



GLOBAL  
GOVERNANCE  
ADVISORS

# Opinion Letter

May 29, 2024

## Annual Incentive Plan Metrics & Additional Considerations

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 provide a review of the proposed annual incentive plan metrics for Fiscal Year 2024-2025.

## Background

The current metrics used within the Annual Incentive program were first introduced as part of a new annual incentive plan for the 2016-2017 fiscal year with shared organizational metrics that aligned awards for all positions to the following performance areas:

- Fund Performance (both Total Fund and Asset-Class based)
- Enterprise Operational Effectiveness
- Investment Office CEM Results
- Customer Service
- Stakeholder Engagement

CalPERS continues to use these metrics but, in recent years, proactively set adjusted performance expectations for the Total Fund, Customer Service and Stakeholder Engagement metrics. In Fiscal Year 2019-2020, CalPERS changed the objectives for investment team members to solely focus on Total Fund performance and not place any weighting on Asset Class performance or Individual investment performance. The additional metrics used within the incentive plan have generally worked for CalPERS, and GGA has not had any concern with their placement and use within the annual incentive program.

## Summary of GGA’s Assessment

GGA has reviewed the proposed annual incentive metrics for Fiscal Year 2023-2024 and believes that the metric performance areas still meet the needs of CalPERS at this time. They align to CalPERS mission and strategic plan while continuing to encourage teamwork by tying CalPERS management to a consistent set of metrics.

While GGA is comfortable with the proposed annual incentive metrics, upon further historical analysis, GGA recommends adjustments to the performance expectations for all four evaluated performance areas to align closer with Ideal probabilities of attainment as follows:

- Maximum Performance: Achieved 2 out of 10 years (i.e., 20% of the time)
- Target Performance: Achieved 6 out of 10 years (i.e., 60% of the time)
- Threshold Performance: Achieved 8 out of 10 years (i.e., 80% of the time)

By looking to generally align with these probabilities of attainment over time, performance hurdles are set at a challenging, yet fair and reasonable level for plan participants while ultimately still ensuring a high level of performance for CalPERS stakeholders.

In terms of Stakeholder Engagement, the recommended adjustments to performance expectations also reflect the approved change in methodology in how survey responses are

collected to ensure that the same results achieved historically result in a similar level of payout. This is to ensure fairness to annual incentive plan participants while making sure the same expectations are met for CalPERS stakeholders.

Separate from the items noted above, GGA recommends that it work collaboratively with Wilshire Investments LLC and CalPERS’ incoming CIO over Fiscal Year 2024-2025 to review the appropriateness of CalPERS’ current Total Fund performance expectations as well as the inclusion of a specific Asset Class performance weighting within the annual incentive plan for impacted investment team members. The purpose of this work is to provide the Board with greater insight into the reasonableness and market competitiveness of Total Fund performance expectations to ensure continued confidence in performance expectations and the annual incentive plan design for investment team members moving forward. It will also allow for better alignment with the vision and strategy of the new CIO.

Provided below are details surrounding GGA’s exact recommendations for the proposed annual incentive metrics for Fiscal Year 2024-2025.

## CalPERS’ Performance Metric Review Details:

### Metric #1: Total Fund Performance

#### NO CHANGE FOR FISCAL YEAR 2024-2025

This metric is based on fund performance against the policy benchmark for the five-year period of July 1, 2020 through June 30, 2025. Payout ratio for intermediate results will be determined by interpolation.

Performance (bps)	Payout Ratio
+10	1.50 (150%)
+5	1.00 (100%)
0	0.00 (0%)

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.

Please Note: While GGA is satisfied with the current performance expectations set under the plan since Fiscal Year 2022-2023, it is recommended that over the course of Fiscal Year 2024-2025 GGA work with Wilshire Investments LLC and the incoming CIO to determine whether any adjustments are required for Fiscal Year 2025-2026. Performing a more detailed review of the appropriateness of performance expectations every three years would also be considered a good governance practice.



