperform in those triggers, that I think the Committee should have a frank discussion about and really say does it make sense to send a message here to not.

COMMITTEE MEMBER PACHECO: So do you think those triggers -- I mean, in respect to establishing this particular area in the policy, do you think we should have some flexibility in how these triggers work? I just need some clarification on that.

MR. KELLY: There should always be a level of discretion that the Board will apply. Our intent here is to have more of a defined framework through which you can apply that discretion.

COMMITTEE MEMBER PACHECO: I see. Thank you very much. That clarifies it very clearly. Thank you.

CHAIRPERSON FECKNER: Okay. No other requests to speak. Anything else?

All right. That brings us to Agenda Item 7b, Compensation Review and Recommendations for Statutory Positions.

Ms. Tucker.

HUMAN RESOURCES DIVISION CHIEF TUCKER: Good morning again, Mr. Chair, members of the Committee. Michelle Tucker, CalPERS team member. In February of 2022, McLagan presented compensation survey data for positions covered by the Board's Compensation Policy for executive and investment managerial -- management positions. The data presented was based on the Board defined comparator group, as defined in the Policy.

At that time, the Board's primary compensation consultant, GGA, presented their initial findings and the Committee asked them to return this month with options to align the pay of covered positions to the market comparator group.

Item 7b presents options developed by GGA to close the identified gaps in total compensation when comparing CalPERS compensation to the comparator group data. As a reminder, total compensation includes base salary, annual incentive target, and long-term incentive target.

Brad Kelly and Pete Landers of GGA are here today to present their recommendations for the Committee's consideration. The options presented by GGA are related to the classifications CalPERS uses and they're not tied to any individual incumbent. Any action taken by the Committee to modify the salary and incentive opportunity ranges for these classifications will not result in immediate base pay increases for any current employees.

Base pay increases would instead would instead continue to be considered as part of the normal year-end performance appraisal process. The only possible exception would be in the event -- in the event that an incumbent salary fell below the minimum of a new salary range following the regular annual evaluation process, in which case the incumbent would need to be moved to the minimum of the new range. Based on HR's analysis, there's only one current incumbent whose current salary could fall below the proposed new range minimum and by less than 5 percent.

I'd also like to let the Committee know that we continue to research and gather appropriate date on the Chief Health Director position. Given the position's uniqueness to CalPERS, the HR team continues to work with GGA to identify potentially appropriate comparators. As a result, GGA will return to the Committee in June with comparable data for the Chief Health Director position, along with any other relevant follow-up items that come out of today's meeting.

So that does conclude my opening remarks and I'd like to invite Mr. Kelly and Mr. Landers again to begin the presentation.

(Thereupon a slide presentation.)

MR. LANDERS: Thanks, Michelle. So what we're going to walk through, of course, is both for the executive team as well as the investment management team. And one sort of overarching statement I'd like to make, if you recall our discussion back in February, is the lion's share of the gap to the market, especially for investment staff, but even for the executive staff as well was through the incentive opportunity. So this is pay that is at risk, that is performance based, that will only be earned if the individual incumbents in the different roles are able to hit the objectives that are set out for them. So I think that's an important framework and message to state here. We're not necessarily putting all of it in salary adjustments.

And I think it's important for this Committee to realize as well that, you know, that is where, like the trend we talked about earlier, a lot of pension funds are moving towards getting more and more comfortable in addressing pay through added incentive opportunity levels. We know that CalSTRS a couple years ago made some pretty sizable adjustments to their annual incentive opportunity levels, phased them in, over a couple of years as one example.

But it's important to keep that in mind. And you'll also note that we do note that our recommendations are quite material in a lot of ways. And that's why we have proposed and brought forward the alternative of a bridging strategy that we've seen a lot of organizations use, where you're not necessarily moving all the all at once. Although that is, you know, within this Board's and this Committee's purview, you can definitely do that. But there are other strategies, if you are worried about the one-time sort of adjustments all at once, of bridging that in over a couple of years. So we bring that up as well as a potential strategy moving forward.

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MR. LANDERS: In terms of background, I won't go through all this, but we've listed all the different jobs, executive as well as investment management positions. Michelle mentioned we're still working on the Chief Health

Director role.

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MR. LANDERS: And again, just to highlight our role in the process is really to come forward, like we did in February with our observations of where the gaps were, what the cause of those gaps were, and then really this -- this -- this meeting coming forward with some alternatives. We wanted to bring forward alternatives for the Committee to consider, because, you know, there's never just one size that first all or one way to approach these things. There are a couple of different alternatives that I think make sense and could definitely be used by this Committee. And that's what we're bringing forward. And I remind you again any of the changes that we're recommending or adjustments are not actually to any individual incumbent's pay at this particular time. It's for the role and the range for that role. So it's for anyone that would fill that role now and in the future.

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MR. LANDERS: We've talked about the peer groups already. But again to reiterate, the executive positions, a combination of leading U.S. funds, some leading Canadian funds, select California based State agencies, as well as banks and insurance companies, so that is your private sector aspect. And then the investment team being, you know, U.S. funds, Canadian funds, U.S. corporate plan sponsors, as well as private sector organizations. And you'll see the range of private sector peers there.

So both groups are blended groups. Just a little bit of nuance in that the investment staff is a little bit more private sector focused I would say than the executive staff.

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MR. LANDERS: And again, it's important to realize we're not targeting you A the 75th percentile or anything like that. All of the recommendations that we're bringing forward are towards the median, to make sure that you're competitive at the median of that blended peer group, so public sector and private sector peers. And being positioned at the median is quite common. It's fair. It's defensible. And almost you could argue conservative in CalPERS case, because you are definitely -- when you look at even the U.S.- and the Canadian-leading funds on the higher end of the scale in terms of size. So being at the median could even be viewed as a conservative way to view it. But again, median very fair, very defensible, and you know thinking through the different compensations.

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MR. LANDERS: Again, the key findings to

reiterate again from February, most roles, especially the investment roles very competitive on a base salary range perspective. So really the material adjustment is coming through both annual and long-term incentive adjustments.

And then definitely in the executive level, we did see some more gaps from a salary perspective. And we have brought forward, as part of our recommendations, salary adjustments for those roles to get them into the market. We will point out that the CEO role in particular that was reviewed I think two or three years ago was competitive with the market. So we're not recommending any change to the range for that role at this specific time as well, but you know just wanted to touch that framework again. The key findings being that lack or that gap to market coming through the incentive more than thinking else.

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MR. LANDERS: So for the executive management positions, you can see on this page 11, the gap that -- you know, this is directly from your February meeting materials. What we did do and worked with McLagan based on this Committee's feedback was get them to run the total compensation analysis, which included long-term incentives, for those four roles below the CEO level, so CFO, General Counsel, COO, and System Actuary. And you can see that while long-term incentive definitely makes up less of the pay mix then when you compare to other say investment roles, there is an additional gap that results when you look at the median total compensation.

