

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
PERFORMANCE, COMPENSATION &
TALENT MANAGEMENT COMMITTEE
OPEN SESSION

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FECKNER AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

WEDNESDAY, JUNE 12, 2024

10:35 A.M.

JAMES F. PETERS, CSR
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APPEARANCES

COMMITTEE MEMBERS:

Mullissa Willette, Chairperson

Kevin Palkki, Vice Chairperson

Lisa Middleton (Remote)

Eraina Ortega

Jose Luis Pacheco

Theresa Taylor

Yvonne Walker (Remote)

BOARD MEMBERS:

David Miller, Vice President

Gail Willis, PhD (Remote)

STAFF:

Marcie Frost, Chief Executive Officer

Doug Hoffner, Chief Operating Officer

Michelle Tucker, Chief, Human Resources Division

ALSO PRESENT:

Brad Kelly, Global Governance Advisors

Peter Landers, Global Governance Advisors

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PROCEEDINGS

1
2 CHAIR WILLETTE: Okay. We'll call the
3 Performance, Compensation and Talent Management Committee
4 to order and I'll ask for a roll call please roll call
5 vote, please -- or roll call.

6 BOARD CLERK ANDERSON: Mullissa Willette.

7 CHAIR WILLETTE: Here.

8 BOARD CLERK ANDERSON: Kevin Palkki.

9 VICE CHAIR PALKKI: Good morning.

10 BOARD CLERK ANDERSON: Lisa Middleton.

11 COMMITTEE MEMBER MIDDLETON: Present.

12 BOARD CLERK ANDERSON: Eraina Ortega.

13 COMMITTEE MEMBER ORTEGA: Here.

14 BOARD CLERK ANDERSON: Jose Luis Pacheco.

15 COMMITTEE MEMBER PACHECO: Present.

16 BOARD CLERK ANDERSON: Theresa Taylor.

17 COMMITTEE MEMBER TAYLOR: Here.

18 BOARD CLERK ANDERSON: Yvonne Walker.

19 COMMITTEE MEMBER WALKER: Here.

20 CHAIR WILLETTE: And because we are not all
21 present in the same room and Board members are
22 participating from promote locations that are not
23 accessible to the public, Bagley-Keen requires the remote
24 Board members to make certain disclosures about any other
25 persons present with them during open session.

1 Accordingly, the Board members participating remotely must
2 each attest either that they are alone or if there are
3 more than one persons present with them who are at least
4 18 years old, the nature of the Board member's
5 relationship to each person.

6 So at this time, I will ask each remote Board
7 member to verbally attest accordingly. Please conduct the
8 roll call attestation.

9 BOARD CLERK ANDERSON: Dr. Gail Willis?

10 BOARD MEMBER WILLIS: I attest to this fact.

11 Thank you.

12 BOARD CLERK ANDERSON: Lisa Middleton?

13 COMMITTEE MEMBER MIDDLETON: I do so attest.

14 BOARD CLERK ANDERSON: Yvonne Walker?

15 COMMITTEE MEMBER WALKER: I attest.

16 CHAIR WILLETTE: Thank you so much.

17 We will now begin with our executive report.

18 CHIEF OPERATING OFFICER HOFFNER: Good morning,
19 Madam Chair, members of the Committee. Doug Hoffner,
20 CalPERS team member. Before you today are three action
21 items. First, your primary compensation consultant Global
22 Governance Advisors here to present recommendations for
23 fiscal year 24-25 incentive metrics. This is a follow-up
24 to the April agenda item. They will also present the
25 fiscal year 24-25 incentive plan for the CEO for the

1 Committee's approval as well. And lastly, we're seeking
2 the Committee's approval for a release of a Request for
3 Proposal for the Board's primary executive and investment
4 compensation consultant contract, which expires at the end
5 of 2025. This will allow us to move forward with the
6 procurement process. Thank you. This concludes my
7 report. Happy to answer any yes.

8 CHAIR WILLETTE: All right. Thank you. Any
9 questions from the Board -- or the Committee?

10 All right. Thank you.

11 We will move on to our action consent items.

12 COMMITTEE MEMBER TAYLOR: Move approval.

13 COMMITTEE MEMBER PACHECO: Second.

14 CHAIR WILLETTE: Okay. That has been moved and
15 seconded. Thank you so much President Taylor and Mr.
16 Pacheco.

17 And can we have a vote, please.

18 BOARD CLERK ANDERSON: Kevin Palkki?

19 VICE CHAIR PALKKI: Aye.

20 BOARD CLERK ANDERSON: Lisa Middleton?

21 COMMITTEE MEMBER MIDDLETON: Aye.

22 BOARD CLERK ANDERSON: Eraina Ortega?

23 COMMITTEE MEMBER ORTEGA: Aye.

24 BOARD CLERK ANDERSON: Jose Luis Pacheco?

25 COMMITTEE MEMBER PACHECO: Aye.

1 BOARD CLERK ANDERSON: Theresa Taylor?

2 COMMITTEE MEMBER TAYLOR: Aye.

3 BOARD CLERK ANDERSON: Yvonne Walker?

4 COMMITTEE MEMBER WALKER: Aye.

5 BOARD MEMBER WILLIS: Yes, if were calling on me.

6 CHAIR WILLETTE: Okay. And that does pass.

7 Thank you, Committee.

8 We'll now move to our information consent items.

9 I have not received a request to pull any item. So that
10 is there for your review.

11 And we now have our action agenda items beginning
12 with Item 5a.

13 HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank
14 you, members of the Committee. Good morning. Michelle
15 Tucker, CalPERS team member.

16 Item 5a is an action item. To comply with the
17 Board's policies incentive metrics are reviewed annually
18 by the Committee and the Board's primary compensation
19 consultant, Global Governance Advisors. Based on GGA's
20 review of the existing metrics and input from the
21 Committee at the April 2024 meeting, GGA will present the
22 recommendations for incentive metrics for fiscal year
23 24-25 incentive plan inclusion. Final Board-approved
24 metrics will be included in some combination on fiscal
25 year 24-25 incentive plans for eligible executive and

1 investment management positions, including the CEO's
2 incentive plan which will be presented in Item 5b today.