**Metric #2: Enterprise Operational Effectiveness**

**PROPOSED CHANGES FOR FISCAL YEAR 2024-2025**

This metric for 2024-25 is defined as Overhead Operating Costs as a percentage of Total Operating Costs (“OOC”) and is measured based on year-over-year improvement.

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

**Past 2023-2024 Metrics**

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%)



**Proposed 2024-2025 Metrics**

Score	Payout Ratio
< -1.05%	1.50 (150%)
-1.05% to < -0.55%	1.25 (125%)
-0.55% to 0.0%	1.00 (100%)
> 0.0% to 0.55%	0.75 (75%)
> 0.55% to 1.05%	0.50 (50%)
> 1.05%	0.00 (0%)

The historical analysis utilized by GGA to recommend the adjustments highlighted above is outlined in **Appendix A**. The most material change to the performance hurdles is the much higher level of performance required to start earning a payout for Enterprise Operational Effectiveness.

Ultimately, the recommended adjustments are intended to align CalPERS closer with recognized probability levels in recent years and make the performance expectations challenging, yet fair for eligible CalPERS team members while ensuring value is provided to CalPERS members.



**Metric #3: Investment Office CEM**

**PROPOSED CHANGES FOR FISCAL YEAR 2024-2025**

This metric for Fiscal Year 2024-2025 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.

**Past 2023-2024 Metrics**

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



**Proposed 2024-2025 Metrics**

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

The historical analysis utilized by GGA to recommend the adjustments highlighted above is outlined in **Appendix A**. The most material changes are the slightly lower level of performance required on Net Value Add Returns and higher level of performance required on Costs to achieve the same level of payout on this metric.

Ultimately, the recommended adjustments are intended to align CalPERS closer with recognized probability levels in recent years and make the performance expectations challenging, yet fair for eligible CalPERS team members while ensuring value is provided to CalPERS members.

**Metric #4: Customer Service**

**PROPOSED CHANGES FOR FISCAL YEAR 2024-2025**

This metric for Fiscal Year 2024-2025 is based on two Service Dimensions:

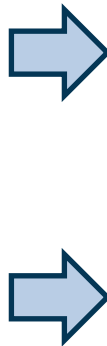
- Benefit Payment Timeliness: Percentage of benefit payments issued to our customers within established service levels
- Customer Satisfaction: Customer service with CalPERS services as measured by surveys and other methods

**Past 2023-2024 Metrics**

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%)

**Proposed 2024-2025 Metrics**

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



The historical analysis utilized by GGA to recommend the adjustments highlighted above is outlined in **Appendix A**. The most material changes are the higher levels of performance required to achieve the same level of payout on this metric.

Ultimately, the recommended adjustments are intended to align CalPERS closer with recognized probability levels in recent years and make the performance expectations challenging, yet fair for eligible CalPERS team members while ensuring value is provided to CalPERS members.

**Metric #5: Stakeholder Engagement**

**PROPOSED CHANGES FOR FISCAL YEAR 2024-2025**

This metric for Fiscal Year 2024-2025 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?

**Past 2023-2024 Metrics**

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%)

**Proposed 2024-2025 Metrics**

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



The historical analysis utilized by GGA to recommend the adjustments highlighted above is outlined in **Appendix A**. The most material changes are the higher level of performance required to start earning a payout on this metric and lower level of performance required to earn a maximum payout on this metric. This is a result of the new survey methodology which has led to a smaller spread in terms of realized performance on this metric in recent years.

GGA notes that changes made to the stakeholder perception survey methodology which apply an equal weighting in the survey results between the two Member groups and two Employer groups have been done to ensure the results of any one group do not skew the overall results one way or the other. Using historical data provided by CalPERS’ Policy Research and Data Analytics (PRDA) Division, we back tested survey results under the new survey weighting methodology and found that the same stakeholder perceptions scores from the four groups would result in slightly different scores under the new methodology when compared to the current methodology. In GGA’s view, this means that adjustments are required to the performance expectations to ensure that similar performance under the current methodology results in a similar payout outcome under the annual incentive plan as the new methodology. The recommendations are also intended to align CalPERS closer to the recognized probability levels in recent years, continue to make the performance expectations challenging yet fair for eligible CalPERS team members, all while ensuring that CalPERS continues to provide value to its 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 of this letter, please let us know.