So what that says to us is while that blended peer group has mixed prevalence, in terms of long-term incentive, there are enough roles that, you know, that is impacting the median for those four roles, meaning that, you know, there is a pretty high prevalence of long-term incentive for those four roles in the marketplace.

And that really then begs one of the key questions I think this Committee, and we welcome any questions you have on this around those four roles, is do we want to make the COO, the CFO, the General Counsel and the Chief Actuary eligible to receive or be -- possibly get a long-term incentive five years from now or are we comfortable keeping them with their salary and annual incentive approach like we do now and just filling the gap more to a, what we call, a total cash basis, so salary and annual incentive. That's a fundamental question that I think this Committee -- and I'm sure there are different views amongst the Committee members, but that is the fundamental question for this group of folks is do we want to make those four roles long-term incentive eligible or not. And once you've come up with a consensus on that, and a direction you want to move forward on, it really then makes the alternative that you select that much more easier to follow through on, because you're usually going to go either with Alternative 1, which we've recommended, which I'll just quickly more to that --

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MR. LANDERS: -- which would make those four roles long-term incentive eligible or you don't make them eligible and we just try to make some adjustments on the annual incentive side of things. So that's a fundamental question that I think needs to be answered and addressed by this Committee. And then you can move forward with, you know, an approved structure moving forward.

I'll circle back though to page 12, and I'll get you to focus on the red box. And those are the recommended adjustments that, in our view, will tie that mid -- or that mid-point of the range competitively to the median of that combined peer group from a salary perspective. And, you know, while we definitely believe in putting pay at risk in having the lion's share of it on pay at risk, you do want to make sure that your salary ranges are competitive.

Some organizations will actually position salaries above the market with -- without -- with a lack of incentive when they don't pay as an incentive or pay less of an incentive. What we like to do is let's target those salaries right at the mid -- the median of the market, make sure they're competitive, and then fill the gap through additional incentive opportunities.

So we don't want to see salaries go way above market. We want to keep them in line with the median of the market. And that's what these recommendations on page 12 look to do for those affected roles. And I point out again that the CEO role was deemed competitive from a salary perspective, so we're not recommending any adjustment to that range at this time.

So maybe I'll stop there and are there any questions on the salary adjustments for those four individual roles.

CHAIRPERSON FECKNER: There are a few questions --

MR. LANDERS: Okay.

CHAIRPERSON FECKNER: -- but I do have a question on the McLagan slide you put up there.

MR. LANDERS: Yep.

CHAIRPERSON FECKNER: On the far right, what are they offering int total comp?

MR. LANDERS: So total comp, that would be again a combination of salary, annual incentive, and long-term incentive. So that total comp number for those four rows on the far right-hand side under Market P50, that is indicating that there are some roles in your combined or blended peer group where these four roles are eligible for long-term incentive. And therefore, from a total compensation perspective, it is causing those number to be higher than they would have been when you look at the total cash number. So that's what that total comp is, it's adding long-term incentive to salary an annual incentive.

CHAIRPERSON FECKNER: So it's like up to three times salary, if you add it all in?

MR. LANDERS: On the CEO's Market P50, there is -- definitely CEOs tend to be, you know, quite prevalent with long-term incentives, but definitely the other roles it's not necessarily that big of a gap. It's -- you know, if I look at the CFO it's about, I'd say 200,000, give or take, 180,000 and about a hundred -- couple hundred thousand for the other three roles. So you see -- and even at the Chief Actuary level, you know, much a smaller gap, because that role tends to not be as eligible for long-term incentive, and not nearly eligible for as high of an opportunity level in the marketplace.

So it does make a difference, but not nearly as much as when we look at the Investment staff folks, what it does for those folks. So it's material, but not nearly as big as the Investment staff, when you look at it that way.

CHAIRPERSON FECKNER: Thank you.

Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you.

I had a question on the slide 11. And so when we look at the total comp and comparing the market to CalPERS, so it's my understanding that CalPERS is the only public fund at this point that has an LTIP, is that correct?

MR. LANDERS: The only public fund in the United States, yes.

ACTING BOARD MEMBER PAQUIN: In the U.S.

MR. LANDERS: When you look at other again leading Canadian funds, which are part of the peer group and the private sector, you would be competing against those that do have -- offer long-term incentive. But yes, looking specifically at U.S. funds, you would be the only ones.

ACTING BOARD MEMBER PAQUIN: So when you look at the comparison to the Market 50, was that an average taking in all -- all of the -- all of our private -- I'm sorry, all of our public funds in the U.S that don't offer an LTIP would they be at 0 in the formula and then you have the LTIP amount from the others?

MR. LANDERS: Exactly. So there for those roles, total cash and total compensation would be the same number, so put into the database, so it wouldn't impact because -- let's just say the number was 400,000 total cash, it would be going into their statistics as 400,000 for total compensation as well.

ACTING BOARD MEMBER PAQUIN: Okay.

MR. LANDERS: So it would be dragging that number down from -- if we had just included those roles that were long-term incentive eligible. So, yes, it is a blended approach that's taking into account those that have long-term incentive and those that do not have long-term incentive.

ACTING BOARD MEMBER PAQUIN: Okay. Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you. So I'm -- I think I'm -- I'm kind confused with slide 11, which I believe is from McLagan, correct?

MR. LANDERS: Yeah, it's summarizing the McLagan stats --

COMMITTEE MEMBER TAYLOR: So what's the per --

MR. LANDERS: -- but yes the data points are coming from McLagan.

COMMITTEE MEMBER TAYLOR: What's the percentage difference here? What does that -- it's negative, right? So what is it -- what are we looking at negative?

MR. LANDERS: It's saying that -- so, for example, for the CFO, it's saying that your, you know, 50 percent below. If you take 738 over 368 -- or 368 over 738, it's saying that you're 50 percent below that Market P50 number.

COMMITTEE MEMBER TAYLOR: Okay. Below the Market P50.

MR. LANDERS: Yeah, below that market.

COMMITTEE MEMBER TAYLOR: I was trying to figure out where it was --

MR. LANDERS: Yeah.

COMMITTEE MEMBER TAYLOR: -- referencing.

MR. LANDERS: Yeah, yeah.

COMMITTEE MEMBER TAYLOR: And then it's same on the total cash?

MR. LANDERS: Correct. So that's saying you're 33 percent below.

COMMITTEE MEMBER TAYLOR: So if we're just looking at cash and then we move on to the slide number 12 --

MR. LANDERS: Yeah.

