



Performance, Compensation & Talent Management Committee

Agenda Item 8a

April 19, 2022

Item Name: Annual Review: 2022-23 Incentive Metrics

Program: Administration

Item Type: Information

Executive Summary

This item presents information on fiscal year 2022-23 incentive metrics for executive and investment management positions, including Fund Performance (both Total Fund and Asset Classes), Enterprise Operational Effectiveness, Investment Office CEM, Customer Service, and Stakeholder Engagement. Incentive metrics are reviewed annually by the Performance, Compensation, and Talent Management Committee (Committee). The Board's Primary Executive and Investment Compensation Consultant, Global Governance Advisors (GGA), will present their assessment and initial recommendations for the Committee's consideration before returning in June 2022 with final recommendations. Final Board-approved incentive metrics will be included in some combination on incentive plans for eligible executive and investment management positions.

Strategic Plan

This agenda item supports CalPERS' Strategic Goal to promote a high-performing and diverse workforce in the 2017-22 Strategic Plan. The Executive Compensation Program provides a means for recruiting, retaining, and empowering highly skilled executives to meet organizational priorities and strengthen the long-term sustainability of the pension fund by generating returns to pay member benefits.

Background

In August 2016, the Board approved five shared organizational metrics, including: Total Fund Performance, Investment Office CEM, Customer Service, Stakeholder Engagement, and Enterprise Operational Effectiveness. Some combination of these metrics has been included on the incentive plans of covered executive and investment management positions, as well as other senior leadership positions, since fiscal year 2016-17. As part of the initial implementation plan, it was recommended the metrics be reviewed annually and adjusted, if necessary, for the subsequent fiscal year.

For fiscal years 2018-19 and 2019-20, the Committee approved scoring threshold adjustments for the Stakeholder Engagement metric to align with Key Performance Indicator (KPI) aspirations. Also for fiscal year 2019-20, the Committee approved a change to extract Board and Third-Party Administrator Costs from the data used to calculate the outcome for the Enterprise Operational Effective metric.

For fiscal year 2020-21, the Committee approved retaining the metrics from fiscal year 2019-20 and for fiscal year 2021-22, they approved slight scoring threshold changes to the Customer Service and Stakeholder Engagement metrics. At that time, GGA suggested the Committee consider potential future changes to the fund performance hurdle rates (Total Fund and Asset Classes) to address payout levels for performance below the relative benchmark.

Analysis

Today's item is provided as information for the Committee to discuss and provide input before GGA returns in June 2022 with final recommendations. GGA reviewed the existing metrics, analyzed several years of fund performance data provided by Wilshire (the Board's investment consultant), and reviewed information available to date for the fiscal year 2022-27 CalPERS Strategic Plan. Based on their review of this information, GGA will present their analysis and initial recommendations for fiscal year 2022-23 incentive metrics for executive and investment management positions. The initial recommendations are discussed in their Opinion Letter (Attachment 1) and cover metrics on Fund Performance (both Total Fund and Asset Classes), Enterprise Operational Effectiveness, Investment Office CEM, Customer Service, and Stakeholder Engagement.

Presenting this information today and returning with final recommendations in June 2022 will ensure the Committee has adequate information and time to consider and make decisions which will impact the 2022-23 incentive plan metrics. It also provides the ability to fully align relevant metrics with the new five-year strategic plan for 2022-27, which is being presented in April 2022. When GGA returns in June 2022, they will provide an analysis on investment performance and will present information for the Committee's consideration-related to hurdle rates to and market practices.

For reference, fiscal year 2021-22 metrics as approved by the Board in June 2021 are included in Attachment 2.

Budget and Fiscal Impacts

CalPERS' 2022-23 Authorized Budget includes \$20.2 million for all incentive awards. This amount is an estimate based on budgeted salaries and the 2021-22 metric outcomes. In fiscal year 2021-22, actual incentive awards paid across all incentive programs was approximately \$11.5 million. Actual incentive payouts are subject to several factors (e.g., metric outcomes, fund performance, and individual performance) and cannot be quantified until after the end of the fiscal year.

Benefits and Risks

The incentive metrics were intended to be reviewed annually for incentive compensation purposes. The Committee's annual review of these metrics ensures incentive goals are aligned

with the Board's organizational priorities for executive and investment management teams. Without a periodic and systematic review, there is a risk of misalignment with the overarching goals of the organization.

Attachment

Attachment 1 – Incentive Metrics Review for FY 2022-23 by GGA

Attachment 2 – Fiscal Year 2021-22 Metrics

Michelle Tucker, Chief
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