Sincerely,

**Global Governance Advisors**



Peter Landers  
Senior Partner



Brad Kelly  
Partner

cc: Brittany Emmons, CalPERS



## Appendix A: Historic Probability Assessment and Metrics Adjustment Recommendations

### Background:

As part of our ongoing compensation advisory work and given the fact it has been 3 to 4 years since similar analysis had been performed, GGA conducted a historical probability assessment for each of the annual incentive plan metrics used under the plan (with the exception of Total Fund Value Add performance which was evaluated two years ago).

In GGA’s view, it is important to regularly review the rigor and fairness of the performance expectations set for performance metrics under the annual incentive plan to ensure they continue to be challenging to incentive plan participants, but also fair to CalPERS members. This is done through analyzing historical performance results to ensure Minimum expectations are not set too easily and that Maximum expectations are not set at an unrealistic level that can never be achieved.

As a result, this appendix contains a probability assessment and rationale for any changes suggested by GGA for the following four areas:

1. Enterprise Operational Effectiveness
2. Investment Office CEM (evaluating Value Add and Costs separately)
3. Customer Service
4. Stakeholder Engagement (under current and new scoring methodologies)

### Related Historic Data:

The tables that follow shows the related historic data (where possible) from Fiscal Year 2016-2017 to Fiscal Year 2022-2023 provided to GGA by CalPERS.

Year	CalPERS Performance History					
	Enterprise Operational Effectiveness	Investment Office CEM		Customer Service	Stakeholder Engagement	
		Cost BPS	Net Value Add BPS		Unweighted	Equal Weighted
3-Year Avg (2014-2017)	1.74%	10.0	0.05%	92.28%	-	-
3-Year Avg (2015-2018)	1.29%	7.0	-0.03%	94.64%	-	-
3-Year Avg (2016-2019)	1.00%	6.0	0.03%	95.02%	-	-
3-Year Avg (2017-2020)	0.21%	3.7	-0.08%	96.26%	-	-
3-Year Avg (2018-2021)	-0.40%	3.3	-0.11%	95.59%	82.48%	79.82%
3-Year Avg (2019-2022)	-0.91%	3.7	-0.27%	95.17%	82.22%	80.32%
3-Year Avg (2020-2023)	-0.82%	5.3	-0.13%	95.06%	82.17%	79.99%
2016-17	1.74%	10	0.05%	92.28%	-	-
2017-18	0.83%	4	-0.11%	97.00%	-	-
2018-19	0.44%	4	0.16%	95.77%	81.59%	78.80%
2019-20	-0.65%	3	-0.30%	96.00%	82.59%	80.66%
2020-21	-1.00%	3	-0.19%	95.00%	83.28%	79.99%
2021-22	-1.09%	5	-0.31%	94.50%	80.80%	80.32%
2022-23	-0.38%	8	0.10%	95.67%	82.43%	79.64%



## Enterprise Operational Effectiveness – Historical Analysis against Fiscal Year 2023-2024 Performance Hurdles

The Enterprise Operational Effectiveness Metric is defined as Overhead Operating Costs as a percentage of Total Operating Costs (“OOC”) and is measured on a year-over-year improvement basis.