COMMITTEE MEMBER TAYLOR: -- this is where your CEO is up to date, but then the next four positions, CFO through Chief Actuary, these are the salary bands you're recommending, am I correct?

MR. LANDERS: Correct. Correct. This is salary only, so not incentives, just the salary to get the salary in line with the median of the market.

COMMITTEE MEMBER TAYLOR: Okay. And then -- and to do that -- so now I'm on 13 --

MR. LANDERS: Yeah.

COMMITTEE MEMBER TAYLOR: To do that is to target or max. So we're raising the annual incentive and long-term incentive percentage that we can get to, is that correct

MR. LANDERS: Correct. Yes, that is what's recommended.

COMMITTEE MEMBER TAYLOR: Okay. And it's lower for a couple of other positions, the Chief Actuary. It's lower -- it looks like we raised it for the CEO, the CFO. Did we maintain it for -- for the --

MR. LANDERS: It's raised for everyone, so if you look at --

COMMITTEE MEMBER TAYLOR: Oh, I see it was 40 percent.

MR. LANDERS: Everyone was 27 and now we're saying 70 and 60 at target.

COMMITTEE MEMBER TAYLOR: Oh, I gotcha. I gotcha.

MR. LANDERS: Yeah.

COMMITTEE MEMBER TAYLOR: I wasn't looking over there. Okay. Wow, that's a big jump. Okay. Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Thank you, Mr. Chair.

This is just generally an area where some more of the data for the CalPERS experience would be helpful when we look at this in June. So the recommended salary adjustments, just thinking a little bit about how this works in State service generally and just to Ms. Taylor's point too about what would be happening with the rest of the State employees. They would be within a range. They're going to move up say five percent a year on a merit salary basis. They would be getting a general salary increase on top of that in any years where that's collectively bargained.

But once they reach the max of the range, after that, they're -- they're generally only going to see the general salary increase, right, for however many years. And typically, we don't go adjusting the ranges in unless there's a demonstrated issue. So we wouldn't necessarily just say, hey, somebody across the street pays more money and so that's the reason why we're going to increase the range. We would say what kind of data do you have on how long it's taking you to fill positions, what your vacancy rate is, what your turnover is, what are your exit interviews telling you about why people leave.

I would like to know some of that information about the CalPERS experience before we consider the range increases, because what we're -- what we have here is for the positions that are under the Board's authority, they will be treated much differently than the rest of the employees in -- at CalPERS, because what we will do here, and presumably if we have another study in two years, is if there's any market gap, we will increase the range again. Again, those salaries will begin to grow at a much faster pace than the rest of the employees here, which is concerning to me.

I think that data will also be helpful to understand the kind of total recommendation that you have. I would like to understand from your perspective a little more the need to do the annual incentive increase and the LTIP. And is it -- is it simply based on what the market comparison is is to just try to get to that -- to be more competitive with that mid range or is there any other policy basis for proposing the base salary increase, the annual incentive increase, and the LTIP for these positions?

MR. LANDERS: So what I can say is the recommendations have been thought out to, yes, definitely close that gap to the market, so that is part of it. But when you look at a lot of public funds, what they often will do is when they have -- and I'll at least say they have both buckets to play with, so they have an annual incentive and a long-term incentive, they tend to have more of a 50/50 mix between the two. So you'd be eligible for the same percentage of salary for an incentive and the same percentage on a longer term basis.

There is a philosophy you could say that says, you know, what we want to have a little bit less on the annual side, and more on the longer term incentive side. Or you could flip it and say we want more on the annual incentive and less on the long-term incentive side.

What we're bringing forward in our view is not only going to close that gap from a pay level perspective, but also get you into a structure that is aligned with the market as well. And that does a good balance of rewarding people for annual achievements and to be fair trailing five-year investment achievements, but also longer term we'll reward them for hitting that 7 percent, if not higher, level on an absolute basis over a five-year period.

So we've tried to again have the pay levels be competitive, but also in a structure that is competitive with, you know, quite frankly what we see other, you know, leading funds that have long-term incentive structure their plans like.

MR. KELLY: And one thing that I can add here, and I think this is a philosophical and a change in mindset approach that we advocate all public pensions take into consideration. You may look at this and say, you know, this is -- these are material changes. These people are paid well and we recognize that, but you also need to look at the fact that you are almost a half a trillion dollar investment entity that needs to have access to the talent to maintain that pension promise. It's a change in mindset.

But also, I think what you really need to stress here is that the incentive percentages that you see here are the media -- and this is where the media tends to twist it as well. They always tend to say this is the max they're going to get paid. This is the max they're going to get paid. Absolutely not. This is the max they're going to be paid conditionally upon achieving the objectives and the benchmarks you put in front of them. And so if you look at the maximal levels here, the 105, the 90 percent, that's only if you max out on performance. And if you max out on performance, you are going to do considerably well for your members, considerably well.

And I like to -- at this point, I'd like to quote Chair of OMERS, the Ontario Municipal Employees' Retirement System, when they were dealing with this exact philosophical change. And the Board was really struggling to implement proactive incentive levels. And the Chair said -- and I actually spoke to him last night about this. He said I want immediate alignment between our employees and our members. And so if our members are eating steak, I want our staff to eat steak, because they allowed us to do that. However, if we have a bad year and our members have to eat hot dogs, they're eating hot dogs.

And that's the alignment we want to see here. And this is the risk mitigating factor on the adjustments here is that it's going to be on the performance side. And this is a two-pronged approach. We have a lot to present today -- actually, a lot more than what we're presenting today, particularly on the investment performance hurdles that you've been tracking over the years and rewarding your employees on.

We've done an objective study on that and we're going to be advocating some changes and adjustments in those hurdles. And actually really narrowing the ranges and really focusing on really hard set performance objectives that will benefit your members. So it's a two-pronged approach here. Today, we're just saying do you feel that aligning to the market is fair and objective, and -- objective and that you want to do this. And then next -- in the next meeting in June, we're going to say here is how we recommend you better align that performance.

And again, with the analogy that if you're eating steak, your members -- your employees have allowed that to happen and they'll be rewarded for it. But if not, they're going to be -- they're going to be hurt. And in the exact same limelight, OMERS, if you look at their last two annual reports, their relative expense on money management and administration was a total amount in 2020 was -- it cost them roughly about 34 basis points. Why? Because they did not hit their targets. They did not do well. 2021, the markets improved. They started to do better. They started to better apply their asset management in the light of the pandemic, and they did better, so they hide higher payouts.

So in 2020, they paid out roughly 34 basis points for money management and administrative expenses. In 2021, they paid out 68. So it did exactly what it was supposed to do. And this is what we would like to see your organization adopt, something that is completely performance driven and completely aligned with your members' best interests.