3 That concludes my opening remarks and we can
4 invite Mr. Landers and Mr. Kelly to begin their
5 presentation

6 (Thereupon a slide presentation).

7 BRAD KELLY: Excellent. Thank you very much.
8 Good morning, Madam Chair, members of the Committee.
9 Thank you for inviting us to experience your California
10 heat.

11 (Laughter).

12 BRAD KELLY: Something we are not experienced
13 seeing in the City of Toronto right now. This is a
14 continuation of the performance management design and
15 annual process. This is a best governance practice.

16 [SLIDE CHANGE]

17 BRAD KELLY: At the last Committee meeting, you
18 were asked to approve on the metrics that are going to be
19 utilized in the annual incentive plan, which were passed.
20 And so today, we will be going through the actual
21 performance hurdles and the kind of adjustment to
22 recalibrate -- calibration of these objective hurdles.
23 This is also a practice where we make sure that the
24 hurdles that are established are fair to both your fund as
25 well as the plan participants in an objective manner. And

1 as I mentioned before, it is a governance best practice to
2 look at them in an objective way on a regular basis. We
3 have not looked at these for a number of years. And so it
4 was determined that this would be a good time for us to
5 again look at these hurdles objectively.

6 [SLIDE CHANGE]

7 BRAD KELLY: If you recall, this is something
8 that we did for your asset class performance last year.
9 And just to readdress the process that we like to apply,
10 we like to apply kind of a, what we call, our 80/60/20
11 rule in terms of the performance huddles on the threshold
12 performance, meaning the base performance, the minimum
13 performance that's expected against any objective by which
14 anyone will be eligible for any sort of payout. We'd like
15 to see roughly about 80 percent probability, meaning that
16 it's not a given. So if it was above 80 percent or a
17 hundred percent, that in itself is a given. These, as a
18 reminder, are stretch goals. We want people to be
19 incentivized to do more and to perform at higher levels.
20 And so therefore, we'd like to see at that base threshold
21 level about 80 percent probability.

22 Hitting target. Some organizations say we should
23 be hitting target a hundred percent. But then again,
24 that's kind of a given. So we like to see roughly about a
25 60 percent probability associated with attaining the

1 target. And then for what we would see as superior or
2 maximum performance, some -- anything above that target
3 performance. We'd like to see roughly about a 20 percent
4 probability. If it's outside of that 20 percent or zero
5 percent, then it's something that is completely
6 aspirational and not realistic. And then the participants
7 would not be incentivized to actually work towards going
8 beyond target.

9 So are there any questions with regard to the
10 methodology that we like to apply? I know that we've done
11 this a number of times.

12 Okay.

13 [SLIDE CHANGE]

14 BRAD KELLY: So in terms of our initial
15 observations, basically, we did adjust the total fund
16 metric roughly two years ago. We narrowed the scope
17 between both threshold and maximum performance based on a
18 similar probability assessment. And this time around, we
19 looked at the other metrics. And what you'll see is that
20 in most cases, we've improved the threshold performance or
21 increased that minimum standard that's expected, which is
22 a really good news story. And then also, we've kind of
23 narrowed it, meaning that some of the -- some of the
24 maximum thresholds that were established were a bit too
25 aspirational, and so -- and methodological changes, which

1 we'll go -- get into, basically helped to justify the fact
2 that we should be narrowing that scope between the
3 threshold and maximum performance as well.

4 So Peter now will be walking through the actual
5 objectives themselves and our recommended changes.

6 [SLIDE CHANGE]

7 PETER LANDERS: Perfect. Thank you. Thank you,
8 everyone on the committee. When we looked at tote fund
9 performance as Brad mentioned, we looked at that a couple
10 of years ago. The biggest takeaway I think there too was
11 we removed the ability to earn an incentive when you
12 underperformed the benchmark. So we moved that to that
13 minimum expectation being to meet the benchmark. That's
14 when you can start to earn an incentive. And so we're
15 comfortable right now with the range. I think with the
16 incoming CIO coming in and things like that, we will
17 obviously look at this maybe in more detail in the
18 upcoming year and maybe potentially come forward with some
19 changes for next fiscal year, but we're comfortable with
20 where we're at now with this one.

21 And again, stressing that we've moved -- already
22 moved the expectation to earn a payout upward and driven a
23 higher level of performance a couple of years ago.

24 [SLIDE CHANGE]

25 PETER LANDERS: When we look at enterprise

1 operational effectiveness, this we looked at over the
2 last -- the last few years. And the biggest takeaway and
3 the most material change we're actually adopting is
4 increasing the level of performance expected to start
5 achieving an incentive payout on this metric. So you can
6 see it's moving from 1.5 percent to 1.05. And this is --
7 because we're talking about a cost metric, going up is bad
8 and down is good. So it's sort of the inverse of say
9 value-add returns. So that's the biggest takeaway here is
10 that we've increased that expectation. And again, to
11 Brad's point, that's a good thing in the sense that we
12 looked at historical performance and it's showing that,
13 you know, we can raise that threshold and set that bar a
14 little bit higher and get towards that 80/60/20 rule a
15 little bit better than we did historically.

16 [SLIDE CHANGE]

17 PETER LANDERS: On the investment office, the
18 CEM, and this is based on CEM benchmarking results against
19 a customized peer group. This has been in place for the
20 last six or seven years now. And if you recall, this
21 specific metric looks at both costs relative to that
22 customized peer group as well as value-add returns. And
23 what you'll see is the most material changes being we've
24 actually raised the expectation for both costs and
25 value-add returns to hit that sort of multiplier of one or

1 that target level of performance. And then we've
2 increased the expectation on costs and decreased slightly
3 the expectation on returns to make sure again that we're
4 making a challenging yet reasonable -- reasonably
5 attainable and have a somewhat of a level of hitting the
6 objective for that, but again, raising the expectation to
7 hit that target level of performance.