- 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
- $OOC = OOC / (OOC + PSDOC)$

Assessing probabilities over a seven-year period, GGA produced the following:

Enterprise Operational Effectiveness				
Year	Annual Performance	2023-24 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2016-2019)	1.00%	1.50%	-0.30%	-1.10%
3-Year Avg (2017-2020)	0.21%	1.50%	-0.30%	-1.10%
3-Year Avg (2018-2021)	-0.40%	1.50%	-0.30%	-1.10%
3-Year Avg (2019-2022)	-0.91%	1.50%	-0.30%	-1.10%
3-Year Avg (2020-2023)	-0.82%	1.50%	-0.30%	-1.10%
2016-17	1.74%	1.50%	-0.30%	-1.10%
2017-18	0.83%	1.50%	-0.30%	-1.10%
2018-19	0.44%	1.50%	-0.30%	-1.10%
2019-20	-0.65%	1.50%	-0.30%	-1.10%
2020-21	-1.00%	1.50%	-0.30%	-1.10%
2021-22	-1.09%	1.50%	-0.30%	-1.10%
2022-23	-0.38%	1.50%	-0.30%	-1.10%
75th Percentile	0.64%	Historical Annual Probability of Attainment		
50th Percentile	-0.38%	Threshold	Target	Maximum
25th Percentile	-0.83%	86%	57%	0%

Based on the calculated annual probabilities, it is apparent that the Threshold performance expectation is relatively low and could be adjusted upward to make it a little more challenging to achieve. Alternatively, the Maximum performance expectation appears to be set too high as it has never been achieved over the last seven years.

## Enterprise Operational Effectiveness – Historical Analysis against Updated Performance Hurdles

Using the same historic data and adjusting performance hurdles by narrowing the performance ranges results in the following assessment:

Enterprise Operational Effectiveness				
Year	Annual Performance	Proposed 2024-25 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2016-2019)	1.00%	1.05%	0.00%	-1.05%
3-Year Avg (2017-2020)	0.21%	1.05%	0.00%	-1.05%
3-Year Avg (2018-2021)	-0.40%	1.05%	0.00%	-1.05%
3-Year Avg (2019-2022)	-0.91%	1.05%	0.00%	-1.05%
3-Year Avg (2020-2023)	-0.82%	1.05%	0.00%	-1.05%
2016-17	1.74%	1.05%	0.00%	-1.05%
2017-18	0.83%	1.05%	0.00%	-1.05%
2018-19	0.44%	1.05%	0.00%	-1.05%
2019-20	-0.65%	1.05%	0.00%	-1.05%
2020-21	-1.00%	1.05%	0.00%	-1.05%
2021-22	-1.09%	1.05%	0.00%	-1.05%
2022-23	-0.38%	1.05%	0.00%	-1.05%
75th Percentile	0.64%	Historical Annual Probability of Attainment		
50th Percentile	-0.38%	Threshold	Target	Maximum
25th Percentile	-0.83%	86%	57%	14%

### Enterprise Operational Effectiveness – Effect of Proposed Changes

The following table outlines how GGA’s proposed changes would affect the overall attainment probabilities, moving them closer to the Ideal attainment levels:

	Attainment Probability		
	Threshold	Target	Maximum
Current	86%	57%	0%
Ideal	80%	60%	20%
Proposed	86%	57%	14%



## Investment Office CEM (Cost BPS) – Historical Analysis against Fiscal Year 2023-2024 Performance Hurdles

This metric is determined by CalPERS’ annual participation in the CEM benchmarking survey and shows how CalPERS’ investment costs compare to a customized peer group over a five-year period.

Assessing probabilities over a seven-year period, GGA produced the following:

Investment Office CEM - Cost BPS				
Year	Annual Performance	2023-24 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2016-2019)	6.0	0	1	5
3-Year Avg (2017-2020)	3.7	0	1	5
3-Year Avg (2018-2021)	3.3	0	1	5
3-Year Avg (2019-2022)	3.7	0	1	5
3-Year Avg (2020-2023)	5.3	0	1	5
2016-17	10	0	1	5
2017-18	4	0	1	5
2018-19	4	0	1	5
2019-20	3	0	1	5
2020-21	3	0	1	5
2021-22	5	0	1	5
2022-23	8	0	1	5
75th Percentile	6.5	Historical Annual Probability of Attainment		
50th Percentile	4.0	Threshold	Target	Maximum
25th Percentile	3.5	100%	100%	43%

Based on the calculated annual probabilities, it is apparent that the Threshold, Target and Maximum expectations are relatively low given they all fall above the ideal probability of attainment percentages and could be adjusted upward to make the hurdles a little more challenging to achieve.