That's a philosophical change that we're challenging you with, but it's the right mindset to have, because you are realistically close to a half a trillion dollar investment entity. And if you want to continue to compete in this marketplace, and continue to evolve, this is what the successful funds that have implemented this, this is what they've been able to achieve.

VICE CHAIRPERSON ORTEGA: I think that I do just want to respond to say that I think there are other considerations that this Board has to take into account in this conversation, and not just being, as you say, fair to the -- it being to the fair market. I certainly would quibble with the market comparators that we have used here, but we are a public fund, and we're talking about a small group of people who would be treated a lot differently than the rest of the employees in the organization. That concerns me.

We are talking about compensation levels that get much larger in comparison to most of the members of the system, right? So I think there are other things that we need to think about in terms of equity and what -- what this sort of means. And again, no evidence yet of the problems in recruiting for some of these positions. I would like to see a little more data on where -- where the risk is to not being able to fill these positions.

I think the other piece that's missing is there are other reasons why people work here and stay here, right? And we -- the analysis talks about, you know, the pension is not really a factor in a lot of these positions. You know, I -- sitting on the Pension Board, I find it hard to take the argument that the pension is not that important. I think it is pretty important. I think that for long tenured State employees, retiree health is a very important benefit. It's not factored into this.

There are reasons why people come to work here, settle in Sacramento, and stay here. And we don't have to look at what a private sector organization is paying and say we must pay that amount of money for the employee to work here. I just don't see evidence of that. People are very committed to State service and to this organization in particular. So just I have -- some of my philosophical views is a little different than what you're presenting.

Thank you.

MR. LANDERS: Yeah, the other -- I'll only add to that we did -- with other funds we have done similar types of reviews, and that's definitely within this Committee's purview to look at the impact that pension benefits and even the health benefits could have on pay. And when we've done that, especially again at these more senior level positions, we note that it doesn't make as much of an impact as you would think, because the lion's share of what these levels type roles tend to make is earned through these three, I'll call it, buckets more so. But, you know, that's definitely something within this Committee's purview to look into the impact of that. And definitely, I think the health benefits is one aspect that is unique potentially to a CalPERS that may not be at other -- especially in the private sector, but other entities.

So that is something that could have an impact, but you'd be surprised at how it doesn't make as much of an impact on the values as you would think moving forward. So just something to keep in mind, but definitely agree. And that's why we would never advocate going fully to, you know, a full private sector number, because we do agree that there are lots of other intuitive benefits.

Our recommendations are really just trying to, you know, close that gap a little bit to the private sector, while, you know, staying competitive with your overall blended peer group again of public and private peers.

CHAIRPERSON FECKNER: Thank you. I do have a number of other questions, but before we take them on, we do need to take our comfort break. So we'll take 15 minutes and we will return and everybody will stay in the queue.

(Off record: 10:38 a.m.)

(Thereupon a recess was taken.)

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

CHAIRPERSON FECKNER: All right. We're going to call the Committee back to order. And the next person up -- oh wait, we've got to wait for Brad.

MR. LANDERS: I can start and then he can join when he's ready.

CHAIRPERSON FECKNER: Well, probably -- he should probably hear all of it, anyway, so we'll wait a minute.

MR. LANDERS: Okay.

CHAIRPERSON FECKNER: Don't run, we waited for you.

(Laughter.)

CHAIRPERSON FECKNER: That's all we need is a comp issue. He falls on the chairs.

(Laughter.)

CHAIRPERSON FECKNER: On premises.

(Laughter.)

CHAIRPERSON FECKNER: All right. Next up is Ms. Middleton.

COMMITTEE MEMBER MIDDLETON: All right. Thank you. And, Brad and Peter, thank you. More a few comments at this point, as we move towards June. I really appreciate what you are presenting to us and the manner in which you're presenting it. It is a very significant cultural change for this organization. And I find myself in substantial agreement with Ms. Ortega in terms of the implications of that kind of cultural change, and whether or not that's one that we take on in smaller bites over a longer period of time or try to digest all at once, I think is going to be a very good conversation for us as a Board.

I very much appreciate the idea of long-term incentives being built in. And I come at that with the bias that not only as a pension fund but as a long term civil servant, there's nothing that is more of a long-term incentive than the pensions that we have created for two million people, and we have proven over and over again the importance of long-term stability that comes from those kinds of incentives. So I want to move forward with that.

I need to understand when we are making comparisons to, as I understand it, 50 different organizations in some depth who those 50 are, what their histories are, and a lot more about them. Comparables, we're all somewhat familiar with and we all know the ups and downs of what comparables can take and present to us. So I want to see more detailed data on who that 50 is.

The last is an observation that I've had a few times now in making presentations. To stakeholders, most particularly members who have retired from the organization. And specifically with the CIO salary, when I'm able to say to them she will get X hundred thousand dollars, that means that the PERF fund will have increased by X millions of dollars, that is a connection that people can get.

When I say something along the lines of a bonus of X hundreds of thousands of dollars could be achieved, and here are the 25 different variables that are going to go into how that is going to be calculated, eyes glaze over and nobody gets it. And everyone come -- I shouldn't say everyone. A substantial number of people come to the conclusion that no matter what the performance is somehow or another those multiple variables are going to come out producing the maximum result. And I know that's not what you're intending to do.

But if we're going to be able to successfully market this to our stakeholders and to our members, it has to be a very specific tangible number, where we're comparing dollars gained by certain key personnel to specific dollar increases in PERF balances that our members can appreciate.

MR. LANDERS: Great points. And we can

definitely try and quantify that for the June meeting. The only thing I will point out, there was a comment around the peer group and understanding more. The February McLagan report does have some pretty good detail I believe on the public pension funds and the State agencies that were used. We would have to work with staff and with McLagan to get a little bit more detail on the private sector peers, because I know they -- you know, I think there's some confidentiality reasons there they can't necessarily disclose as much detail.

But we can definitely look and see what level of detail they can provide. Maybe it's size ranges or something like that to give a little bit more color to that McLagan -- sort of more the private sector database. But the pension fund peers, the State agencies and such, that has already been detailed in the McLagan February report, but we can definitely, you know, bring that back in June and just refresh the Committee on who those comparables were.

COMMITTEE MEMBER MIDDLETON: And I will go back and take a look at that report. But I would say when it comes to data that has to be kept confidential as to who the source is, we need to know what the impact of that data was on the totality of what their recommendation is, because it's -- it's data that we don't have actually in front of us.

MR. LANDERS: Understood.

CHAIRPERSON FECKNER: Great. Thank you.