8 And inherently, because you're not -- because you
9 have to hit both metrics, so multiple criteria, to
10 basically earn a full payout, again that inherently makes
11 this a more challenging metric to achieve sort of, you
12 know, high level of performance on, because you have to
13 hit multiple metrics, not just one. So we're comfortable
14 again when we looked historically that, you know, these
15 hurdles are set appropriately.

16 [SLIDE CHANGE]

17 PETER LANDERS: When we look at customer service,
18 this one, as well, you'll look -- you'll see both at the
19 low end as well as at the high end, we've increased the
20 expectations. And again, looking back historically, we
21 wanted to raise the bar. We did want to make this -- to
22 Brad's earlier point, make it a gimme or something that
23 people expect to always achieve a payout here. And so
24 we've raised the expectations across the Board both from
25 the bottom end all the way to the top end. And this is a

1 good news story, because it means that your customer
2 service scores are generally -- have generally been
3 increasing in recent years, so we're comfortable again
4 raising the expectations there.

5 [SLIDE CHANGE]

6 PETER LANDERS: And then lastly, on the
7 stakeholder engagement piece, you'll see that we've raised
8 the expectations on the low end and brought them down a
9 little bit on the top end. This was one reflecting on
10 historical performance, but also reflecting on, if you
11 recall, a new methodology that's being brought forward in
12 terms of how the data is being analyzed and reported back
13 on. Before, there was basically four different
14 stakeholder groups. It basically just took all of the
15 results from stakeholders that might be heavily weighted
16 on retired member, or heavily weighted on active members,
17 or what have you. And it would just take those overall
18 results and produce a score.

19 The new methodology suggests we have four
20 stakeholder groups. We want to make sure that not one
21 group is overly weighted over another group, and so
22 they're equally weighted now under this new methodology.
23 So each of the stakeholder groups' scores will be weighted
24 evenly or equally. And so when you look at that, when you
25 update, and you look at that methodology, and you look

1 back at the last few years of performance, what becomes
2 quite evident is the variability in terms of actual
3 results. It really shrinks, so you don't have as much
4 volatility in terms of getting a lower score or a higher
5 score. It tends to be a little bit more condensed
6 together.

7 And so that's partially why you'll see that we've
8 updated the metrics to reflect this new methodology. And
9 also to be fair to the participants, our view was a
10 similar level of performance historically, under the old
11 methodology, should generally lead to a similar level of
12 payout under this newer methodology. And so that thinking
13 has also gone into, again making sure it's a very
14 challenging and hard expectation for them to hit, but also
15 be reasonable and make sure that there is a -- you know, a
16 level of fairness to the participants that a change in
17 methodology doesn't overly impact them one way or the
18 other. So that has gone into the setting of these metrics
19 as well. With that, I think that's --

20 CHAIR WILLETTE: We do have a question from the
21 Committee.

22 PETER LANDERS: Oh, yeah. I was just going to
23 open up to questions.

24 CHAIR WILLETTE: Thank you so much.

25 Ms. Ortega.

1 COMMITTEE MEMBER ORTEGA: Thank you. I just had
2 a question on the last one since we were there.

3 PETER LANDERS: Yep.

4 COMMITTEE MEMBER ORTEGA: On the new proposed
5 metrics --

6 PETER LANDERS: Yes.

7 COMMITTEE MEMBER ORTEGA: -- just the shortness
8 of the band --

9 PETER LANDERS: Yes.

10 COMMITTEE MEMBER ORTEGA: -- between the top and
11 the bottom, is that related to the methodology issue?

12 PETER LANDERS: Yes. So again, as I mentioned,
13 when you look at historical results when you use the new
14 methodology and you look back at the last few years of
15 performance, it tends to have a situation where the
16 variability in results is a lot less. So your volatility
17 is less in terms of the results, so you do -- it does lend
18 itself to a smaller spread, because you're not going to
19 necessarily see the volatility too low or too high in the
20 results. And so we've tried to incorporate that into the
21 setting of the objectives -- or the metrics huddles.

22 BRAD KELLY: And if I could add just to be clear,
23 what we did with your survey team is asked them to apply
24 the new methodology and provide us the historic data in
25 correlation to that new methodology. So we assessed it

1 based on, you know, the historic performance levels. And
2 then again, we applied our 80/60/20 principle, which
3 you'll see in the back end for full transparency, you land
4 almost exactly on that 80/60/20 spectrum, which is
5 perfect. We see that as optimal. Unfortunately, it is a
6 narrow band, but it's where the data lies, and that's
7 where we see it's fair and objective.

8 COMMITTEE MEMBER ORTEGA: Is there any risk of
9 making this measure not very meaningful? And I --
10 sorry -- of it being less meaningful? Because if I'm
11 understanding -- I think I understand and agree with the
12 point of the not having any one group voice outweigh the
13 others. So if I'm understanding the math you're sort of
14 averaging the scores together, which then is going to
15 always end up in this really small band of outcome, unless
16 there's some really anomalous event, right?

17 PETER LANDERS: Yes.

18 COMMITTEE MEMBER ORTEGA: Which -- so that all
19 makes sense in terms of the math. So then when you apply
20 that to a range of outcomes on a performance metric,
21 you're going to shrink that, because it's going to not be
22 very volatile. I'm just asking if all of that makes it
23 not be very meaningful in the end in terms of a
24 measurement.

25 PETER LANDERS: I think it is in the sense that

1 you still want to be in some form looking at how you're
2 engaging with your members, if you're staying within, you
3 know, an acceptable level of band that historically aligns
4 with what you're looking for. Obviously, as we move
5 forward, we'll look at -- you know keep looking at
6 historical results and see if there -- it warrants
7 obviously shifting it upward, or downward, or what have
8 you.

