

AGENDA ITEM DETAILS

Subject: Review, Discussion and Consideration of the ERS Incentive Compensation Plan for Fiscal Year 2021 - (Action)

RECOMMENDED ACTION:

Move that the Board of Trustees of the Employees Retirement System of Texas approve the ERS incentive compensation plan for fiscal year 2021 as presented in exhibit A.

ERS INCENTIVE COMPENSATION PLAN BACKGROUND:

The Board of Trustees (Board) originally approved the ERS Incentive Compensation Plan (Plan or ICP) on December 13, 2006. Plan revisions have occurred periodically to update the Plan to conform to the labor market and compensation plan standards. The Board reviews the Plan annually in a public meeting. The ICP was most recently approved by the Board on August 21, 2019.

The ICP communicates strategic performance priorities to participating employees. It's designed to sustain levels of high investment performance prudently achieved without undue risk, promote teamwork among employees, support ERS' strategic and operational goals and attract and retain key employees. The goal of the plan is to encourage the highest level of performance and deliver value to ERS and the members, retirees and beneficiaries of the retirement system.

Staff annually reviews the Plan and related processes to make recommendations to the Board. A draft Plan document was submitted to the Board for review at the May Board Meeting that included proposed material and non-material changes. Since that time, an additional change was added to Appendix A of the plan document. Staff presents the final proposed Plan document and requests Board approval at the August Board Meeting.

PROPOSED ICP DOCUMENT REVISIONS FOR FISCAL YEAR 2021:

Recommended Change

Staff recommends a material change to the definition of "Global Composite Performance" (section 2.16).

In 2013 a decision was made to remove "unallocated cash" for purposes of calculating excess performance of the total trust for incentive compensation. The reason for doing this at the time was because new accounting rules required that the short term treasuries in the Short Term Investment Fund (STIF) account had to be marked to market daily, even though ERS usually held them to maturity. At the time, BNYM (Custodian) and ERS did not have a method to book the market value adjustments at the portfolio level and hence the whole gain or loss was being booked to unallocated cash.

Recently, Finance developed a method with BNYM to book these adjustments to the affected portfolios on a daily basis. Because the transactions are now being recorded at the portfolio level, Investments believes that ERS no longer needs to adjust the total trust return for unallocated cash and recommends discontinuing the practice effective September 1.

Non-Material Changes

In addition to the material change above, HR is proposing some non-material changes to the Plan document that will provide clarification and will better reflect current processes and practices. These changes are reflected in the proposed Plan document.

Additional change added

One change was made to the proposed Plan document since the May Board Meeting to Appendix A. Changes are highlighted in yellow. This change aligns the leadership position for the Risk Management & Applied Research Team with the current Asset Class Director positions, increasing its Maximum Incentive Award Percentage from 80% to 100%.

RECOMMENDATION:

Staff recommends that the Board approve, as part of its annual review of the Plan, the proposed Plan document, as presented in Exhibit A.

ATTACHMENTS:

1. Exhibit A - Proposed PY21 ICP Document