I want to thank you both for all that you're presenting, and especially the way you're taking the feedback, because I know it feels like darts sometimes, but we challenged you with this. So we knew that we were shaking things up and it was going to be a different world for us, and it's hard to grasp sometimes.

But I will tell you when we talk about the retention and recruitment process, from my perspective, our biggest challenge is our sister across the street over there across the river. That's where our biggest issue is going to be with recruitment and retention, if we can't keep a level balance, especially on the investment side of the house.

So as you move forward into June, I'd like to see a better comparison between our staff side and the CalSTRS staff side, so that we can make sure that's not where we're losing our folks to, because they're going to stay in Sacramento. I don't think we have a big of an issue losing to private sector et cetera, but we will have on that issue. So just bear that in mind, please.

Next, I have Ms. Paquin.

Oh, sorry, Brad. Go ahead.

MR. KELLY: Mr. Chair, if I could address your comments there. First off, darts are part of our job, right? But what we feel most passionately about is the fact that you need to -- you need to ask these questions. You need to address these concerns, because as you move forward, you need to be convinced that this is best thing to do. This is your fiduciary duty. But that being said, and we appreciate that challenge, and we encourage it, but might I remind this Board about when we were first interviewed for this opportunity, we actually said the exact same thing to yourselves that we fully intend on challenging you and challenging your paradigms, your beliefs. And it's a two-way street here.

And so we're fully engaged. We hope you are too. And everything we do is in the best interests of your members and the sustainability of your fund. And it's what we truly believe. It's why we work with pensions. It's why we do what we do.

CHAIRPERSON FECKNER: Great. Thank you.

Ms. Paquin.

ACTING BOARD MEMBER PAQUIN: Thank you, Mr. Chair.

I also wanted to thank you for the presentation. It's been very informative this morning. And, you know, from the Controller's perspective, we do have great staff here, and we do want to recognize that, and retain that. But we absolutely support the comments that Ms. Ortega made, and the request for additional data, and also agree with Ms. Middleton's request for additional data about the comparison group, because, you know, this is a public fund, it is a Public Trust, and we are representing the members.

And the Controller also sits on the CalSTRS Board. And whenever we talk about compensation there, I know your colleague has probably shared with you, we always put on the hat of saying we represent -- they represent teachers, and what would teachers think? And likewise, we represent public employees, the State and local level, so how do they view this as well too? And, of course, we want to see the fund continue to grow and be successful and be sustainable.

I did appreciate the fact that you were looking at the benchmarks for the incentive calculations on the investment side. And again, I think that would be helpful to see that as we're looking at these changes. It's hard to approve something now and then see how it's going to actually be implemented later on. I don't think that's a great practice. And just curious if we're also looking at any additional incentive changes for these positions, the executive team positions.

MR. LANDERS: So you'll actually see. It's in one of the next items. Yeah, Item 8, on the incentive metrics for 2022-23, you will see we have made some -- again, these are preliminary. These are for discussion. We'll come forth with more finalized recommendations for the CEO in particular, and then we'll work with the CEO to implement any thoughts that the Board has below that level.

But essentially, what we are trying to do for those specific executive positions is currently there is no direct tie to the total fund investment performance. And that would be an area where we would like to, to Brad's point talking about quantitative metrics, move towards a little bit of weighting on the total fund. So again, to your point about being able to more justify the incentive wards. If you're generating the total fund results that are, you know, adding that value-add for members, that's directly tied in then to the awards that some of these executive roles are receiving.

And so that is -- we'll talk about it a little bit more in Item number 8, but that is one of the adjustments we are talking about is making that adjustment among others that would affect more the Investment staff, more than anything, and then some more tweaking in terms of how certain areas of customer service and that are measured, but we'll get to that in Agenda Item 8.

ACTING BOARD MEMBER PAQUIN: Okay. And the Controller does not sit on this compensation committee. However, I think the same point is for these positions as well to, it's very difficult to -- if this is going to be an action item today to take action on something when we haven't really seen the full picture and then what the changes would represent.

Thank you.

CHAIRPERSON FECKNER: Thank you.

Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Yes. Thank you for pointing out Item 8, because I had looked at that earlier too and was trying to compare it to Item 7 a little bit. I just -- I think our Investment staff and looking at long-term and annual incentive is probably a great idea. I think where I'm running into a little bit of trouble here is when we move into the executive staff for this. And you said something that your Canadian person of the Canadian fund you were talking about, if they eat steaks, we eat steaks. But I have to remind everybody that the average pension in our pension is $35,000, and you can't live in California on $35,000.

So we all maybe eating steaks, but our pensioners certainly aren't eating steaks at the price of steaks right now, so we do have to think about that. And then we have to think about our rank and file -- I said this earlier, our rank and file employees. And if we're reviewing this every two years, this is where I get concerned. I'm not necessarily concerned if maybe we put one or the other in, and then, you know, make sure that we look at it every couple of years, make sure that we're kind of top of where we should be to retain our folks, but I -- I see us climbing a slippery slope of -- with our executive staff just continually increasing, where, you know, the CFO, the CEO, General Counsel, these aren't positions that I'm seeing as turnover very quickly. But I will agree with Ms. Ortega, maybe we should see some of those stats that you guys are talking about.

And then on item 8, you brought it to my attention the quantitative versus the qualitative. And I think we need to see -- you said that it's not up to standard, so we need to see some of those stats too, I think.

MR. LANDERS: Yeah. And the only thing I'll say to that is, you know, definitely these are more material adjustments, because a lot of these roles there hasn't been a detailed study like this done in some time. We would anticipate, much like when we looked at say the CEO role or even the CIO role when we adopted that a year or two ago, if you're doing more incremental reviews every couple of years, we wouldn't be seeing and wouldn't expect to see as material changes as what are required right now.

So we would expect more tweaking, if not things just staying status quo. You can -- remind you again that a lot of the salaries are remaining status quo, because there was no need to adjust them. So we would anticipate that once we go to more of a every two-year structure, we wouldn't have to make nearly as large an increase in those two-year intervals as what is required at this specific time. So just pointing that out for the Committee's review.

CHAIRPERSON FECKNER: Thank you.

COMMITTEE MEMBER TAYLOR: Thank you.

CHAIRPERSON FECKNER: Mr. Pacheco.

COMMITTEE MEMBER PACHECO: Yes. Thank you, Brad and Peter for your presentation here. So I have a question regarding back to the comparator group. And you -- as I was looking at it again, I saw that the private sector part of it, it had the banks and it had the insurance company. Did you have -- did you every consider the credit unions in that -- in that pool, since they have certain similar philosophy in terms of, you know, cooperative, nonprofit, as -- and they are -- they are several large credit unions in our -- in the United States that could fit within this parameter.