9 But I think it is meaningful in the sense that
10 again you want to be rewarding people that have the
11 ability to impact this metric be rewarded accordingly.
12 And again, to a point, if we were to set the same range,
13 let's say we just kept the range the way it is, it would
14 naturally make it almost easier for them to earn an
15 incentive payout, which we don't want to be doing. On the
16 flip end, we're -- it might make it too challenging and
17 unrealistic, and it doesn't then make them strive to even
18 try to, you know, increase their performance that little
19 extra piece. So we're comfortable that, yes, there's a
20 narrower spread, but it still is meaningful in terms of
21 rewarding people for an important area that you want them
22 to be getting you the performance and getting your members
23 the performance that they expect. And over time,
24 hopefully, we'll look to see an increase in those
25 expectations as the -- as the hurdles and as the

1 performance dictates.

2 BRAD KELLY: And also, in terms of looking at the
3 new methodology, the concern that we've been discussing
4 with this Committee and with your Board for a number of
5 years now is that specific stakeholder groups were
6 underrepresented within the methodology, so that you had
7 other groups that were kind of skewing that satisfaction
8 level. If I recall correctly, it was the active members
9 that historically were the underrepresented group. So in
10 association with this new methodology, the survey group
11 will be looking at ways to more actively engage your
12 active members to increase their participation.

13 So to your point, if we can get more people to
14 respond to these surveys, then we might see a wider
15 variation, and then we'll see the band actually grow. But
16 right now based on the historic data that we have, this is
17 what is objectively fair. So we'll keep --

18 PETER LANDERS: And we only --

19 BRAD KELLY: Sorry. So we'll keep monitoring as
20 we go forward, but we feel that the range is still fair
21 and defensible and is objectively based. But to your
22 point, the engagement strategy -- and this is not
23 something that's unique to CalPERS. Peter and I can
24 attest that pension funds throughout this country,
25 actually almost throughout the world, are really

1 struggling on engagement. I think to some extent we're
2 suffering from survey fatigue. And so -- and I'm sure,
3 Eraina, you're dealing with that at your own departmental
4 level as well.

5 And so again, it requires some creativity, some
6 new methodology to increase those engagement scores, but
7 we won't know until the data starts coming out, so we will
8 be keeping a close eye on this for the years to come.

9 CHAIR WILLETTE: All right. We have another.
10 Mr. Pacheco.

11 COMMITTEE MEMBER PACHECO: Yes. Thank you,
12 Chairwoman Willette. Thank you, Mr. Kelly. On that -- on
13 that note, I wanted to just follow up with what Eraina
14 said on the -- on the stakeholder engagement survey. You
15 mentioned that it has been underweighted with respect to
16 the active members, but now with this new methodology
17 where we will have an equal weight, how will we mitigate
18 any of the inherent statistical bias associated with
19 the -- with the -- with this new methodology. Is there --
20 is there a system in place for that?

21 BRAD KELLY: There -- we did have discussions
22 around what is the minimal threshold participation level
23 that would be required, so that statistically the data
24 would be valid. And then to your point -- an earlier
25 point that you had made, Mr. Pacheco, was that we're

1 looking at different ways. So I know you had suggested
2 issuing the survey out in Spanish.

3 COMMITTEE MEMBER PACHECO: Yes.

4 BRAD KELLY: And so these are all things that are
5 taken into consideration.

6 COMMITTEE MEMBER PACHECO: And actually that's --
7 I was going to follow up with that Spanish one. Has that
8 been implemented or is that being in the -- is that in the
9 works right now?

10 PETER LANDERS: That would be something that --
11 we can't actually answer that. It would have to be your
12 policy division that would maybe give you that.

13 CHIEF OPERATING OFFICER HOFFNER: Yeah, it hasn't
14 been. This is all for 2025 data. So this survey hasn't
15 been done yet. We did the last one for 2024. I don't
16 believe it included the Spanish. We do translation
17 services when requests. This would all apply in sort of
18 the spring of 2025 for that fiscal year's data reporting.

19 COMMITTEE MEMBER PACHECO: Oh, I see. So it's --
20 it will be for the -- okay. I got you.

21 CHIEF OPERATING OFFICER HOFFNER: We're just
22 going to get it done, because the fiscal year starts July
23 1. We need to have the metrics in place in order to have
24 that done. But the surveys don't take place until the
25 spring of next year.

1 COMMITTEE MEMBER PACHECO: I see. Very good
2 then.

3 And then the last question I have is you
4 mentioned the hurdle -- the hurdle rates are challenging,
5 but you also mentioned that they're realistic. I mean,
6 are they -- are they relatively realistic for this
7 particular set. And I'm just -- if you guys -- it's more
8 a philosophical question.

9 BRAD KELLY: Well, again, objectively, we apply
10 our 80/60/20 principle to this. And that objectively from
11 our experience through decades of work in this area proves
12 that that makes it both fair and defensible to the plan
13 provider, so to CalPERS --

14 COMMITTEE MEMBER PACHECO: Um-hmm.

15 BRAD KELLY: -- as well as to participants. You
16 want to make sure that again it's not a gimme objectively,
17 and that it's not too difficult, so that the participants
18 see it as a reality that they can strive and achieve. If
19 we had widened this out to have threshold where it should
20 be and put that upper limit for maximum performance up
21 higher, we could have done that, but participants they can
22 see where things are too aspirational.

23 COMMITTEE MEMBER PACHECO: Right.

24 BRAD KELLY: And so therefore we want -- there's
25 no motivation for them to go beyond that target at that

1 point, because they'll just say that's way too hard.
2 We've never achieved it in the past, so we're just going
3 to slow our jets after we hit the target. You never want
4 that on any objective. You want to make sure that you're
5 incentivizing people to continue on that performance
6 curve, so that they continue to increase the performance
7 right up to the end of the year.

