



GLOBAL
GOVERNANCE
ADVISORS

Opinion Letter

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2023-24 Chief Executive Officer Annual Incentive Plan Performance Metrics Recommendations

Prepared for:

Performance, Compensation & Talent
Management Committee

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This memo is in response to your request for Global Governance Advisors (“GGA”), in its role as CalPERS’ Board compensation consultant, to review and propose the CEO annual incentive plan measures and weightings for the upcoming fiscal year 2023-2024.

Overall Framework

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

As a result, GGA recommends that CalPERS continue to adhere to its historic performance measures and weightings for the upcoming 2023-2024 fiscal year, with consideration of a minimum response rate for determining the inclusion or exclusion of Stakeholder Engagement results within the CEO Incentive Plan formula.

Proposed CEO Incentive Plan Measures and Weightings

NO CHANGE

GGA proposes that CalPERS adhere to the same Measures and Weightings used in fiscal year 2022-2023 and only implement a change in the methodology around determining a minimum response rate to the stakeholder engagement survey results with which to include Stakeholder Engagement performance in the Annual Incentive calculation each year.

Plan Weight	Measure	Assessment Type
25%	Organizational Leadership Priorities	Quantitative Objectives
15%	Total Fund Performance	
20%	Enterprise Operational Effectiveness	
10%	Investment Office CEM	
15%	Customer Service	
15%	Stakeholder Engagement	



Organizational Leadership Priorities (25% Weighting)

NO CHANGE

Established from Board expectations and insight, the CEO is to provide organizational leadership in support of the following priorities from July 1, 2023 to June 30, 2024:

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

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

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

Please Note: The rating levels outlined above align with the updated changes made to the Compensation Policy, which apply to the CEO as well as other Incentive-eligible team members at CalPERS.

Total Fund Performance (15% Weighting)

NO CHANGE

This metric is based on fund performance against the policy benchmark for the five-year period of July 1, 2019, through June 30, 2024. Payout ratio for intermediate results will be determined by interpolation.

Variance from Benchmark (bps)	Payout Ratio
+10	1.50 (150%)
+5	1.00 (100%)
0	0.00 (0%)

Please Note: The rationale and historical analysis that led to the performance expectations outlined above were discussed in detail in advance of fiscal year 2022-2023 based on GGA's assessment of the historical performance of CalPERS' Total Fund and typical minimum performance levels expected by pension fund stakeholders.

Enterprise Operational Effectiveness (20% Weighting)

NO CHANGE

This metric for 2023-24 is defined as Overhead Operating Costs as a percentage of Total Operating Costs ("OOC").

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

Score	Payout Ratio
< -1.1%	1.50 (150%)
-1.1% to < -0.6%	1.25 (125%)
-0.6% to 0.0%	1.00 (100%)
> 0.0% to 1.0%	0.75 (75%)
> 1.0% to 1.5%	0.50 (50%)
> 1.5%	0.00 (0%)

Please Note: Technical changes in terms of the inclusion/exclusion of certain costs in the calculation of OOC were made for Fiscal Year 2023-2023 and will continue moving forward.

Investment Office CEM (10% Weighting)

NO CHANGE

This metric for 2023-24 is determined by CalPERS annual participation in the CEM benchmarking survey and shows how CalPERS' investment costs and return performance compares to a customized peer group over a five-year period.

Score	Payout Ratio
Outperforms US Benchmark on Net Value Added (Returns) and Cost by 0.2% and 5 bps, respectively	1.50 (150%)
Outperforms US Benchmark on Returns and Cost by .001% and 1 bps, respectively	1.00 (100%)
Outperforms US Benchmark on Cost or Outperforms US Benchmark on Returns	0.50 (50%)
Underperforms US Benchmark on Returns and Cost	0.00 (0%)

Customer Service (15% Weighting)

NO CHANGE

This metric for 2023-24 is based on two Service Dimensions:

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

Score	Payout Ratio
≥ 96%	1.50 (150%)
95% to < 96%	1.25 (125%)
94% to < 95%	1.00 (100%)
93% to < 94%	0.75 (75%)
92% to < 93%	0.50 (50%)
< 92%	0.0 0%)

Stakeholder Engagement (15% Weighting)

NO CHANGE IN SCORING, BUT RECOMMENDED MINIMUM RESPONSE RATE

This metric for 2023-24 is based on results of the following three Stakeholder Engagement Survey questions:

- Is CalPERS sensitive to the needs of Stakeholders?
- Does CalPERS do a good job of keeping its stakeholders informed?
- On a scale of one to ten, how would you rate CalPERS being effective in engaging and communicating with stakeholders?

Score	Payout Ratio
≥ 83%	1.50 (150%)
81% to < 83%	1.25 (125%)
80% to < 81%	1.00 (100%)
79% to < 80%	0.75 (75%)
78% to < 79%	0.50 (50%)
< 78%	0.00 (0%)

Please Note: A minimum overall response rate of 5% or higher has been recommended to ensure a meaningful number of responses are collected in order to include annual performance in this area within the Annual Incentive calculation, In the event a 5% response rate is not achieved, the 15% weighting for this metric would be re-distributed equally amongst the four (4) remaining metrics at 3.75% each. GGA included further details on the recommended adjustments to the Stakeholder Engagement performance calculation have been included in the separate memo relating to the Annual Incentive Metrics Review for all Incentive-eligible team members.

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

Sincerely,

Global Governance Advisors



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cc: Karen Van Amerongen, CalPERS