

AGENDA ITEM DETAILS

Subject: Consideration of the ERS Incentive Compensation Plan for Investment Professionals and Leadership Employees – (Action – Board Only)

RECOMMENDED ACTION: BOARD ONLY

Move that the Board of Trustees of the Employees Retirement System of Texas approve the ERS Incentive Compensation Plan for Fiscal Year 2022 as presented and attached as Exhibit A to this agenda item.

ANNUAL REVIEW AND APPROVAL IS REQUIRED FOR ICP BEFORE EACH PLAN YEAR: Staff presented a draft of the ERS Incentive Compensation Plan (ICP) at the Board of Trustees' (Board) and Investment Advisory Committee's (IAC) joint meeting in May. Staff subsequently provided the Board and IAC members with information regarding the benchmarks and supplemental metrics used for the ICP. The Board and IAC members had an opportunity to review this information and respond with any feedback or questions.

The subsequent review of the ICP focused on the general governance process for assigning benchmarks and supplemental metrics to ICP goals:

1. The Board sets and approves the benchmarks at the asset class level.
2. The Chief Investment Officer, with input from Investments Division leadership, recommends to the Executive Director (ED) the reported benchmarks and ICP supplemental metrics with benchmarks for the portfolio level and portfolio composite level.
3. The trust fund consultant (currently NEPC) and the individual asset class consultants review the respective reported benchmarks and ICP supplemental metrics and provide input and guidance in formulating the above recommendations, as appropriate.
4. The ED (or the Asset Class Investment Committee, as appropriate) approves all portfolio-level benchmarks before they reestablished. The ED approves any subsequent changes.

As an additional step in this governance process, staff intends to provide the specific benchmark information to the Board and IAC members on a regular basis, and will continue to seek their feedback and guidance.

ERS INCENTIVE COMPENSATION PLAN BACKGROUND:

The Board originally approved the ICP on December 13, 2006. Plan revisions have occurred periodically to update the Plan to conform to the labor market and compensation standards and to achieve the Plan's purpose. The Board most recently approved the ICP on August 19, 2020.

The ICP communicates strategic performance priorities to participating employees. The plan is 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. Staff submits an initial draft plan document for review at the May Board Meeting that includes proposed changes for Board review. Final Board approval is sought at the August Board Meeting.

PROPOSED ICP DOCUMENT REVISIONS FOR FISCAL YEAR 2022:

Based on a recent market compensation study conducted internally based on a pre-selected peer group, staff recommends adjusting the Maximum Incentive Award Percentages for certain employee groups as noted in Appendix A. The changes to the maximum percentages align the plan more closely to a peer universe of public pension systems that were selected based on their similarity to ERS in investment operations. Increasing the potential incentive award brings these positions close to the median of the peer universe for staff members in each group.

One additional change since the review at the May meeting, is the removal of the Private Infrastructure Cost Savings metric on Appendix B. Pursuant to leadership's plan for reducing, and eventually phasing out the cost savings metric, Private Infrastructure will no longer be using this metric starting in Fiscal Year 2022.

The above changes are reflected in Exhibit A. Staff is not recommending any further changes to the Plan document for Fiscal Year 2022.

STAFF RECOMMENDATION:

Staff recommends that the Board approve the proposed ICP document, as presented in Exhibit A.

ATTACHMENTS:

1. Exhibit A – Proposed PY22 ICP Document
2. Slides – ERS Incentive Compensation Plan