8 COMMITTEE MEMBER PACHECO: Very good then. Thank
9 you very much. That's all my questions.

10 CHAIR WILLETTE: Okay. We have Ms. Taylor.

11 COMMITTEE MEMBER TAYLOR: Are we all in
12 agreement? I can make the motion.

13 CHAIR WILLETTE: Sure. Is there any other
14 presentation?

15 BRAD KELLY: (Shakes head).

16 CHAIR WILLETTE: Okay.

17 PETER LANDERS: No. There's just some details
18 that -- they're all in the memo you would have received
19 around the probability assessment detail. So that's just
20 all the quantitative analysis that went into determining
21 the hurdle rates, so...

22 CHAIR WILLETTE: Okay. Thank you so much for
23 that. Thank you for the discussion, Committee, and I will
24 take a motion.

25 COMMITTEE MEMBER TAYLOR: So I'll make the motion

1 to approve the incentive metrics for fiscal year 24-25 as
2 presented by the Board's compensation consultant Global
3 Governance Advisors.

4 VICE CHAIR PALKKI: Second.

5 CHAIR WILLETTE: All right. Thank you. And it
6 has been seconded by Mr. Palkki. Can we do a roll call
7 vote, please?

8 BOARD CLERK ANDERSON: Kevin Palkki?

9 VICE CHAIR PALKKI: Aye.

10 BOARD CLERK ANDERSON: Lisa Middleton?

11 COMMITTEE MEMBER MIDDLETON: Abstain.

12 BOARD CLERK ANDERSON: Eraina Ortega?

13 COMMITTEE MEMBER ORTEGA: Aye.

14 BOARD CLERK ANDERSON: Jose Luis Pacheco?

15 COMMITTEE MEMBER PACHECO: Aye.

16 BOARD CLERK ANDERSON: Theresa Taylor?

17 COMMITTEE MEMBER TAYLOR: Aye

18 BOARD CLERK ANDERSON: Yvonne Walker?

19 COMMITTEE MEMBER WALKER: Aye.

20 CHAIR WILLETTE: All right. That motion does
21 pass.

22 We will now move to Item 5b.

23 HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank
24 you, Committee. Michelle Tucker, CalPERS team member.
25 Item 5b is presented annually as part of the regular

1 incentive plan cycle required under the Board's
2 Compensation Policy for executive and investment
3 management positions. Recommendations for the Chief
4 Executive Officer's fiscal year 24-25 plan will be
5 presented by the Board's primary compensation consultant,
6 GGA, and have been provided in Attachment 1 to the item.

7 Based on the Committee's prior discussion and
8 action on Agenda Item 5a, the annual review of incentive
9 metrics, the CEO's annual incentive plan for fiscal year
10 24-25 will be updated to reflect the approved incentive
11 metrics and scoring thresholds. So I can turn it over to
12 GGA now to speak on that point.

13 PETER LANDERS: Perfect. So you would have --
14 yeah, you would have seen the attachment, which is the
15 memo that we drafted. As Ms. Tucker had mentioned, the
16 hurdle rates that you just approved will be applied to
17 each of the metrics that the CEO is tied to. And then we
18 also looked at the overall weighting between those
19 quantitative metrics and then the qualitative or the
20 personal assessment that you do every September on the
21 CEO. And we were still comfortable with the current
22 weighting, which is 75 percent on those -- in the various
23 weightings in terms of the metrics that are quantitatively
24 scored for the CEO and the 25 percent weighting on the
25 qualitative side.

1 And so, you know, the -- our memo basically
2 outlines keeping that same 75/25 percent weighting and the
3 same relative weighting on each of those five quantitative
4 metrics as last year. And we feel again that that's fair,
5 it's defensible, and it's in line with typical market
6 practice. And so really that's all -- you know, it's all
7 sort of detailed in the memo. But just wanted to open it
8 for any questions people might have on the weightings and
9 the CEO's specific incentive.

10 CHAIR WILLETTE: Thank you so much.

11 Any questions from the Committee?

12 Mr. Palkki.

13 VICE CHAIR PALKKI: Thank you, Madam Chair.

14 The metrics on the stakeholder engagement are the
15 same. However, at this point, we're talking about the
16 CEO. Can you explain that relationship?

17 PETER LANDERS: Yep. So the CEO has basically
18 a -- has a total fund performance component, the CEM
19 performance component, the enterprise operational
20 effectiveness, the customer service and the stakeholder
21 engagement. They all have weightings. They weigh, I
22 think, from 10 to 25 percent. Within the -- within their
23 overall -- I'll call it a scorecard, but their overall
24 incentive formula. Those are then, of course, scored at
25 the end of every year and quantitatively that leads to a

1 certain result. And then every September, you'll, as a
2 Board, review the CEO's individual performance, which
3 looks at a variety of different areas, the five or six
4 years. Again, these are outlined in your memo.

5 And so what we're talking about here is really
6 just approving the weightings associated with each of the
7 metrics. The hurdles that we just discussed and that were
8 approved will then be applied to each of those -- each of
9 those metrics within the CEOs incentive plan.

10 BRAD KELLY: And in terms of governance best
11 practices, it's always -- we would always advocate that
12 you have an alignment between the expectations of your top
13 executive, so in this case Marcie, and the rest of your
14 plan participants. The last thing you would want is to
15 have different performance thresholds established for one
16 person versus the rest of the team. So this provides you
17 with kind of a consistency in terms of that performance
18 expectation, from the very top to the bottom of your plan
19 participants.

20 VICE CHAIR PALKKI: Thank you.

21 CHAIR WILLETTE: Any other questions or
22 discussion from the Committee?

23 All right. I think -- is there a motion?

24 COMMITTEE MEMBER PACHECO: I'll move.

25 CHAIR WILLETTE: Okay. You'll make the motion

1 for the recommendation.

2 COMMITTEE MEMBER PACHECO: Yes.

3 CHAIR WILLETTE: Please.

4 Microphone. Hold on.

5 COMMITTEE MEMBER TAYLOR: He's still trying to --
6 there you go.

7 COMMITTEE MEMBER PACHECO: I'd like to approve
8 the fiscal year 2024-25 incentive plan for the Chief
9 Executive Officer, CEO, as proposed by the Board's
10 compensation consultants Global Governance Advisor.

