

EXECUTIVE REVIEW AND COMPENSATION COMMITTEE SPECIAL MEETING
Wednesday, February 26, 2025 – 3:00 PM
Virtual Only
[Click here to join the meeting](#)

AGENDA

- I. **Call to Order and Approval of Agenda (*Committee Action*)**
- II. **Acceptance of Minutes (January 15, 2025, and February 6, 2025)**
- III. **Incentive Compensation Program Policy (*Committee Action*)**
- IV. **Adjournment**

**NORTH DAKOTA STATE INVESTMENT BOARD
EXECUTIVE REVIEW AND COMPENSATION COMMITTEE
MINUTES OF THE JANUARY 15, 2025, COMMITTEE MEETING**

MEMBERS PRESENT: Dr. Rob Lech, TFFR, Chair
Thomas Beadle, State Treasurer, Vice Chair

MEMBER ABSENT: Sen. Jerry Klein, LBSFAB

STAFF PRESENT: Rachel Kmetz, Interim CFO/COO
Missy Kopp, Executive Admin.
Sara Seiler, Internal Audit Supvr.
Jodi Smith, Interim Executive Director

CALL TO ORDER:

Dr. Lech called the State Investment Board (SIB) Executive Review and Compensation Committee (ERCC) meeting to order at 10:10 a.m. on Wednesday, January 15, 2025. The meeting was held virtually.

ACCEPTANCE OF AGENDA:

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE JANUARY 15, 2025, AGENDA AS DISTRIBUTED.

AYES: TREASURER BEADLE AND DR. LECH

ABSENT: SEN. KLEIN

NAYS: NONE

MOTION CARRIED

MINUTES:

The ERCC considered the minutes of the May 7, 2024, meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE MAY 7, 2024, MINUTES AS DISTRIBUTED.

AYES: TREASURER BEADLE AND DR. LECH

ABSENT: SEN. KLEIN

NAYS: NONE

MOTION CARRIED

ELECTION OF OFFICERS:

The committee charter requires the election of a chair and vice chair at the first meeting of each fiscal year (FY).

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ELECT DR. LECH AS COMMITTEE CHAIR.

AYES: TREASURER BEADLE AND DR. LECH

ABSENT: SEN. KLEIN

NAYS: NONE

MOTION CARRIED

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ELECT TREASURER BEADLE AS COMMITTEE VICE CHAIR.

**AYES: TREASURER BEADLE AND DR. LECH
ABSENT: SEN. KLEIN
NAYS: NONE
MOTION CARRIED**

REVIEW OF ERCC CHARTER:

Ms. Seiler reviewed the duties completed by the ERCC in previous FY. A review of the committee charter is required on an annual basis to ensure that all key responsibilities were completed. Committee discussion followed.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO ACCEPT THE ANNUAL CHARTER REVIEW.

**AYES: TREASURER BEADLE AND DR. LECH
ABSENT: SEN. KLEIN
NAYS: NONE
MOTION CARRIED**

SIB SELF-ASSESSMENT SURVEY DISCUSSION:

The Committee was provided with the proposed survey for the SIB self and board assessment. Staff recommend the same survey format from last year which will allow staff to see trends. Ms. Seiler provided a timeline for assessment.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE PROPOSED SELF-ASSESSMENT SURVEY AND TIMELINE.

**AYES: TREASURER BEADLE AND DR. LECH
ABSENT: SEN. KLEIN
NAYS: NONE
MOTION CARRIED**

PERFORMANCE SURVEYS:

Ms. Seiler reviewed the process for receiving feedback from the boards for the CIO and DED/CRO which is used by the ED as part of the performance evaluation process. The Committee was provided with the proposed surveys.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY DR. LECH AND CARRIED BY A VOICE VOTE TO APPROVE THE PROPOSED PERFORMANCE SURVEYS AND TIMELINE.

**AYES: TREASURER BEADLE AND DR. LECH
ABSENT: SEN. KLEIN
NAYS: NONE
MOTION CARRIED**

EXECUTIVE DIRECTOR (ED) EVALUATION PROCESS:

Ms. Seiler referred to the minutes from the last ERCC meeting and the Committee's discussion about changes in the Executive Director (ED) evaluation process. The Committee agreed that some time should be dedicated during the upcoming year to assess the process and the types of questions that should be asked in the board survey of the ED.

OTHER:

With no further business to come before the ERCC, Dr. Lech adjourned the meeting at 10:25 a.m.

