

## Public Agenda Item #13

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

August 25, 2021

DeeDee Sterns, Director of Human Resources  
Jamey Pauley, ICP Program Specialist

# Review and Consideration of the ERS Incentive Compensation Plan (ICP)



## Follow-up To May Meeting

- Annual review and approval is required for ICP before each plan year.
- Staff presented a draft of the ICP at the Board and IAC joint meeting in May.
- Staff subsequently provided the Board and IAC members with information regarding the benchmarks and supplemental metrics used for ICP.
- Board and IAC members were given an opportunity to review this information and respond with any feedback or questions.

# Review and Consideration of the ERS Incentive Compensation Plan (ICP)



## **Governance Process – benchmarks & supplemental metrics**

1. The Board sets and approves the benchmarks at the asset class level.
2. The Chief Investment Officer (CIO) 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 are established. The ED approves any subsequent changes.

# Review and Consideration of the ERS Incentive Compensation Plan (ICP)



## **Governance Process – going forward**

- Staff intends to periodically provide benchmark and supplemental metric information to the Board and IAC members.
- Continue to seek feedback and guidance from the Board and IAC members.

# Review and Consideration of the ERS Incentive Compensation Plan (ICP)



## **ERS Incentive Compensation Plan**

- The Board of Trustees reviews and considers the ICP on an annual basis in a public meeting.
- Staff annually reviews the Plan and related processes to make recommendations to the Board.
- A draft Plan document for FY22 was presented during the May Board meeting.
- Periodic updates have occurred to conform with the labor market and compensation standards, and to achieve the Plan's purpose.
- The Board most recently amended and approved the ICP on August 19, 2020.

# Incentive Compensation Plan

## *Fiscal Year 2022 - recommended changes*



- Based on a recent market compensation study conducted internally, staff recommends adjusting the Maximum Incentive Award Percentages for certain Plan Groups in Fiscal Year 2022.
- The changes to the max percentages align the plan more closely to a peer universe of public pension systems, selected based on their similarity to ERS in investment operations.
- One additional change, since the review at the May meeting, is the removal of the Private Infrastructure Cost Savings metric on Appendix B.
- Staff is not recommending any further changes for Fiscal Year 2022.

# Incentive Compensation Plan

## Fiscal Year 2022 – recommended changes to Appendix A



### APPENDIX A

ELIGIBLE EMPLOYEE POSITIONS WITH  
MAXIMUM INCENTIVE AWARD PERCENTAGES AND PAYMENT SCHEDULES

Plan Groups	Maximum Incentive Award Percentages	Payment Schedules (Year 1/2/3, see Section 6.2)
Executive Director	100%	50/25/25
Chief Investment Officer	100%	50/25/25
Deputy Chief Investment Officer (Performance Goal weightings based on Public Equity under Ex.8)	100%	50/25/25
Asset Class Director	100%	50/25/25
Director of Risk Management & Applied Research	100%	50/25/25
Director of Investment Services (Performance Goal weightings based on Inv Ops under Ex.8)	90%	50/25/25
Supervising Portfolio Manager	80%	50/25/25
Portfolio Manager I, II, III, IV, V & VI	70%	50/25/25
Chief Trader I & II	70%	50/25/25
Trader I, II & III	65%	50/25/25
Investment Analyst III, IV & V	58%	50/25/25
Investment Operations Manager	50%	50/25/25
Investment Analyst I & II	35%	50/25/25
Financial Analyst I, II, III & IV (Investment Operations Specialist and Operational Due Diligence Specialist)	25%	50/50
Investment Administrative Support	5%	100
General Counsel (Performance Goal weightings based on Legal Services under Ex. 8)	65%	50/25/25
Investments and Securities, Attorney (Performance Goal weightings based on Legal Services under Ex. 8)	65%	50/25/25
Investments and Securities, Paralegal (Performance Goal weightings based on Legal Services under Ex. 8)	35%	50/25/25