11 CHAIR WILLETTE: Thank you so much. And is there
12 a second?

13 VICE CHAIR PALKKI: (Hand raised).

14 CHAIR WILLETTE: Thank you, Mr. Palkki, for the
15 second. And can we get a roll call vote, please.

16 BOARD CLERK ANDERSON: Kevin Palkki?

17 VICE CHAIR PALKKI: Aye.

18 BOARD CLERK ANDERSON: Lisa Middleton?

19 COMMITTEE MEMBER MIDDLETON: Abstain.

20 BOARD CLERK ANDERSON: Eraina Ortega?

21 COMMITTEE MEMBER ORTEGA: Aye.

22 BOARD CLERK ANDERSON: Jose Luis Pacheco?

23 COMMITTEE MEMBER PACHECO: Aye.

24 BOARD CLERK ANDERSON: Theresa Taylor?

25 COMMITTEE MEMBER TAYLOR: Aye.

1 BOARD CLERK ANDERSON: Yvonne Walker?

2 COMMITTEE MEMBER WALKER: Aye.

3 CHAIR WILLETTE: Okay. That motion does pass. I
4 want to thank our consultants for their work on this on
5 their advice. I really appreciate my briefings ahead of
6 time as well. Thank you.

7 And we will now move to item 5c.

8 HUMAN RESOURCES DIVISION CHIEF TUCKER: Thank
9 you, Chair Willette. Item 5c is an action item seeking
10 approval for the development, scope of services, selection
11 process and estimated timeline for a Request for Proposal
12 for the Board's primary executive and investment
13 compensation consultant. The current contract for the
14 primary executive and investment compensation consultant
15 expires on November 30th, 2025. The proposed scope of
16 services is included in Attachment 1 and closely aligns
17 with the services outlined in the current contract.
18 CalPERS team members have outlined two options for the
19 Committee to conduct the evaluation and selection process
20 for the RFP and seek the Committee's direction on a
21 preferred method.

22 Option 1 would have two Committee members preside
23 over the proposal evaluation process to provide guidance
24 and oversight. Further, in Option 2, a subcommittee would
25 review, evaluate, and score the RFP responses in a public

1 meeting. Both options include finalist interviews by a
2 subcommittee of the Performance, Compensation and Talent
3 Management Committee to identify and recommend final
4 selection of a primary executive and investment
5 compensation consultant. The proposed schedule of events
6 is outlined in the agenda item, include release of the RFP
7 in January 2025, proposal evaluation and finalist
8 selection in June of 2025, and a new five-year contract to
9 begin at the close of the current contract.

10 Thank you, members of the Committee, and I'm
11 happy to answer any questions.

12 CHAIR WILLETTE: Okay. Do we have any questions
13 from the Committee?

14 No. All right. Seeing no questions from the
15 Committee, do we have a motion?

16 Okay. One moment. Move approval of option?

17 Mr. Palkki, would you like to.

18 COMMITTEE MEMBER PACHECO: Okay. I'll move
19 approval of Option number 2, the subcommittee evaluates
20 the proposals of the -- number 2.

21 CHAIR WILLETTE: So do you want to make the
22 recommendation from 5c for the development.

23 COMMITTEE MEMBER PACHECO: The -- we'll, it's
24 the -- sorry. It is 5c, yes. And then the -- one of the
25 options, which is we have to pick one of the two options,

1 correct?

2 CHAIR WILLETTE: Correct, along with the --
3 wondering if we want the estimated timeline, et cetera,
4 the rest of the --

5 COMMITTEE MEMBER PACHECO: Yeah. Yeah. Yeah.
6 Yeah. Sorry. Let me -- so I'll read it -- I'll read it
7 out then. So let me read it now.

8 CHAIR WILLETTE: Take your time.

9 COMMITTEE MEMBER PACHECO: Yeah. I'd like to
10 approve the development scope of services selection
11 process and estimated timeline for the Request for
12 Proposal for the Board's primary executive and investment
13 compensation consultant.

14 CHAIR WILLETTE: Okay. And Is there a second?

15 CHIEF OPERATING OFFICER HOFFNER: I just want to
16 clarify under Option 2 is that what --

17 COMMITTEE MEMBER PACHECO: Under Option 2.

18 CHIEF OPERATING OFFICER HOFFNER: Okay. So
19 Option 2 with the identified timeline in the agenda.

20 COMMITTEE MEMBER PACHECO: Yes, ma'am -- yes,
21 sir.

22 CHIEF OPERATING OFFICER HOFFNER: Okay. Thank
23 you.

24 COMMITTEE MEMBER TAYLOR: Wait. Wait. Wait.

25 COMMITTEE MEMBER WALKER: Madam chair, I am not

1 seeing the two options on my thing in Diligent.

2 VICE CHAIR PALKKI: Under --

3 COMMITTEE MEMBER WALKER: So it someplace else?

4 COMMITTEE MEMBER PACHECO: It's on the --

5 CHAIR WILLETTE: It is -- let me find the page
6 number. Page two.

7 COMMITTEE MEMBER PACHECO: Um-hmm.

8 COMMITTEE MEMBER WALKER: For 5c.

9 CHAIR WILLETTE: It's the attachment in Diligent
10 5c, Attachment 1, page --

11 COMMITTEE MEMBER ORTEGA: I think it's the main
12 item.

13 COMMITTEE MEMBER PACHECO: Yeah, it's the main
14 item. It's right there. It's page --

15 CHAIR WILLETTE: Oh, sorry.

16 COMMITTEE MEMBER TAYLOR: It's the main item,
17 page two.

18 COMMITTEE MEMBER PACHECO: Yes, ma'am.

19 HUMAN RESOURCES DIVISION CHIEF TUCKER: Would you
20 like me to review the two options again just to -- for,
21 Ms. Walker.