Submitted by:

Missy Kopp, Assistant to the Board

**NORTH DAKOTA STATE INVESTMENT BOARD
EXECUTIVE REVIEW AND COMPENSATION COMMITTEE
MINUTES OF THE FEBRUARY 6, 2025, COMMITTEE MEETING**

MEMBERS PRESENT: Dr. Rob Lech, TFFR, Chair
Thomas Beadle, State Treasurer, Vice Chair
Sen. Jerry Klein, LBSFAB

STAFF PRESENT: Scott Anderson, CIO
Rachel Kmetz, Interim CFO/COO
Missy Kopp, Executive Admin.
Sarah Mudder, Outreach/Communications Dir.
Chad Roberts, DED/CRO
Jodi Smith, Interim Executive Director

CALL TO ORDER:

Dr. Lech called the State Investment Board (SIB) Executive Review and Compensation Committee (ERCC) meeting to order at 4:00 p.m. on Thursday, February 6, 2025. The meeting was held virtually.

ACCEPTANCE OF AGENDA:

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY SEN. KLEIN AND CARRIED BY A VOICE VOTE TO ACCEPT THE JANUARY 15, 2025, AGENDA AS DISTRIBUTED.

AYES: TREASURER BEADLE, SEN. KLEIN, AND DR. LECH

NAYS: NONE

MOTION CARRIED

INCENTIVE COMPENSATION POLICY DISCUSSION:

Ms. Smith provided an update on H.B. 1348 which would eliminate the incentive compensation plan and the ability to declassify investment-related positions at RIO. Staff testified at the latest hearing that morning. Staff provided the legislative committee with lengthy testimony which laid out the many times the plan was discussed in public meetings and with legislative committees. Treasurer Beadle was also at the hearing and shared his observations. The Committee discussed what action they should take on the incentive compensation policy after the SIB discussion at their January meeting.

The Committee members expressed their support of including the ED position in the policy. The ED has a large role in the success of the investment program by overseeing the agency and ensuring that the conditions exist for the investment and fiscal team members to be successful. The Committee reviewed their past discussion about the ED position being included in the plan and the need to increase the base salary if the ED's potential bonus level was decreased.

Committee members asked staff to talk with the SIB Chair to get direction for how the Committee should proceed.

OTHER:

With no further business to come before the ERCC, Dr. Lech adjourned the meeting at 10:25 a.m.

Submitted by:

Missy Kopp, Assistant to the Board

MEMORANDUM

TO: Executive Review and Compensation Committee
FROM: Jodi Smith, Interim Executive Director
DATE: February 26, 2025
RE: Incentive Compensation Policy

The Executive Review and Compensation Committee (ERCC) met on February 6, 2025. During the meeting, the committee discussed HB 1348 which was heard by the House Government and Veterans Affairs on February 6, 2025. Additionally, the House Government and Veterans Affairs voted a DO NOT PASS recommendation off 11-1-2.

A copy of the testimony provided by the Retirement and Investment Office can be found at [HB 1348 - Testimony | North Dakota Legislative Branch](#)

The ERCC discussed next steps for reviewing the Incentive Compensation Program Policy.

COMMITTEE ACTION REQUESTED: Possible action if the Committee decides to recommend policy changes to the SIB.

2. Incentive Compensation Program Policy

Executive Summary

North Dakota Century Code Chapter 54-52.5 provides that North Dakota RIO may develop an incentive compensation program for full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the SIB.

In carrying out its responsibilities, the Board has developed and administers an incentive compensation plan that reflects careful consideration of the following:

- To achieve its long-term strategic and investment objectives, RIO must have high-quality investment management staff.
- A reasonable and competitive incentive compensation plan is critical to attracting and retaining high quality staff.
- Staff should be motivated to earn the highest possible returns for RIO at reasonable costs and controlled levels of risk.
- Given that RIO needs to provide competitive pay to attract and retain qualified staff, a significant portion of total pay opportunities should be provided through performance-based incentives, a practice that is universally accepted in the financial marketplace. Under RIO's incentive compensation plan:
 - Investment-related awards should be earned only when net investment performance is above defined benchmarks (i.e., when value is created for client funds).
 - The greatest share of the excess value should accrue to the client funds, not to RIO staff.

The incentive compensation plan is rigorously managed by RIO's Executive Review and Compensation Committee (ERCC) to ensure compliance with all applicable statutes and related rules and guidelines.

Authority

North Dakota Century Code Chapter 54-52.5 provides that North Dakota RIO may develop an incentive compensation program for full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the SIB. This document specifies the policies and procedures related to the administration of annual incentive compensation.

This incentive compensation plan (the Plan) provides for payment of incentive compensation awards to full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the SIB (Participants) and supersedes all prior incentive compensation plans and/or arrangements for Participants. Participants under this Plan include all unclassified investment services related staff as may be determined by the SIB, ERCC, and Executive Director. The Effective Date of the Plan is July 1, 2024. Each plan year starts at the beginning of the fiscal year on July 1.