## Investment Office CEM (Cost BPS) – Historical Analysis against Updated Performance Hurdles

Using the same historic data and adjusting performance hurdles for Target and Maximum performance upward results in the following assessment:

Investment Office CEM - Cost BPS				
Year	Annual Performance	Proposed 2024-25 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2016-2019)	6.0	0	4	8
3-Year Avg (2017-2020)	3.7	0	4	8
3-Year Avg (2018-2021)	3.3	0	4	8
3-Year Avg (2019-2022)	3.7	0	4	8
3-Year Avg (2020-2023)	5.3	0	4	8
2016-17	10	0	4	8
2017-18	4	0	4	8
2018-19	4	0	4	8
2019-20	3	0	4	8
2020-21	3	0	4	8
2021-22	5	0	4	8
2022-23	8	0	4	8
75th Percentile	6.5	Historical Annual Probability of Attainment		
50th Percentile	4.0	Threshold	Target	Maximum
25th Percentile	3.5	100%	71%	29%

## Investment Office CEM (Cost BPS) – Effect of Proposed Changes

The following table outlines how GGA’s proposed changes would affect the overall attainment probabilities, moving them closer to the Ideal attainment levels:

	Attainment Probability		
	Threshold	Target	Maximum
Current	100%	100%	43%
Ideal	80%	60%	20%
Proposed	100%	71%	29%



## Investment Office CEM (Net Value Added BPS) – Historical Analysis against Fiscal Year 2023-2024 Performance Hurdles

This metric is determined by CalPERS’ annual participation in the CEM benchmarking survey and shows how CalPERS’ net value added returns compare to a customized peer group over a five-year period.

Assessing probabilities over a seven-year period, GGA produced the following:

Investment Office CEM - Net Value Add BPS				
Year	Annual Performance	2023-24 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2016-2019)	0.03%	0.00%	0.001%	0.20%
3-Year Avg (2017-2020)	-0.08%	0.00%	0.001%	0.20%
3-Year Avg (2018-2021)	-0.11%	0.00%	0.001%	0.20%
3-Year Avg (2019-2022)	-0.27%	0.00%	0.001%	0.20%
3-Year Avg (2020-2023)	-0.13%	0.00%	0.001%	0.20%
2016-17	0.05%	0.00%	0.001%	0.20%
2017-18	-0.11%	0.00%	0.001%	0.20%
2018-19	0.16%	0.00%	0.001%	0.20%
2019-20	-0.30%	0.00%	0.001%	0.20%
2020-21	-0.19%	0.00%	0.001%	0.20%
2021-22	-0.31%	0.00%	0.001%	0.20%
2022-23	0.10%	0.00%	0.001%	0.20%
75th Percentile	0.08%	Historical Annual Probability of Attainment		
50th Percentile	-0.11%	Threshold	Target	Maximum
25th Percentile	-0.25%	43%	43%	0%

Based on the calculated annual probabilities, it is apparent that the Threshold, Target and Maximum expectations are relatively high given they all fall below the ideal probability of attainment percentages and could be adjusted downward to make the hurdles more realistic to achieve. This being said, it is uncommon to reward eligible participants when they do not beat the benchmark (in this case the customized peer group), so maintaining a Threshold expectation of 0 bps (i.e., equaling the returns in the customized peer group) still makes sense to remain aligned to typical market practice and avoid potential unintended scrutiny from CalPERS stakeholders.