22 COMMITTEE MEMBER TAYLOR: Yeah.

23 COMMITTEE MEMBER WALKER: Please. Yeah, I was
24 going through trying to find it when you were there.

25 HUMAN RESOURCES DIVISION CHIEF TUCKER: No

1 problem. Happy to. Yes, it is on page two of Attachment
2 1 to Agenda Item 5c. So the two options, the first,
3 Option 1, provides two Committee members to preside over
4 the proposal evaluation with a group of subject matter
5 experts at CalPERS and then a subcommittee would conduct
6 finalist interviews. And the finalist interviews with the
7 subcommittee would be in open.

8 And then Option 2 is a subcommittee would
9 evaluate the proposals and conduct the finalist
10 interviews. So in that model, the subcommittee is, you
11 know, engaged in everything in open session.

12 COMMITTEE MEMBER WALKER: Okay.

13 CHAIR WILLETTE: Okay. Thank you for that
14 clarification. Thank you, Ms. Walker, for clarifying. So
15 the motion is -- is there a second to the motion?

16 COMMITTEE MEMBER TAYLOR: I'd like to -- hold on.

17 CHAIR WILLETTE: Okay. Ms. Taylor.

18 COMMITTEE MEMBER TAYLOR: I'd like to discuss the
19 different options before we -- because I'm looking to
20 support Option 1.

21 CHAIR WILLETTE: Okay. So that motion has failed
22 due to a second and so we will now go back to discussion
23 of the item.

24 COMMITTEE MEMBER TAYLOR: I'd like to do that
25 yeah. Thank you.

1 CHAIR WILLETTE: Okay. Thank you.

2 Would you like to kick off that discussion, Ms.
3 Taylor?

4 COMMITTEE MEMBER TAYLOR: Sure. I think -- I
5 appreciate --

6 COMMITTEE MEMBER RUBALCAVA: She can do that.

7 COMMITTEE MEMBER TAYLOR: Can I do that? Did we
8 do it right?

9 CHIEF EXECUTIVE OFFICER FROST: Yes.

10 COMMITTEE MEMBER TAYLOR: You're whispering over
11 that, oh, what did I do wrong?

12 CHAIR WILLETTE: I know parliamentary procedure.

13 COMMITTEE MEMBER TAYLOR: So I think having two
14 Committee members go over the proposal evaluation and then
15 the Subcommittee do the final, I think that's more time
16 efficient. If we have to get four members together, first
17 of all, there's only a couple of us that live here in
18 Sacramento so we have to, you know, either do it on Zoom
19 or we have to bring people together, which is kind of
20 difficult.

21 But I think we can trust, you know, two Committee
22 members from PCTM to review -- with staff to review the
23 proposals and then bring the finalists to the whole
24 subcommittee. I think that's our -- that's my opinion.
25 So that's what I was thinking. So I stop there.

1 CHAIR WILLETTE: All right.

2 SENIOR ATTORNEY CARLIN: Thanks. Ms. Taylor,
3 Robert Carlin from the Legal Office. Just two points for
4 the Committee's information and background. One, Option 1
5 is consistent with what the Board has done with previous
6 Board consultants in the last couple years. And second to
7 your point about logistics, because of the way the
8 teleconferencing statute works now for Bagley-Keene, we
9 need a majority of the subcommittee to be here in
10 Sacramento. So we wouldn't be able to have like half --
11 yeah, so we'd have to -- so if it was a four-member body,
12 we'd need three members to be in here in person and so
13 forth. So just for your information.

14 COMMITTEE MEMBER TAYLOR: Thank you. That adds
15 to my argument. There you go.

16 CHAIR WILLETTE: All right. Thank you so much.
17 Thank you Mr. Carlin.

18 I'm going to go next to Ms. Walker.

19 COMMITTEE MEMBER WALKER: So as I think -- I do
20 favor Option 1 and I apologize for not getting to be the
21 second quick enough.

22 But --

23 (Coughing).

24 COMMITTEE MEMBER WALKER: Excuse me. The fact
25 that -- if you look at the methodology for how we're going

1 to review the bids, right, I think it's important for the
2 Committee members to be a part of that. Now, once the
3 methodology is set, if you wanted to just have it then go
4 to staff and have them go through all of it, that would be
5 fine too. But to not have the Committee in on that piece
6 of it, I don't -- a piece of the Committee in on that
7 piece of it, I don't agree with.

8 CHIEF OPERATING OFFICER HOFFNER: So -- Doug
9 Hoffner, CalPERS team member. So under Option 1, what is
10 proposed under this proposal would be having the two
11 members of the Committee to be identified by the Chair to
12 basically provide oversight and really the minimum
13 qualifications, right? The idea is that the number of
14 bids we get, you go through minimum qualifications, who
15 passes the hurdle, which firms do that, those that are
16 meeting those criteria, which are then overseen, will then
17 come before the full subcommittee or the subcommittee
18 whatever the number will be, to be interviewed and
19 evaluated, so...

20 CHIEF EXECUTIVE OFFICER FROST: Yeah. So I
21 think -- Ms. Walker, you can correct me if I'm wrong, but
22 what I heard Ms. Walker say was that the criteria by which
23 candidates would be selected for interviews should be done
24 by the whole Committee. And so we can bring an action
25 item back to this Committee that would determine that

1 criteria and have action taken on it. So we can bring
2 that back and then have the two Committee members then go
3 through the proposals related to that criteria that was
4 agreed upon by the full Committee. But I think that was
5 her point is make sure the full Committee is involved in
6 creating the criteria that then the candidates would be
7 assessed by.

8 COMMITTEE MEMBER WALKER: No. Actually, that was
9 not quite it, Marcie, but thank you.

10 CHIEF EXECUTIVE OFFICER FROST: Yeah. Yeah.

11 COMMITTEE MEMBER WALKER: You said it a lot
12 better than I was thinking it, but no that wasn't quite
13 it. So I would say that if you had -- I would -- so if we
14 have two of our Committee members that are, you know,
15 working with staff on develop the criteria or whatever, I
16 have complete faith and confidence in whatever Committee
17 members it is to do that. Now, once they have the
18 criteria, and, you know, if we just wanted to make it a
19 staff responsibility to take that criteria and apply it to
20 the bids that come in, and then everybody gets the -- the
21 subcommittee gets back together again and goes over the
22 bids that have met that criteria, great, because my
23 understanding is all of this comes back at the end to the
24 full Committee anyway, and we make a recommendation to the
25 Board. I could be wrong, but that's how I understood it.