Plan Objectives

As developed and adopted by the Board, this Plan is designed to:

1. Help attract and retain talented investment professionals.
2. Help RIO earn the highest possible investment returns at a reasonable cost and at controlled levels of risk.
3. Reward long-term investment performance.
4. Reflect the RIO client fund above-benchmark, net of all performance.
5. Motivate staff to make good decisions for RIO client funds, including implementation decisions related to asset allocation.
6. Foster a collaborative approach to investing RIO's assets under management.
7. Reward measurable and achievable performance.
8. Be clear and easily communicated in terms of the Plan's objectives, design features and associated incentive compensation opportunities.
9. Be perceived as fair by RIO's employees and potential recruits.

Administration and Management

The SIB reserves the right to modify, terminate, and/or rescind any or all of the compensation schedules, provisions, policies, and procedures contained in this and all supporting documents at any time. This document describes a policy and does not provide a contract, guarantee of payment, guarantee of participation in the Plan in subsequent years, or guarantee of employment among RIO, the Board, and the Participants. Should an error in calculation or in data be discovered before or after the award distribution, RIO reserves the right to make an adjustment and recover any incentive compensation award distributed based on the erroneous data or calculation.

The Executive Director will administer the Plan with oversight by the ERCC. The Executive Director may delegate certain administrative responsibilities to other employees at RIO, including the Chief Investment Officer and the Chief Financial Officer/Chief Operating Officer.

Compensation plan participants may present questions related to the Plan to the Executive Director. The Executive Director will work with the appropriate persons to answer such questions. The Executive Director, ERCC, and SIB will have full discretion to conclusively decide all questions or matters relating to the interpretation of the provisions and administration of this Plan.

The SIB must approve any question or matter whose resolution requires a material modification to the Plan, such as a change to the performance standards or maximum award levels. Any such amendments or changes to the Plan may be proposed by the Executive Director or the ERCC but must be recommended by the ERCC and approved by the SIB.

Eligibility

Positions that are eligible for incentive compensation are full-time equivalent investment and fiscal operations positions necessary for the management of the investment of funds under the control of the SIB as set forth in this plan. Any temporary employment or project positions are not eligible. Plan participation is determined based on employment status and the Executive Director's assessment of the position's impact on RIO's overall investment performance. Participants must have worked in a covered position at least three full consecutive calendar months during the year to be eligible for incentive compensation under the Plan, and incentive compensation will be paid on a pro-rata basis if not employed the entire fiscal year. The Executive Director will confirm any new positions that will be eligible under the Plan during the next fiscal year.

Employment at RIO in good standing on the day of payment is a pre-requisite for receiving any

incentive compensation payment, except in the case of retirement, disability, death or otherwise as provided below. For purposes of this Plan, “employment in good standing” means (a) the Participant’s performance is rated above “Developing” in the Participant’s most recent performance review, (b) the Participant is not on a performance improvement plan.

Eligibility upon Separation

Generally, a Participant must be employed by RIO as of the date the incentive compensation is paid out in order to be eligible to receive the payment. In the case of disability or death occurring during the fiscal year, any Board-approved incentive compensation amount may be paid to the Participant, the amount to be determined by the Executive Director, subject to approval by the SIB, based on the time worked during the fiscal year and subject to the Participant’s termination meeting the qualifications in the next paragraph, if not employed as of the date of payment. These payments will be made at the same time as any other incentive compensation award. No incentive compensation will be awarded if the Participant was employed for less than three consecutive months during the fiscal year in which the disability or death occurred.

If a Participant terminated employment prior to payment of an award, the full amount of the incentive compensation award will be paid to the Participant (or beneficiary in the case of death) only upon the following conditions:

- If the Participant’s separation is due to the Participant’s disability.
- If the Participant’s separation is due to the Participant’s death.
- If the Participant’s termination is due to reasons other than the Participant’s disability or death, and his/her last day of active employment is prior to the payment date then no incentive compensation award will be payable to the Participant.