## Investment Office CEM (Net Value Added BPS) – Historical Analysis against Updated Performance Hurdles

Using the same historic data and adjusting performance hurdles for Target and Maximum performance downward results in the following assessment:

Investment Office CEM - Net Value Add BPS				
Year	Annual Performance	Proposed 2024-25 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2016-2019)	0.03%	0.00%	0.05%	0.10%
3-Year Avg (2017-2020)	-0.08%	0.00%	0.05%	0.10%
3-Year Avg (2018-2021)	-0.11%	0.00%	0.05%	0.10%
3-Year Avg (2019-2022)	-0.27%	0.00%	0.05%	0.10%
3-Year Avg (2020-2023)	-0.13%	0.00%	0.05%	0.10%
2016-17	0.05%	0.00%	0.05%	0.10%
2017-18	-0.11%	0.00%	0.05%	0.10%
2018-19	0.16%	0.00%	0.05%	0.10%
2019-20	-0.30%	0.00%	0.05%	0.10%
2020-21	-0.19%	0.00%	0.05%	0.10%
2021-22	-0.31%	0.00%	0.05%	0.10%
2022-23	0.10%	0.00%	0.05%	0.10%
75th Percentile	0.08%	Historical Annual Probability of Attainment		
50th Percentile	-0.11%	Threshold	Target	Maximum
25th Percentile	-0.25%	43%	43%	29%

## Investment Office CEM (Net Value Added BPS) – Effect of Proposed Changes

The following table outlines how GGA’s proposed changes would affect the overall attainment probabilities, moving them closer to the Ideal attainment levels:

	Attainment Probability		
	Threshold	Target	Maximum
Current	43%	43%	0%
Ideal	80%	60%	20%
Proposed	43%	43%	29%



## Investment Office CEM (Combined) – Historical Analysis against Fiscal Year 2023-2024 Performance Hurdles

This metric is determined by CalPERS’ annual participation in the CEM benchmarking survey and shows how CalPERS’ investment costs and net valued added (returns) combined compared to a customized peer group over a five-year period.

Assessing probabilities for both metrics over a seven-year period, GGA results in the following assessment:

		Investment Office CEM - Combined				
		Annual Performance	2023-24 Incentive Performance Hurdles			
		Year	CalPERS Actual	Threshold	Target	Maximum
Cost (bps)	2016-17	10	0	1	5	
	2017-18	4	0	1	5	
	2018-19	4	0	1	5	
	2019-20	3	0	1	5	
	2020-21	3	0	1	5	
	2021-22	5	0	1	5	
	2022-23	8	0	1	5	
Net Value Add (%)	2016-17	0.05%	0.00%	0.001%	0.20%	
	2017-18	-0.11%	0.00%	0.001%	0.20%	
	2018-19	0.16%	0.00%	0.001%	0.20%	
	2019-20	-0.30%	0.00%	0.001%	0.20%	
	2020-21	-0.19%	0.00%	0.001%	0.20%	
	2021-22	-0.31%	0.00%	0.001%	0.20%	
	2022-23	0.10%	0.00%	0.001%	0.20%	
		Historical Annual Probability of Attainment (Achieving Both)				
			Threshold	Target	Maximum	
			43%	43%	0%	

Based on the calculated annual probabilities, it is apparent that the Net Value-Added return performance generally has caused CalPERS to not achieve Target or Maximum performance when combining the performance in each area under this methodology. Adjusting performance expectations as per GGA’s proposed changes on the previous pages should slightly increase the probability of achieving Maximum and/or Target performance against both metrics moving forward, which should make this performance criteria more motivating to eligible team members moving forward (see next page).



## Investment Office CEM (Combined) – Historical Analysis against Updated Performance Hurdles

Using the same historic data and adjusting performance hurdles for both metrics results in the following assessment:

		Investment Office CEM - Combined				
		Annual Performance	Proposed 2024-25 Incentive Performance Hurdles			
		Year	CalPERS Actual	Threshold	Target	Maximum
Cost (bps)	2016-17	10	0	4	8	
	2017-18	4	0	4	8	
	2018-19	4	0	4	8	
	2019-20	3	0	4	8	
	2020-21	3	0	4	8	
	2021-22	5	0	4	8	
	2022-23	8	0	4	8	
Net Value Add (%)	2016-17	0.05%	0.00%	0.05%	0.10%	
	2017-18	-0.11%	0.00%	0.05%	0.10%	
	2018-19	0.16%	0.00%	0.05%	0.10%	
	2019-20	-0.30%	0.00%	0.05%	0.10%	
	2020-21	-0.19%	0.00%	0.05%	0.10%	
	2021-22	-0.31%	0.00%	0.05%	0.10%	
	2022-23	0.10%	0.00%	0.05%	0.10%	
		Historical Annual Probability of Attainment (Achieving Both)				
			Threshold	Target	Maximum	
			43%	43%	14%	