1 CHAIR WILLETTE: I think you're correct.

2 CHIEF EXECUTIVE OFFICER FROST: Yes.

3 CHAIR WILLETTE: Any other questions, Ms. Walker?

4 COMMITTEE MEMBER WALKER: No. All right. Thank
5 you so much. I'll go to Vice Chair Palkki.

6 VICE CHAIR PALKKI: Thank you, Madam Chair. I --
7 yeah, I agree with President Taylor's comments earlier and
8 I think it's a better use of our time as -- to sort of
9 have a smaller group and then bring it back to the
10 subcommittee for a final review, so just to add to that,
11 so thanks

12 CHAIR WILLETTE: Thank you.

13 I'll go to Ms. Ortega.

14 COMMITTEE MEMBER ORTEGA: I just want to clarify
15 that what Doug described I believe is what we did last
16 time, which is -- and it could be that you don't have
17 enough people bidding and you end up with one.

18 COMMITTEE MEMBER WALKER: Could people please
19 speak into the mic, because I'm not hearing you.

20 COMMITTEE MEMBER ORTEGA: It could be that you
21 end up with one entity in front of the full Committee.
22 But last time as I recall, there were a couple who came,
23 and that -- and the full Committee then were able to look
24 at the two or three that met the minimum screening
25 criteria. And so the two identified Committee members are

1 really just focusing on meeting the minimum requirements
2 and what the Committee sees. But then whoever meets that
3 criteria comes back before the full Committee, right?
4 That's what we're talking about doing. That's what I
5 remember last time, but it's been a while, so...

6 CHIEF OPERATING OFFICER HOFFNER: Yes, that's
7 very similar to the prior.

8 COMMITTEE MEMBER ORTEGA: And that's -- sorry.
9 And that's Option 1.

10 COMMITTEE MEMBER TAYLOR: One. That's right.
11 Now, I understand that.

12 COMMITTEE MEMBER ORTEGA: I'm in support of that
13 process. Thank you.

14 CHAIR WILLETTE: Thank you.

15 I'll now go to Mr. Pacheco.

16 COMMITTEE MEMBER PACHECO: Yeah. So after
17 hearing my colleagues and so forth, I understand now
18 the -- I'm more educated on this particular option. So I
19 also would concur that Option 1 is the more viable option
20 in this particular case, especially given how we would --
21 we would do it in the -- in evaluating the particular
22 Requests for Proposals. So I feel that it is good idea.
23 So I will -- I would like to make the motion to move with
24 Option number 1. So let me go back and read exactly how
25 it is.

1 I would approve the development and --
2 development, scope of service, selection process, and
3 estimated timeline for the Request for Proposal for the
4 Board primary executive and investment compensation
5 consultant with -- including Option 1 as the -- as the
6 method.

7 CHAIR WILLETTE: All right. Thank you. So That
8 has -- a motion has been made.

9 COMMITTEE MEMBER WALKER: I will second.

10 CHAIR WILLETTE: And Ms. Walker will second.
11 Thank you so much, Ms. Walker. And can I get a roll call
12 vote, please?

13 BOARD CLERK ANDERSON: Kevin Palkki?

14 VICE CHAIR PALKKI: Aye.

15 BOARD CLERK ANDERSON: Lisa Middleton?

16 COMMITTEE MEMBER MIDDLETON: Aye.

17 BOARD CLERK ANDERSON: Eraina Ortega?

18 COMMITTEE MEMBER ORTEGA: Aye.

19 BOARD CLERK ANDERSON: Jose Luis Pacheco?

20 COMMITTEE MEMBER PACHECO: Aye.

21 BOARD CLERK ANDERSON: Theresa Taylor?

22 COMMITTEE MEMBER TAYLOR: Aye.

23 BOARD CLERK ANDERSON: Yvonne Walker?

24 COMMITTEE MEMBER WALKER: Aye.

25 CHAIR WILLETTE: Thank you so much. That motion

1 has passed. Thank you, Committee, for the discussion.

2 Thank you, staff, for the information.

3 And we will now go to summary of committee
4 direction.

5 CHIEF OPERATING OFFICER HOFFNER: I didn't have
6 any. We had the three action items, so I think that was
7 it.

8 CHAIR WILLETTE: All right. Thank you. And is
9 there any public comment on non-agendized items?

10 BOARD CLERK ANDERSON: (Shakes head).

11 CHAIR WILLETTE: Okay. Well, thank you so much,
12 everyone, and we will adjourn this meeting.

13 I think we'll -- are we adjourning into lunch?

14 COMMITTEE MEMBER TAYLOR: So we're in closed till
15 lunch before we start the whole Board meeting. Do you
16 guys want to break first and then --

17 CHAIR WILLETTE: Yeah, that works for me. Should
18 we reconvene at noon for the full Board meeting or that's
19 45 minutes.

20 COMMITTEE MEMBER TAYLOR: Give us 45 minutes.

21 It is. I already found out.

22 CHIEF EXECUTIVE OFFICER FROST: Okay.

23 CHAIR WILLETTE: Okay. So we will reconvene into
24 lunch and reconvene the Board of Administration meeting at
25 12 o'clock.

1 COMMITTEE MEMBER TAYLOR: Well, give us 12:05.

2 CHAIR WILLETTE: I'm sorry, 12:05.

3 (Thereupon the California Public Employees'
4 Retirement System, Board of Administration,
5 Performance, Compensation, & Talent Management
6 Committee open session meeting adjourned
7 at 11:17 a.m.)
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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 19th day of June 2024.



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