18

Plan Groups	Maximum Incentive Award Percentages	Payment Schedules (Year 1/2/3, see Section 6.2)
Supervising Portfolio Manager	<del>80%</del> <u>90%</u>	50/25/25
<u>Portfolio Manager IV, V &amp; VI</u>	<u>80%</u>	<u>50/25/25</u>
Portfolio Manager I, II, <del>III, IV, V &amp; VI</del>	70%	50/25/25
Chief Trader I & II	70%	50/25/25
<u>Investment Analyst V</u>	<u>70%</u>	<u>50/25/25</u>
Trader I, II & III	65%	50/25/25
Investment Analyst III, <del>IV &amp; V</del>	58%	50/25/25
Investment Operations Manager	50%	50/25/25
<u>Operational Due Diligence Manager</u>	<u>50%</u>	<u>50/25/25</u>
Investment Analyst I & II	35%	50/25/25
<u>Performance Specialist</u>	<u>35%</u>	<u>50/25/25</u>
<del>Financial Analyst I, II, III &amp; IV (Investment Operations Specialist and Operational Due Diligence Specialist)</del>	25%	50/50

# Incentive Compensation Plan

## Fiscal Year 2022 – recommended changes to Appendix B



### APPENDIX B

(Page 1 of 2)

#### PERFORMANCE GOAL WEIGHTINGS FOR INVESTMENT PROFESSIONALS AND LEADERSHIP EMPLOYEES

Any variations of these weightings from the preceding Plan Year shall be approved by the Executive Director.

Main Category Weights	Main Category	Sub Category	Exec. Director	CIO	Deputy CIO	Fixed Income	Hedge Funds	Infra-structure	Private Equity	Public Equity	Real Estate	Risk Mg. & Appl. Res.	Trading	Inv. Services	Legal Services
25% Maximum	Discretionary		NA	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
25% Minimum	Relative Global Composite Performance		50%	75%	25%	25%	25%	25%	25%	25%	25%	X	25%	75%	25%
50% Maximum		A combination of one or more of the following, as indicated below (1):													
		Overall agency leadership, management, communications, policy matters, staff development, and the implementation of agency strategic initiatives (6.5)	50%												
		Private Real Estate-Public Market Equivalent (2) (4)									X				X
		Public RBT(s)									X				
		Private Infrastructure Cost-Savings (5)						X							X
		Private Infrastructure Public Market Equivalent (2)						X							X

### APPENDIX B

(Page 1 of 2)

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25% Maximum	Discretionary		NA	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%	25%
25% Minimum	Relative Global Composite Performance		50%	75%	25%	25%	25%	25%	25%	25%	25%	X	25%	75%	25%
50% Maximum		A combination of one or more of the following, as indicated below (1):													
		Overall agency leadership, management, communications, policy matters, staff development, and the implementation of agency strategic initiatives (6.5)	50%												
		Global Public Equity							X		X				
		Internal Global Public Equity							X		X				
		Portfolio(s)					X				X				
		Individual Research Coverage													
		Internally Traded Portfolios												30%	
		Trading Performance												20%	
		Credit – Internal				X									
		Credit – External				X									
		Rates				X									
		Private Equity-Public Market Equivalent (2)							10%						X
		Private Equity-Peer Comparison (2)							40%						X
		Private Real Estate-Public Market Equivalent (2) (4)									X				X
		Public RBT(s)									X				
		Private Infrastructure Cost-Savings (5)						X							X
		Private Infrastructure Public Market Equivalent (2)						X							X
		Asset-Liability					X				X				
		Global Equity-External Advisor Program					X				X				
		Opportunistic Credit				X	X				X				



# Review and Consideration of the ERS Incentive Compensation Plan (ICP)



## Staff Recommendation:

- Staff recommends that the Board consider and approve the ERS Incentive Compensation Plan for FY22.
- Staff also recommends that the Board approve the proposed ICP document, as presented in Exhibit A.

Questions?  
Action Item (Board Only)