MR. LANDERS: Historically, that has not been part of the policy of this Committee. That would be something that, you know, we'd probably want to have the Committee discuss and maybe make a change to the policy to add those credit unions into the peer group. But definitely, if that was the direction of this Committee, any future benchmark reviews could definitely consider those credit unions. But as of now, the policy and what we followed in terms of conducting this review didn't contemplate including credit unions in the peer group. But I know you're a relatively new member, so potentially, you know, with some new ideas on the Board, maybe that -- that's something for this Committee to consider. But according to the policy, we really looked at the peer groups to align with what the policy laid out. And so credit unions at this time were not contemplated.

COMMITTEE MEMBER PACHECO: That's fine. I didn't -- I didn't realize that.

MR. LANDERS: Yeah.

COMMITTEE MEMBER PACHECO: So thank you very much for that question.

CHAIRPERSON FECKNER: No questions. Please continue.

MR. LANDERS: Perfect. I don't how much further we want to go in, because we've talked A lot about the executive staff. We talked about -- that's still annual versus long-term incentive. The second alternative was really looking at just closing a gap to annual incentive, so not including long-term incentives. So we've talked a lot about that, so I think I'll skip through that specific piece.

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MR. LANDERS: And then I'll speak to the Investment staff. And the big thing I want remind the group here is that we are recommending very few, just one, slight tweak to the salary ranges. Most of the roles in the investment side were already competitive with the market, just that one tweak at the Associate Investment Manager level. And so again, this is something that, you know, we want to make sure that the salary is competitive in line with the median of the market, but we don't necessarily see needing to increase it anything beyond that. So all of these were deemed reasonable.

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MR. LANDERS: And then really the biggest change being again these annual and long-term incentive opportunity levels for the Investment staff to get them more in line with the market. And again, we note there are some material adjustments required here.

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MR. LANDERS: And what I think I'll do though is really go to the bridging strategy, because, you know, we've had a lot of discussion. These are very large material increases, and we've worked with a lot of organizations, both in, you know, pension fund settings, but also private sector and that, that say to themselves, you know what, these are large, material adjustments, and so how about we try and stunt the impact of these adjustments or even give ourselves, you know, an annual checkpoint to sort of say how are we performing, are we generally, you know, performing well, are we not performing as well. Sort of give yourselves a chance to sort of implement over time some of these adjustments as opposed to all at once with.

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MR. LANDERS: And so what we've brought forward, which could obviously -- you know, you could do it over two years or even over three years is this idea of staggering and going to higher incentive opportunity levels over a two-year period. So you wouldn't go all the way for 2022-23. You'd go say half the way for 2023 and then the following half in 2024. So that is a strategy we've seen a lot of organizations use that are dealing with these more material increases, which gets you to the market, albeit just over a longer period of time, and also gives you, as a Committee and the Board, a chance to have that -- you know, one year from now have that discussion to stay are we moving in the right direction? Maybe the financial climate is not going as well. The market has gone on a downturn, and even, you know, potentially put that on a freeze or a hold for now, but it gives you that additional checkpoint through the process to really gauge if you want to go that full point or stay sort of at that halfway point.

So we bring that forward as a potential strategy to consider and have a discussion about. Obviously, we'll be coming back in June with more information, some more finalized recommendations from there, but this is something we wanted to bring forward for the Committee's view to really have a discussion on whether this bridging strategy has some merit, and if this is something you'd like to explore to phase in some of these more material adjustments over time.

And while it's not listed here, we could even work with staff to implement that with the salary recommendations as well. So we wouldn't necessarily go all the way in year one, maybe we'd go half the way in year two to increase the ranges. So just another potential strategy for discussion on, you know, whether the Committee, you know, thinks is appropriate moving forward, and if so, we can definitely build that into the additional information we provide in June to the Committee.

CHAIRPERSON FECKNER: Okay.

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MR. LANDERS: And really that's it. Really the next steps - we've talked about them already - is really to, you know, take the feedback we've heard today, get that additional information and data that's been requested, and then come forth with more, you know, sort of solid, you know, one recommendation on a go-forward basis. And, you know, obviously we'll touch bases well as part of what Brad was saying around some of the principles of the policy as well. So as part of those discussions as well, we can also circle back on any thoughts you have before June on this specific item.

So with that, open up to any last questions on this specific item and then we can move on to Agenda Item 8.

CHAIRPERSON FECKNER: All right. Any other questions on agenda Item 7b?

COMMITTEE MEMBER TAYLOR: Sorry.

CHAIRPERSON FECKNER: Ms. Taylor.

COMMITTEE MEMBER TAYLOR: Sorry about that. So the bridging, I thought that was a good idea. The bridging would help us get there better easier. And it could also allow us to put a stop is what you're saying, if we're seeing like market tanks or whatever.

MR. LANDERS: Yeah, exactly. You would -- you would have that ability to take that into account and say, you know what, for now we'll stay with sort of this -- you know, at the year one numbers and we'll reassess in another year. So it gives you that little checkpoint to do that to make those comparisons.

COMMITTEE MEMBER TAYLOR: And you had said -- I don't know if you had said this or not. I know that Rob had talked about making sure that we're not having our folks poached by CalSTRS. So do we have a comparative for CalPERS and are they -- did you guys already work with them on this and they --

MR. LANDERS: Yeah. So --

COMMITTEE MEMBER TAYLOR: -- already had the structure and --

MR. LANDERS: So, yeah, we're the lead consultant there as well and we've worked with them -- they haven't implemented long-term incentive as of yet. They're still working through if they want to or not. But on the annual incentive, we had -- this is about, I want to say, 18 months ago or 24 months ago, had done a similar study to this, looked at their specific peer group, which is slightly different than yours, and had noted some more material adjustments. And they had phased it in I believe over a two-year period some of those adjustments.

So that is something that they have used in the past to, you know, again bridge some of this larger gap to the market. But we will come back, like Rob had mentioned, and speak to how you directly compare to them. Obviously, the long-term incentive will definitely place you on a total compensation basis pretty competitive with them. But I think you'll see at the salary and an annual incentive, you know, you'll -- you'll see, you know, you're pretty much in line with them, give or take. But we'll present that exact information at the -- at the June meeting.

But, yeah, a bridging strategy is something they -- they've done in the past to make some of these more material adjustments. So it is something that's, you know, typical market practice. Albeit, some organizations will say no. You know what, we just want to rip the Band-Aid off, and this is the gap, and we'll close it right away. So either approach can be defended. It's really about what this -- this Committee and the Board is comfortable with at the end of the day.

COMMITTEE MEMBER TAYLOR: All right. Thank you.

