



Performance, Compensation &
Talent Management Committee
Agenda Item 10

February 14, 2017

Item Name: 2016-17 Investment Management Plan Design Review

Program: Administration

Item Type: Information

Executive Summary

The purpose of this agenda item is to present, for Committee review, an overview of the 2016-17 incentive plan design for investment management positions approved by the Chief Investment Officer and Chief Executive Officer.

Strategic Plan

This agenda item supports Goal B of the 2012-17 Strategic Plan which is to “cultivate a high-performing, risk-intelligent and innovative organization.” The review directly supports this goal by identifying a compensation strategy that is aligned with organizational objectives and effectively drives desired organizational performance and behaviors.

Background

In August 2016, the Board’s primary executive compensation consultant, Grant Thornton LLP presented for Board approval, performance metrics proposed for inclusion in 2016-17 incentive plans. Among the performance metrics approved was a revised version of the Total Fund investment performance measure. The revised Total Fund measure, which is in the incentive plans of the Chief Executive Officer and Chief Investment Officer, includes a revised incentive curve which utilizes the Board-approved policy benchmark for performance measurement, and a 5-year performance measurement period. This measure has been adopted in the investment management plans as well.

Analysis

In alignment with the Board’s direction for the Total Fund measure, the incentive curves for the asset class-level investment performance measures were revised by Wilshire, the Board’s investment consultant. Using a mathematical methodology, Wilshire developed incentive curves which mirror the changes made to the Total Fund curve: extending the length of the curve, taking imbedded cost adjustments into account, and flattening steepness of the curve. The revised asset class measures also mirror the Total Fund measure’s use of the respective policy benchmarks, and the 5-year performance measurement period.

Moving to this approach of performance measurement for Total Fund and asset class-level measures significantly simplifies the plan design and increases consistency in the incentive plans of all impacted participants. Having the performance of these measures calculated against

the policy benchmarks also eliminates the need for additional cost-adjusted, incentive compensation benchmarks; thus increasing the program's transparency. This incentive plan structure will be re-examined over the next few years, as the structure of the Investment Office and the policy benchmarks evolve.

Budget and Fiscal Impacts

The cost of performance awards and base pay adjustments that arise from the recommendations in this item during the year-end performance evaluation process have been addressed through the annual budget process and will be funded from existing resources.

Benefits and Risks

The review of the Compensation Policies and incentive plan design serves to ensure the policies are designed to enhance the organization's ability to attract and retain highly skilled executive and investment professionals. Without a periodic and systematic review, there is a risk of policies becoming misaligned with the overarching goals of the organization.

Attachment

Revised incentive curves for Total Fund and Asset Class measures

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