## Investment Office CEM (Combined) – Effect of Proposed Changes

The following table outlines how GGA’s proposed changes would affect the overall attainment probabilities, moving them closer to the Ideal attainment levels:

	Attainment Probability		
	Threshold	Target	Maximum
Current	43%	43%	0%
Ideal	80%	60%	20%
Proposed	43%	43%	14%

Ultimately, CalPERS will have to more consistently beat the CEM customized peer group on Net Value-Added Returns moving forward in order to increase probability levels closer to the Ideal levels, given the Threshold expectation to equal the customized peer group.

## Customer Service – Historical Analysis against Fiscal Year 2023-2024 Performance Hurdles

The Customer Service Metric is based on the following two Service Dimensions:

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

		Customer Service		
Year	Annual Performance	2023-24 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2016-2019)	95.02%	92.00%	94.00%	96.00%
3-Year Avg (2017-2020)	96.26%	92.00%	94.00%	96.00%
3-Year Avg (2018-2021)	95.59%	92.00%	94.00%	96.00%
3-Year Avg (2019-2022)	95.17%	92.00%	94.00%	96.00%
3-Year Avg (2020-2023)	95.06%	92.00%	94.00%	96.00%
2016-17	92.28%	92.00%	94.00%	96.00%
2017-18	97.00%	92.00%	94.00%	96.00%
2018-19	95.77%	92.00%	94.00%	96.00%
2019-20	96.00%	92.00%	94.00%	96.00%
2020-21	95.00%	92.00%	94.00%	96.00%
2021-22	94.50%	92.00%	94.00%	96.00%
2022-23	95.67%	92.00%	94.00%	96.00%
75th Percentile	95.89%	Historical Annual Probability of Attainment		
50th Percentile	95.67%	Threshold	Target	Maximum
25th Percentile	94.75%	100%	86%	29%

Based on the calculated annual probabilities, it is clear that Threshold, Target and Maximum performance expectations are relatively low and could be adjusted upwards to align closer to Ideal probabilities of attainment.

## Customer Service – Historical Analysis against Updated Performance Hurdles

Using the same historic data and adjusting the targets upward slightly results in the following assessment:

Customer Service				
Year	Annual Performance	Proposed 2024-25 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2016-2019)	95.02%	94.00%	95.50%	97.00%
3-Year Avg (2017-2020)	96.26%	94.00%	95.50%	97.00%
3-Year Avg (2018-2021)	95.59%	94.00%	95.50%	97.00%
3-Year Avg (2019-2022)	95.17%	94.00%	95.50%	97.00%
3-Year Avg (2020-2023)	95.06%	94.00%	95.50%	97.00%
2016-17	92.28%	94.00%	95.50%	97.00%
2017-18	97.00%	94.00%	95.50%	97.00%
2018-19	95.77%	94.00%	95.50%	97.00%
2019-20	96.00%	94.00%	95.50%	97.00%
2020-21	95.00%	94.00%	95.50%	97.00%
2021-22	94.50%	94.00%	95.50%	97.00%
2022-23	95.67%	94.00%	95.50%	97.00%
75th Percentile	95.89%	Historical Annual Probability of Attainment		
50th Percentile	95.67%	Threshold	Target	Maximum
25th Percentile	94.75%	86%	57%	14%

### Customer Service – Effect of Proposed Changes

The following table outlines how our proposed changes would affect the overall attainment probabilities, moving them closer to the Ideal attainment levels:

	Attainment Probability		
	Threshold	Target	Maximum
Current	100%	86%	29%
Ideal	80%	60%	20%
Proposed	86%	57%	14%



## Stakeholder Engagement (New Methodology) – Historical Analysis against Fiscal Year 2023-2024 Performance Hurdles

The Stakeholder Engagement Metric 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?