CHAIRPERSON FECKNER: All right. Seeing no other requests from the Board, we do have a couple of requests from the audience. In person, we have Ms. Fretwell. Please come on down to the microphone. Give your name for the record and you'll have up to three minutes for your presentation and then we'll take our phone person after you.

MR. HUNTER-FRETWELL: Right here?

CHAIRPERSON FECKNER: Yes.

MS. HUNTER-FRETWELL: Okay. Hi. I'm Elnora Hunter-Fretwell. I'm CSR Executive Vice President. This is my first time sitting here speaking and talking, so hopefully I'm doing this right.

CHAIRPERSON FECKNER: Welcome.

MS. HUNTER-FRETWELL: I wanted to make a comment on the 7b when they were talking about incentives. Now, I was CalSTRS employee for 29 years, so a State employee. So I have a little bit of insight on incentives and what you pay upper management, and how rank and file, and managers felt about those. But we stay because of our health care and our pension. It wasn't so much about the money, because we knew we could make money somewhere else. And we also stayed because of the morale and our second family that we met there at our job, so we was there.

But we had people in-house that went for the higher jobs, so it was never that I know of working for 29 years for the State that no one was out there to take over the CEO job, the CFO job, none of those jobs. It was always someone there.

So I love what Ms. Ortega said and also when Lisa Middleton, you know, agreed to those things like that. It's like there's other things that we can give versus high paying money to our executive. There already make a lot of money already. And I never seen none of them leave either. They stayed until they pretty much retired. So I just want to say that to the people that did the presentation today, it's like we stayed more than just for money. There's other things out there than money. Thank you.

CHAIRPERSON FECKNER: Great. Thank you for your perception. Appreciate that.

Mr. Teykaerts, we have someone on the phone?

STAKEHOLDER STRATEGY MANAGER TEYKAERTS: Good morning, Mr. Chair, correct. We do have one public caller. J.J. Jelincic. Go ahead, J.J.

MR. JELINCIC: J.J. Jelincic, beneficiary addressing my fiduciaries.

I know I'm repeating myself. I expect my comments to be ignored again. However, you will not be able to say I didn't even think about this.

You are not approving the criteria today, although later at the Board level, you're going to approve a Strategic Plan that tracks metrics and is -- as being on target if the metric is not worse than the last -- at any point in the last four and a half years.

You should -- but I point out you will get the behavior you incentivize, so make sure you are rewarding the behavior you want, those behaviors that define success. You should not be providing bonuses to employees for doing their job. That's what a paycheck is for.

Let me pick on the CFO, since most people don't really know quite what his job is. If he simply does his job, he currently gets a 27 percent bonus. It is proposed to increase that to 60 percent for doing his job. The CIO gets a bonus equal to 76 percent of salary for meeting expectations, i.e. doing their job. The CEO could get another hundred percent for meeting long-term expectations, so potentially base salary plus 176 percent of salary for doing the job.

The proposal is to increase that 76 to 150 percent and double the long-term incentive, again not for doing the job, not for -- or sorry, not for exceptional performance, not for exceeding expectations, just doing the job.

Let me contrast that with the Investment Officers

III. They have a potential bonus of 20 percent that that program requires work above and beyond their normal job. Bonuses should be paid for going above and beyond. Bonuses should not be paid for doing your job.

Thank you.

CHAIRPERSON FECKNER: Thank you. Anyone else, Mr. Teykaerts?

STAKEHOLDER STRATEGY MANAGER TEYKAERTS: No. No further public comments on the line, Mr. Chair.

CHAIRPERSON FECKNER: Thank you.

That will take us to Agenda Item 8a, Annual Review. Ms. Tucker

HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank you, Mr. Chair, members of the Committee. Michelle Tucker, CalPERS team member. Item 8a is an information item. To comply with the Board's policy, incentive metrics are reviewed annually by the Board's primary compensation consultant. GGA will present their initial analysis and observations on the incentive metrics for the Committee's consideration and discussion. They've reviewed the existing metrics, past performance data, and reviewed information so far on the 2022 through '27 CalPERS Strategic Plan to ensure alignment.

Based on the Committee's feedback, they'll return in June of 2022 with final recommendations for implementation in fiscal year 22-23. Final Board-approved metrics will be included in some combination on incentive plans for eligible executive and investment management positions.

This two-step approach will ensure alignment to the organization's goals and Board priorities by allowing GGA to gather your feedback as well as utilize anything the Board approves later today during the second reading of the CalPERS '22 through '27 Strategic Plan.

When GGA returns in June, they'll provide final recommendations to on incentive metrics, including fund performance, stakeholder engagement, customer service, Investment Office CEM, and enterprise operational effectiveness. At that time, they'll also provide a detailed probability analysis based on historical fund performance for total fund and asset class performance for the Committee's consideration related to hurdle rates and market practices. GGA has been working closely with Wilshire, the Board's primary investment consultant, to gather the data for the analysis.

So that concludes my opening remarks and I'll invite once more Mr. Landers and Mr. Kelly to begin their presentation.

MR. LANDERS: Thanks -- thanks, Michelle.

So you'll see that it's -- instead of a

presentation, it is more of a memo style to the Committee. And what we've really done in this memo is tried to address some of the sort of clarifying questions that were brought up to us in the past year or so around, you know, how to tweak some of how certain things are measured, what to include, exclude from certain calculations and then also reflecting back on what's typical market practice as relates to investment performance basing it on total fund and on asset class performance.

To summarize, and this is something we said last year as well, we actually don't think that the areas that you're measuring as part of your incentive program on the annual incentive are flawed. We actually like the areas you've gone to in terms of looking not only at total fund performance, but looking at operational effectiveness, customer service, member satisfaction, those type things, all things that pension funds should be measuring, because it's not -- as much as, yes, you know, it's an investment entity, there are other important aspects, especially for the CEO and for other non-investment related roles that, you know, require member satisfaction, rely -- you know, being very courteous and being fast in terms of responding to member requests. Being efficient in terms of how you allocate costs and making sure those overhead costs are kept within a reasonable range. Making sure you're relatively in line with other funds, which is the CEM total cost benchmarking piece as well.

So we really don't see anything fundamentally flawed in the buckets that you're using. What we have said, and what's addressed in this memo, is, in some cases - not in all cases - the weightings that are allocated to certain metrics we feel could be tweaked. A couple of ones that come to mind is for those non-investment roles, placing some weighting on the total fund investment performance. And what we typically see in the marketplace is in total 25 percent of, you know, a CFO or COO's annual incentive being tied to total fund results. And when you look at, in our appendix, what we're recommending, there'd be a 15 percent weighting on sort of total fund performance against the benchmark, and then the 10 percent tied still to total fund investment office results, so the CEM. So in total, 25 percent weighting on that. So that would align those roles more with the market place and with other pension funds.

