

## Public Agenda Item #10

### *Consideration of Annual Review of the ERS Incentive Compensation Plan Year 2024*

May 17, 2023

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
  - A summary of the ICP awards over the last five years
  - Information on any proposed plan changes
  - A draft plan document for the upcoming fiscal year
- At the August Board meeting:
  - Staff presents the final proposed plan document for consideration and approval

# Incentive Compensation Plan

## *Objectives*



- Communicate strategic performance priorities.
- Encourage sustained levels of high investment performance, without undue risk.
- Promote teamwork among employees.
- Support ERS' strategic and operational goals.
- Attract and retain key employees in a cost-effective manner.

# Incentive Compensation Plan



## *Key Features*

- Performance measures are based on 1-year, 3-year, and 5-year performance periods.
- Participants have individual and total trust performance benchmarks.
- Participants must exceed their benchmarks to receive an incentive award.
- Participants are evaluated on both quantitative (75%) and qualitative (25%) metrics.
- Payout of incentive award is done over a three-year period: 50/25/25.
- Awards can be earned, but the Trust Fund as measured by the 1-year Global Composite Performance must be positive to pay awards.
- Award payments shall be deferred during non-positive years, and are forfeited after three consecutive years of non-positive returns.

# Incentive Compensation Plan

## Awards Summary



### ICP Awards

(Quantitative & Qualitative)

Plan Year	Average Realization	Minimum Realization	Maximum Realization
<b>2022</b>	<b>83.2%</b>	<b>45.0%</b>	<b>100.0%</b>
<b>2021</b>	81.4%	45.0%	100.0%
<b>2020</b>	43.0%	15.0%	72.5%
<b>2019</b>	52.3%	16.3%	86.2%
<b>2018</b>	66.3%	25.8%	100.0%
<b>Average</b>	<b>65.2%</b>	<b>29.4%</b>	<b>91.7%</b>

### Trust Fund Returns by Performance Period

1-Year

3-Year

5-Year

1-Year		3-Year		5-Year	
Total Trust Return	Excess Return Over Benchmark	Total Trust Return	Excess Return Over Benchmark	Total Trust Return	Excess Return Over Benchmark
<b>-1.59%</b>	<b>1.79%</b>	<b>9.66%</b>	<b>2.27%</b>	<b>8.27%</b>	<b>1.65%</b>
25.46%	6.96%	11.34%	1.62%	11.13%	1.50%
6.82%	<b>-1.35%</b>	6.42%	0.05%	7.30%	<b>-0.16%</b>
3.00%	<b>-0.06%</b>	8.15%	0.83%	5.99%	0.41%
9.54%	1.60%	8.94%	0.20%	8.27%	0.36%
<b>8.64%</b>	<b>1.79%</b>	<b>8.90%</b>	<b>1.00%</b>	<b>8.19%</b>	<b>0.75%</b>

Revised: 04/13/23

# Incentive Compensation Plan

## *Plan Year 2024 – Proposed Material Change*



### Elimination of the forfeiture provision:

- 6.3 If Global Composite Performance for the one-year Performance Period in the current plan year is not positive, then all Incentive Compensation Awards that otherwise would have been paid on the next Payment Date (including incentive compensation based on Performance Goals not related to Global Composite Performance and previously earned Incentive Compensation Awards remaining to be paid pursuant to the respective Payment Schedule) shall not be paid until the first Payment Date immediately following the next plan year in which the one-year Performance Period for Global Composite Performance is positive. ~~Any unpaid or partially unpaid Incentive Compensation Award shall be forfeited after three (3) years of deferral of payment under this Section.~~

# Incentive Compensation Plan

*Plan Year 2024 – Proposed Material Change*



## Elimination of the forfeiture provision

### Reasons:

- Provide better alignment with the Plan's objective to attract and retain investment-related staff.
- ERS is unique among its benchmark peers in requiring this forfeiture provision.

# Incentive Compensation Plan

## *Plan Year 2024 – Other Changes*



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

- Provide clarification.
- Better reflect current processes and practices.

These changes are reflected in the draft Plan document.



# Incentive Compensation Plan

## Plan Year 2024 – Appendix A



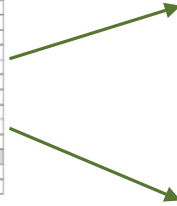
### APPENDIX A

#### 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)
Investment Operations Manager	50%	50/25/25
<b>Operational Due Diligence Manager</b>	<b>50%</b>	<b>50/25/25</b>
Investment Analyst I & II	35%	50/25/25
Performance Specialist	35%	50/25/25
Investment Operations Specialist	25%	50/50/0
<b>Operational Due Diligence Specialist</b>	<b>25%</b>	<b>50/50/0</b>
Investment Administrative Support	5%	100/0/0

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
Managing Director	100%	50/25/25
Program Director	90%	50/25/25
Supervising Portfolio Manager	80%	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 III & IV	58%	50/25/25
Investment Operations Manager	50%	50/25/25
<b>Operational Due Diligence Manager</b>	<b>50%</b>	<b>50/25/25</b>
Investment Analyst I & II	35%	50/25/25
Performance Specialist	35%	50/25/25
Investment Operations Specialist	25%	50/50/0
<b>Operational Due Diligence Specialist</b>	<b>25%</b>	<b>50/50/0</b>
Investment Administrative Support	5%	100/0/0
Investments and Securities, Attorney	65%	50/25/25
Investments and Securities, Paralegal	35%	50/25/25



# Incentive Compensation Plan

## Plan Year 2024 – Appendix B



Sub Category	Exec. Director	CIO Dep. CIO Inv. Serv.	Credit & Hedge Funds	Portfolio Mgmt.	Private Equity	Public Equity	Real Assets	Treasury & Trading	Legal Services
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**APPENDIX B**  
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**PERFORMANCE GOAL WEIGHTINGS FOR INVESTMENT PROFESSIONALS AND LEADERSHIP EMPLOYEES**  
All percentages from these weightings shall be approved by the Executive Director.

Main Category	Sub Category	Fixed Bonus	1-3% of Total Pay	4-6% of Total Pay	7-9% of Total Pay	10-12% of Total Pay	13-15% of Total Pay	16-18% of Total Pay	19-21% of Total Pay	22-24% of Total Pay
20% - 25% Responsible Compensation	Overall Composite Performance	50%	25%	10%	10%	10%	10%	10%	10%	10%
A combination of one or more of the following, as indicated below (X)										
	Global Public Equity								X	
	Monoclient Global Public Equity								X	
	Individual Portfolio		X	X				X		X
	Monoclient Targeted Portfolio								X	
	Trading Performance								X	
	Global Credit - Internal		X							
	Global Credit - External		X							
	Rates									X
	Private Equity Public Market Equivalent (2)								10%	
	Private Equity Peer Comparison (3)				10%				30%	
	Private Real Estate Public Market Equivalent (2) (4)									X
	Public Real Estate REIT(s)									X
	Fixed Income		X							X

Public Credit—Internal			X						
Private 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 Real Estate REIT(s)							X		

# Discussion