A new methodology for Fiscal Year 2024-2025 will see the results from the 2 Member groups and 2 Employer groups equally weighted in calculating performance results as opposed to the previous methodology which did not weight these groups equally. As shown in the table below, using the new methodology results in slightly lower overall scoring results than the current methodology over the last 5 years.

### New Methodology:

Stakeholder Engagement - Equal Weighted				
Year	Annual Performance	2023-24 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2018-2021)	79.82%	78.00%	80.00%	83.00%
3-Year Avg (2019-2022)	80.32%	78.00%	80.00%	83.00%
3-Year Avg (2020-2023)	79.99%	78.00%	80.00%	83.00%
2018-19	78.80%	78.00%	80.00%	83.00%
2019-20	80.66%	78.00%	80.00%	83.00%
2020-21	79.99%	78.00%	80.00%	83.00%
2021-22	80.32%	78.00%	80.00%	83.00%
2022-23	79.64%	78.00%	80.00%	83.00%
75th Percentile	80.32%	Historical Annual Probability of Attainment		
50th Percentile	79.99%	Threshold	Target	Maximum
25th Percentile	79.64%	100%	40%	0%

### Current Methodology:

Stakeholder Engagement - Unweighted				
Year	Annual Performance	2023-24 Incentive Performance Hurdles		
	CalPERS Actual	Threshold	Target	Maximum
3-Year Avg (2018-2021)	82.48%	78.00%	80.00%	83.00%
3-Year Avg (2019-2022)	82.22%	78.00%	80.00%	83.00%
3-Year Avg (2020-2023)	82.17%	78.00%	80.00%	83.00%
2018-19	81.59%	78.00%	80.00%	83.00%
2019-20	82.59%	78.00%	80.00%	83.00%
2020-21	83.28%	78.00%	80.00%	83.00%
2021-22	80.80%	78.00%	80.00%	83.00%
2022-23	82.43%	78.00%	80.00%	83.00%
75th Percentile	82.59%	Historical Annual Probability of Attainment		
50th Percentile	82.43%	Threshold	Target	Maximum
25th Percentile	81.59%	100%	100%	20%



## Stakeholder Engagement (New Methodology) – Historical Analysis against Updated Performance Hurdles

Using the same historic data and adjusting the performance expectations to reflect the New Methodology with equal weighting on Member and Employer groups results in the following assessment:

Stakeholder Engagement - Equal Weighted				
Year	Annual Performance CalPERS Actual	Proposed 2024-25 Incentive Performance Hurdles		
		Threshold	Target	Maximum
3-Year Avg (2018-2021)	79.82%	79.00%	79.75%	80.50%
3-Year Avg (2019-2022)	80.32%	79.00%	79.75%	80.50%
3-Year Avg (2020-2023)	79.99%	79.00%	79.75%	80.50%
2018-19	78.80%	79.00%	79.75%	80.50%
2019-20	80.66%	79.00%	79.75%	80.50%
2020-21	79.99%	79.00%	79.75%	80.50%
2021-22	80.32%	79.00%	79.75%	80.50%
2022-23	79.64%	79.00%	79.75%	80.50%
75th Percentile	80.32%	Historical Annual Probability of Attainment		
50th Percentile	79.99%	Threshold	Target	Maximum
25th Percentile	79.64%	80%	60%	20%

## Stakeholder Engagement (New Methodology) – Effect of Proposed Changes

The following table outlines how our proposed changes would affect the overall attainment probabilities, moving them closer to the Ideal attainment levels:

	Attainment Probability		
	Threshold	Target	Maximum
Current	100%	40%	0%
Ideal	80%	60%	20%
Proposed	80%	60%	20%