And then the other big material adjustment we are seeing is -- and we're not saying -- I know last year we came forth with -- call it a more aggressive recommendation, but we're saying especially with a new CIO coming on board and having a chance to really understand their vision for the Investment Office, their vision for the team as a whole, for asset class professionals starting to bridge in a small weighting - and I think we've allocated 15 percent or so - on asset class performance for those specific asset class professionals. We will work with Marcie and your CIO implement that, because we know that you as a Committee and Board are really just focused on the CEO. But that's another area where the buckets you're measuring are good. We're just tweaking the weightings that are allocated to those.

So that's more -- maybe I'll stop there and just high level, before we get into some of the more little nitty-gritty questions. Are there any concerns with our thoughts and recommendations on those specific either the buckets that we're measuring or the weighting that we're tying to those -- to those buckets?

CHAIRPERSON FECKNER: I don't see ny comments.

MR. LANDERS: Okay. Perfect. So one thing we were asked, in particular was on the operational effectiveness piece, there are certain costs relating with I think it's retirement credits or leave credits that are currently outside of management's control that literally someone can accrue outside of CalPERS, but CalPERS is sort of on the hook to pay that if someone retires during the year. And there was a question that was posed to us to say, you know, is that a common number or figure that should be included when measuring the operational effectiveness and the overhead costs of the organization?

And so our view and opinion is, you know, things like that that really are outside of management's control, while ultimately in an ideal world, you'd probably want to look at what have they accumulated at CalPERS, specifically and try to measure that in, our understanding is, you know, the administrative burden of that is way too high to try and get into that level of granular detail. So in those types of situations where, you know, it's something that if someone has been working in the California State service for 40 years, but they've only worked at CalPERS for say 10 years, and you're still paying that, you know, other 30 years due to State statutes, we would say that ultimately those kind of numbers should be excluded from that calculation, when you're, you know, determining what performance is on that metric. And staff might be able to speak to this. I don't think it's a material amount that it will change the result all that much, but it was something that was asked of us for clarity.

And then the other question was due to -- I think there's some certain questions under the employee engagement surveys, where, you know, there was a concern brought that we're not -- they're not getting as many responses as they would like, and is that then making the data maybe more skewed or less reliable in terms of relying incentive payments on. And we understand that, you know, currently through the Strategic Plan there has been some new metrics that are being worked on as part of that Strategic Plan that, you know, CalPERS performance will be measured on in the coming years.

And so we would advocate that, you know, let's make sure that once the Strategic Plan is approved, we align the metrics that we're measuring to that Strategic Plan, so there is clear alignment between the Strategic Plan and what you're trying to incent your people, because again, as we mentioned earlier, we want to make sure that your incenting people and paying them for the results and performance that you want from them, as set out in the Strategic Plan.

And so those are some of the key recommendations that we're bringing forward. And we will, of course, be circling back in June to provide specific and finalized recommendations in terms of what those performance hurdles will look like and any switches, or changes, or tweaks that would be made to those specific metrics.

CHIEF OPERATING OFFICER HOFFNER: Mr. Chair, can I make one clarifying statement. It wasn't employee engagement. It was stakeholder engagement is the survey that we --

MR. LANDERS: Stakeholder. My apologies.

CHIEF OPERATING OFFICER HOFFNER: -- wanted to make sure that we clarify that.

CHAIRPERSON FECKNER: Thank you.

MR. LANDERS: So that was -- you know, that's sort of the key sort of cold notes of the memo that was presented to you as part of Agenda Item 8. Happy to take any questions that people might have on any of the specific recommendations or the analysis that's contained in the appendices and what have you.

CHAIRPERSON FECKNER: Very good. Thank you.

Ms. Ortega.

VICE CHAIRPERSON ORTEGA: Yeah. Thank you, Mr. Chair. This is way in weeds, but I can't help myself, on the lump summary retirement issue. So I don't think it's quite fair to say that the fund has no control over them, because I would ask questions like are you -- do you have leave reduction plans for the people over the caps, are you enforcing the cap, things like that. So I think it would be important to know that.

But the other thing is that you may inherit and employee with a big balance, but you may lose an employee to another department with a big balance. And I think generally we think of it as a bit of wash. So given that it's probably not material, I would just leave this item alone. But, you know, if, in fact, it is material, you know, maybe we look at what the -- what CalPERS is doing to manage balances and then maybe it makes sense to make that change.

Thank you.

CHAIRPERSON FECKNER: No other requests. Thank you.

Brings us to 7b, Summary of Committee Direction. Mr. Hoffner.

CHIEF OPERATING OFFICER HOFFNER: Let me see if I can do this.

(Laughter.)

CHIEF OPERATING OFFICER HOFFNER: I think I took four major points down. I think a lot of it was related to --

CHAIRPERSON FECKNER: Your microphone died.

CHIEF OPERATING OFFICER HOFFNER: It says it -- I'm not going to touch it.

CHAIRPERSON FECKNER: I think that was a subliminal message.

(Laughter.)

CHIEF OPERATING OFFICER HOFFNER: Thank you, Rob. I appreciate that. I'll be quick then.

Really about -- so attracting, retaining, where are we getting talent, where are we losing talent to, exit survey -- or exit data, a better understanding of the history of the comparator groups, and then data -- I guess exit data again particular to maybe how it reflects against CalSTRS and those areas. So I think that's the majority of what I heard in some variation. So Eraina, do I -- did I miss something?

VICE CHAIRPERSON ORTEGA: Just to make sure that --

CHAIRPERSON FECKNER: Hold on.

VICE CHAIRPERSON ORTEGA: Yep. Sorry.

CHAIRPERSON FECKNER: There you go.

VICE CHAIRPERSON ORTEGA: Just to make sure that it's specific on the, you know, vacancy --

CHIEF OPERATING OFFICER HOFFNER: Oh, yeah. Yeah. I just want to kind of capture that --

VICE CHAIRPERSON ORTEGA: -- tied to higher -- yeah.

CHIEF OPERATING OFFICER HOFFNER: Okay. Yeah.

VICE CHAIRPERSON ORTEGA: Thank you.

CHIEF OPERATING OFFICER HOFFNER: Thank you.

CHAIRPERSON FECKNER: Okay. Seeing nothing else. Full Board, what, 12:15.

COMMITTEE MEMBER TAYLOR: Yeah.

CHAIRPERSON FECKNER: All right. We will adjourn this meeting and the full Board meeting will start at 12:15.

Thanks for being here. This meeting is adjourned.

(Thereupon the California Public Employees' Retirement System, Board of Administration, Performance, Compensation, & Talent Management Committee open session meeting adjourned at 11:33 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 25th day of April, 2022.

James F. Peters

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