

## Public Agenda Item #14

### *Consideration of the Incentive Compensation Plan - (Action - Board Only)*

August 24, 2022

DeeDee Sterns, Director of Human Resources

Jamey Pauley, ICP Program Specialist

# Incentive Compensation Plan (ICP)

## *Annual Review*



- The Board of Trustees reviews and approves the ICP on an annual basis.
- For the May Board meeting, staff provides:
  - A review of the plan objectives and key features.
  - Information on any proposed plan changes.
  - A draft plan document for the upcoming fiscal year.
  - A summary of the ICP awards over the last five years (new this year).
- At the August Board meeting:
  - Staff presents the final proposed plan document for consideration and approval.

# Incentive Compensation Plan

## *Fiscal Year 2023 – Proposed Material Changes*



- Revise the three and five year performance periods to be weighted more heavily.
- Increase the minimum percentage attributable to Global Composite Performance (overall Trust).
- Further simplify the Global Composite Performance calculation.
- Reduce the waiting periods for new hires.

# Incentive Compensation Plan

## Longer-term Performance (section 4.8c)



### Employees with five or more years of plan participation

#### Current Performance Period Weightings:

1-Year	3-Year	5-Year
33%	33%	34%

#### Proposed:

1-Year	3-Year	5-Year
20%	30%	50%

# Incentive Compensation Plan

## Longer-term Performance (section 4.8b)



Employees with between three and five years of plan participation

Current Performance Period Weightings:

1-Year	3-Year
50%	50%
Proposed:	
1-Year	3-Year
40%	60%

# Incentive Compensation Plan

## *Longer-term Performance*



Employees with less than three years of plan participation

No Change to Performance Period Weightings:

1-Year
100%

# Incentive Compensation Plan

## *Longer-term Performance*



### Objective:

- Encourage an even greater emphasis on longer-term performance.

# Incentive Compensation Plan



## Overall Trust Performance (section 4.7a, Appendix B)

### Current Goal Weightings:

Minimum to Overall Trust (Global Composite)	Maximum to Individual Portfolios	Maximum to Qualitative
25%	50%	25%

### Proposed:

Minimum to Overall Trust (Global Composite)	Maximum to Individual Portfolios	Maximum to Qualitative
35%	40%	25%



# Incentive Compensation Plan

## *Overall Trust Performance*



### Objective:

- Place greater emphasis on the shared goal of robust Trust performance (35%), while retaining a significant weight to strong portfolio performance (40%).

# Incentive Compensation Plan

*Simplification and Consistency* (section 2.16)



## Proposal:

Discontinue the exclusion of **securities litigation proceeds** from the Global Composite Performance calculation (overall Trust).

# Incentive Compensation Plan

## *Simplification and Consistency*



### **Objectives/Reasoning**

Including securities litigation proceeds in the GCP calculation:

- Will provide the same base return used for ICP that is used for general reporting purposes (ACFR).
- Reduce the administrative burden of excluding these figures, while having an insignificant impact on the ICP awards.
- Over the previous five years, would have actually had no impact on ICP awards.
- Consistent with our three local peer funds that also have incentive compensation plans.

# Incentive Compensation Plan

## Recruitment (section 3.2)



### New Hire Waiting Periods

	Current	Proposed
Standard waiting period:	<b>6 Months</b>	<b>3 Months</b>
Exception to the standard waiting period (with written justification and approval by the Executive Director):	<b>90 Days</b>	<b>0 Days</b>

# Incentive Compensation Plan

## *Recruitment*



### **Objectives:**

- Help attract needed talent, in general, within a very tight labor market.
- Help attract certain experienced hires who are expected to add value from day one (i.e., with ED authority to waive the waiting period).
- Provide better alignment with peer funds, whose new hire waiting periods are generally between zero and three months.

# Incentive Compensation Plan

## *Fiscal Year 2023 – Other Changes*



In addition to the material changes, staff is proposing some other changes to the Plan document that will:

- Provide clarification.
- Better reflect current processes and practices.
- Align the Plan document with recent organization changes.

These changes are reflected in the draft Plan document.

# Incentive Compensation Plan

## Fiscal Year 2023 – 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	100%	50/25/25
Asset Class Managing Director	100%	50/25/25
Program Director	90%	50/25/25
Director of Risk Management & Applied Research	100%	50/25/25
Director of Investment Services	90%	50/25/25
Supervising Portfolio Manager	90%	50/25/25
Portfolio Manager IV, V & VI	80%	50/25/25
Portfolio Manager I, II & III	70%	50/25/25
Chief Trader I & II	70%	50/25/25
Investment Analyst V	70%	50/25/25
Trader I, II & III	65%	50/25/25
Investment Analyst II & IV	58%	50/25/25
Investment Operations Manager	50%	50/25/25
Operational Due Diligence Manager	50%	50/25/25
Investment Analyst I & III	35%	50/25/25
Performance Specialist	35%	50/25/25
Investment Operations Specialist	25%	50/25/25
Operational Due Diligence Specialist	25%	50/25/25
Investment Administrative Support	5%	50/25/25
General Counsel	65%	50/25/25
Investments and Securities, Attorney	65%	50/25/25
Investments and Securities, Paralegal	35%	50/25/25

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	100%	50/25/25
Asset Class Managing Director	100%	50/25/25
Program Director	90%	50/25/25
Director of Risk Management & Applied Research	100%	50/25/25
Director of Investment Services	90%	50/25/25
Supervising Portfolio Manager	90%	50/25/25
Portfolio Manager IV, V & VI	80%	50/25/25





# Incentive Compensation Plan

## Fiscal Year 2023 – Appendix B



Main Category Weights	Main Category	Sub Category	Exec. Director	CIO Dep. CIO Inv. Serv.	Credit & Hedge Funds	Portfolio Mgmt.	Private Equity	Public Equity	Real Assets	Treasury & Trading	Legal Services
25% Maximum (excluding ED)	Discretionary		50% (5)	25%	25%	25%	25%	25%	25%	25%	25%
35% Minimum	Global Composite Performance		50%	75%	35%	X	35%	35%	35%	35%	35%
40% Maximum		A combination of one or more of the following, as indicated below (1):									
		Global Public Equity						X			
		Internal Global Public Equity						X			
		Individual Portfolios			X	X		X		X	
		Internally Traded Portfolios								X	
		Trading Performance								X	
		Credit – Internal			X						
		Credit – External			X						
		Rates								X	
		Private Equity Public Market Equivalent (2)					10%				X
		Private Equity Peer Comparison (3)					30%				X
		Private Real Estate Public Market Equivalent (2) (4)							X		X
		Public REIT(s)							X		
		Private Infrastructure Public Market Equivalent (2)							X		X
		Hedge Funds			X						X

Questions?  
**Action Item -BOT**