



Performance, Compensation & Talent Management Committee

Agenda Item 5c

June 12, 2024

Item Name: Request for Proposal for the Board's Primary Executive and Investment Compensation Consultant

Program: Administration

Item Type: Action

Recommendation

Approve the development, scope of services, selection process, and estimated timeline for the Request for Proposal for the Board's Primary Executive and Investment Compensation Consultant.

Executive Summary

This agenda item seeks approval for the scope of services, competitive selection process, and estimated timeline for the Request for Proposal (RFP) for the Board's Primary Executive and Investment Compensation Consultant. Upon Committee approval of the recommendation and/or further direction, team members will initiate the RFP process and work with the Committee Chair as needed to complete each aspect of the process.

Strategic Plan

This agenda item supports CalPERS' Strategic Goal to cultivate a risk-intelligent and innovative culture through our team and processes in the 2022-27 Strategic Plan. The Executive and Investment Compensation Program provides a means for recruiting, retaining, and empowering highly skilled executive and investment management professionals to meet the Board's organizational priorities.

Background

Since 1995, when the Board of Administration (Board) first engaged with a compensation consultant, a competitive selection process has been conducted to select each firm which has provided compensation services. The most recent competitive selection process was completed in 2020, when the current Primary Executive and Investment Compensation Consultant, Global Governance Advisors, was selected.

In 2020, the Committee Chair assigned members of the Committee to form a Subcommittee to review, evaluate, and score RFP responses which passed the preliminary Minimum Qualifications Review. The Subcommittee interviewed the finalist firms in a noticed, open session meeting and made a recommendation to the Committee in open session at the subsequent regularly scheduled meeting. A five-year contract was executed with the current Primary Executive and Investment Compensation Consultant, Global Governance Advisors. That contract is due to expire in November 2025.

Analysis

CalPERS team members propose the release of an RFP to initiate a competitive selection process for a new five-year contract to engage with a primary executive and investment compensation consultant for the Board.

Services to be provided will align with those outlined in the current contract. The following are the proposed service categories, as detailed in the proposed Scope of Services included in Attachment 1:

- Consultation on Compensation Program Structure
- Consultation on Compensation Policy
- Compensation Research, Analysis, and Recommendations
- Compensation Program Administration Analysis and Recommendations

CalPERS team members have outlined two options for the Committee to conduct the evaluation and selection process for the RFP and seek the Committee’s direction on a preferred method:

- Option 1: Two Committee members preside over proposal evaluation, and a Subcommittee conducts finalist interviews.
Consistent with other recent RFP efforts, a team of CalPERS staff will review, evaluate, and score the RFP responses that meet minimum requirements under the guidance and oversight of two members of the Committee designated by the Committee Chair to participate and guide the RFP evaluation process. A Subcommittee identified by the Committee Chair will then conduct finalist interviews in a noticed, open session meeting to identify and recommend final selection of a Primary Executive and Investment Compensation Consultant to the Committee.
- Option 2: A Subcommittee evaluates proposals and conducts finalist interviews.
The Committee Chair will identify four members of the Committee to form a Subcommittee. The Subcommittee will meet in two noticed, open session meetings to review, evaluate, and score the RFP responses that meet minimum requirements. The Subcommittee will then conduct finalist interviews to identify and recommend final selection of a Primary Executive and Investment Compensation Consultant to the Committee.

Upon Committee approval of the development, scope of services, and selection process for this RFP, CalPERS team members will work with the Committee Chair to meet the estimated schedule of events as follows:

Process	Timeframe
RFP Release Date	January 2025

Process	Timeframe
Evaluation of Proposals and Finalists Selected for Interviews	June 2025
Finalist Interviews and Selection	June 2025
Finalist Approval	September 2025
Anticipated Contract Start Date	December 1, 2025

Budget and Fiscal Impacts

Costs associated with a new contract will be determined based on the fees proposed in the selected vendor’s proposal. These costs will then need to be funded through the annual budgeting process.

Benefits and Risks

A competitive compensation program which aligns with industry practice is critical for the recruitment and retention of highly qualified executive and investment management professionals. Engaging with a primary compensation consultant provides access to the necessary expertise for the Committee and Board to make fully informed compensation decisions. This will ensure and maintain a compensation program which meets the needs of the system and is based on sound principles and practices.

Without a primary compensation consultant to provide ongoing, independent expertise, CalPERS is at risk of having an executive and investment compensation program which is out of alignment with organizational priorities and industry best practice. Potential misalignment with relevant market compensation and practices may impede the ability of CalPERS to recruit and retain highly skilled candidates for key positions across the organization.

Attachments

Attachment 1 – Proposed Scope of Services

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Chief, Human Resources Division

Douglas Hoffner
Chief Operating Officer