

Public Agenda Item #5

** Consideration of Annual Review of the ERS Incentive Compensation Plan Document for Plan Year 2025*

May 22, 2024

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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.
- Incentivize the prudent achievement of sustained levels of high investment performance, without undue risk.
- Promote teamwork among employees.
- Support 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; weighted 20%, 30%, and 50% respectively.
- Participants have asset class 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.
- Incentive awards are generally paid out over a three-year period: 50/25/25.
- Awards can be earned during non-positive years. However, award payments are deferred until the next 1-year performance period is positive.

Incentive Compensation Plan

Awards Summary



ICP Awards

(Quantitative & Qualitative)

Plan Year	Average Realization	Minimum Realization	Maximum Realization
2023	89.3%	55.5%	100.0%
2022	83.2%	45.0%	100.0%
2021	81.4%	45.0%	100.0%
2020	43.0%	15.0%	72.5%
2019	52.3%	16.3%	86.2%
Average	69.8%	35.4%	91.7%

Trust Fund Returns by Performance Period

1-Year

Total Trust Return	Excess Return Over Benchmark
6.73%	0.81%
-1.59%	1.79%
25.46%	6.96%
6.82%	-1.35%
3.00%	-0.06%
8.08%	1.63%

3-Year

Total Trust Return	Excess Return Over Benchmark
9.63%	2.99%
9.66%	2.27%
11.34%	1.62%
6.42%	0.05%
8.15%	0.83%
9.04%	1.55%

5-Year

Total Trust Return	Excess Return Over Benchmark
7.71%	1.50%
8.27%	1.65%
11.13%	1.50%
7.30%	-0.16%
5.99%	0.41%
8.08%	0.98%

Revised: 04/10/24

Incentive Compensation Plan

Plan Year 2025 – Proposed Material Changes



1. Methodology change for setting “Maximum Performance Goals”
2. Changes to investment attorney plan group on Appendix A

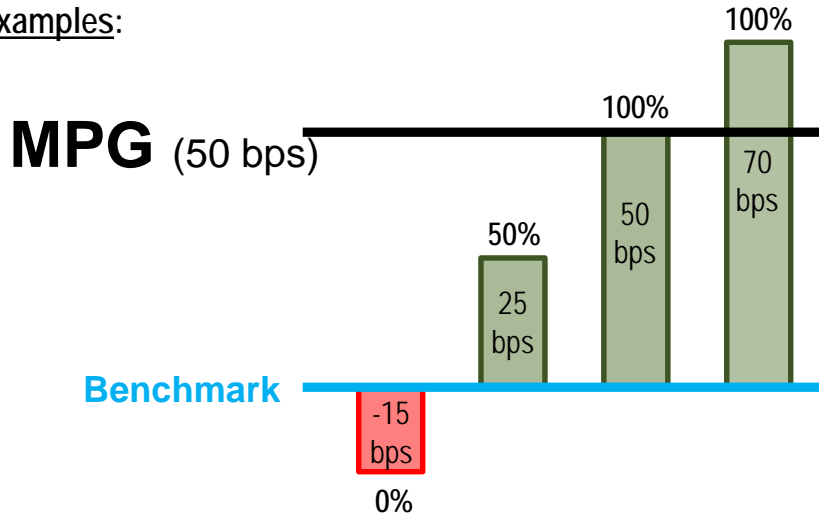
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Plan Year 2025 – Proposed Methodology Change

What is a “Maximum Performance Goal (MPG)?”

- It’s the point above the benchmark at which the award realization for a particular performance goal caps out at 100%.

Examples:



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Plan Year 2025 – Proposed Methodology Change



What is being proposed?

- Changing how the MPG for each Public Market Asset Class is determined.

	Current	Proposed
Trust	Excess Return Targets	Excess Return Targets
Public Market Asset Classes	Information Ratios	Excess Return Targets

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Plan Year 2025 – Proposed Methodology Change



Why is this change being proposed?

- To provide consistency between how ICP awards are calculated for the Public Market Asset Classes and for the Trust overall.
- To align more closely with the objective established in the IPS, which is to obtain returns in excess of the assigned benchmarks.

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Plan Year 2025 – Proposed Methodology Change



What impact will this change have?

		Proposed Maximum Performance Goal (basis points)	
Plan Years :		2024 and prior	2025 and beyond
Based on:		Expected Information Ratio	Excess Return Target *
	Public Equity	25	50
	Public Credit	35	50
	Public Real Estate	30	50
	Special Situations	25	50
	Hedge Funds	25	50
	Rates	20	10
	Cash	20	5

* Includes some anticipated changes to the IPS.

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Plan Year 2025 – Proposed Material Changes



1. Methodology change for setting “Maximum Performance Goals”
2. Changes to investment attorney plan group on Appendix A

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Plan Year 2025 – Proposed Change 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	100%	50/25/25
Managing Director	100%	50/25/25
Program Director	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 III & IV	58%	50/25/25
Investment Operations Manager	50%	50/25/25
Investment Analyst I & II	35%	50/25/25
Performance Specialist	35%	50/25/25
Investment Operations Specialist	25%	50/50/0
Investment Administrative Support	5%	100/0/0
Investments and Securities, Attorney	65%	50/25/25
Deputy General Counsel (Investment Attorney)	90%	50/25/25
Senior Investment Attorney	80%	50/25/25
Investment Attorney	70%	50/25/25
Investments and Securities, Paralegal	35%	50/25/25

APPENDIX A

Plan Groups	Maximum Incentive Award Percentages	Payment Schedules (Year 1/2/3, see Section 6.2)
Investments and Securities, Attorney	65%	50/25/25
Deputy General Counsel (Investment Attorney)	90%	50/25/25
Senior Investment Attorney	80%	50/25/25
Investment Attorney	70%	50/25/25
Investments and Securities, Paralegal	35%	50/25/25

Incentive Compensation Plan

Plan Year 2025 – Other Proposed Changes



In addition to the proposed material changes, staff is proposing some other changes to the Plan document that will provide clarification and better reflect current processes and practices. These include:

- Removing references to “Individual Research Coverage.”
- Adding a definition for “Tracking Error.”
- Updating and simplifying the language in Appendix C.

These changes are reflected in the draft Plan document.

Discussion