Plan Concepts/Mechanics

The Plan’s terms and conditions are described in this document. A summary of the Plan’s overall mechanics is as follows:

- Prior to or near the beginning of each fiscal year, Participants will be assigned a maximum incentive compensation opportunity, which effective as of the Plan year will be expressed as a percentage of his or her base salary at the beginning of the fiscal year (or the Participant’s start date if employed after the start of the fiscal year). Maximum incentive compensation opportunities will vary by position based on differing levels of accountability and responsibility.
- Maximum incentive compensation opportunities will be weighted or allocated to specific quantitative and discretionary Plan components. Several Plan components are based on Value Added. Value Added (VA) means the weighted average of outperformance of funds as described within the plan.
- After year-end, depending on performance, awards will be determined for each stand-alone Plan component.
- Notwithstanding any other provision in this Plan and regardless of any incentive compensation award calculations hereunder, no incentive compensation award shall be made unless and until approved by the SIB, in its sole discretion. The SIB may award, adjust (up or down), modify or deny any incentive compensation amounts calculated pursuant to the Plan. All incentive compensation awards hereunder are discretionary.

Step 1: Set Each Participant's Maximum Incentive Compensation Opportunity

Prior to or near the beginning of each fiscal year, or the Participant's start date if employed after the start of the fiscal year, Participants will be assigned a maximum incentive compensation opportunity, which will be expressed as a percentage of his or her base salary. Unless approved by the Executive Director, maximum incentive compensation opportunities will vary by the position held for most of the year (i.e., position held through June 30 for existing employees) and based on differing levels of accountability and responsibility.

Current maximum incentive compensation opportunities are set forth below.

Maximum Incentive Award	Position Title
100%	Chief Investment Officer Executive Director
90%	Deputy Chief Investment Officer
75%	Portfolio Manager (new FTE's) Chief Risk Officer Senior Investment Officer
60%	Chief Financial Officer/ Chief Operating Officer
50%	Investment Officer Risk Officer Accounting Manager
25%	Sr. Investment Accountant Investment Accountant

Step 2: Calculate the Maximum Incentive Compensation Opportunity for the Plan

The maximum incentive compensation opportunity for the entire Plan will be calculated by aggregating the maximum incentive compensation opportunities for each Participant.

Step 3: Allocate each Participant's Maximum Incentive Compensation Opportunity to Performance Components

Each Participant's maximum incentive compensation opportunity will be weighted or allocated among standalone quantitative and qualitative performance components.

All Roles		
Weight	Performance Component	Allocation Method
80%	Fund VA -3-year rolling	Minimum: (10%) \geq 1 bp Maximum: (100%) 50 bps
20%	Individual Goals	Discretionary

Any proposed changes to incentive compensation weightings will be reviewed and approved by the Executive Director and the ERCC, and approved by the SIB, prior to the beginning of each fiscal year.

Step 4: Calculate the Performance Components

VA Performance Components

The Plan's quantitative components focus on weighted average of the Legacy Fund, PERS pension fund, TFFR fund, and the WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks. Client fund performance is measured on a net of all basis (i.e., net of all direct and indirect costs). Asset Class and Team performance is measured net of direct costs.

The SIB approves an Incentive Compensation Metric (ICM) performance verified by the SIB's independent Benchmark and Hurdle Rate consultant. The Incentive Compensation Metric represents the amount of outperformance of the applicable benchmark necessary to earn the full incentive compensation opportunity. Performance-award scales are derived from the ICM and define the linkage between RIO's actual, relative, net investment performance and a corresponding percentage of the maximum incentive compensation opportunity that is earned.

Prior to or near the beginning of each performance year, any requested changes to the ICM(s) or performance-award scales must be submitted, in writing, by the Executive Director to the ERCC and from the ERCC to the SIB for review and approval, and to the Hurdle Rate and Benchmark Consultant for review and verification. There will be a comprehensive review of the ICM(s) up to every three to five years at the discretion of the SIB.

Under RIO Plan:

The percentage of the maximum *quantitative* incentive compensation opportunity earned:

- Equals 0% when performance is at or below benchmark.
- Equals 10% when net performance exceeds the benchmark by one full basis point.
- Increases pro rata, from 10% to 100%, for net performance that is between one full basis point above the benchmark, and the ICM.
- Equals 100% when net performance equals or exceeds the benchmark by the full ICM¹

Portfolio VA

In the first three years of the Plan, the first year Fund VA will be the one year weighted average Fund VA, the second year of the plan will be the two-year compound Fund VA and the third year will be the three-year compound average of the weighted average of the Legacy Fund, the PERS pension fund, TFFR fund, and WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks. Thereafter, the weighted average Fund VA applied to all participants is a rolling three-year average of the weighted average of the Legacy Fund, the PERS pension fund, TFFR fund, and WSI fund actual, relative investment performance at Client Fund level compared with SIB-approved benchmarks.

For Participants that join RIO on or after the beginning of the fiscal year, the weighted average Fund VA applied to all participants will be used. The payout will be made pro-

rata based on the percentage of plan year time employed that starts with the beginning of the fiscal year on July 1.

For Participants that joined RIO prior to the plan year starting with the beginning of the fiscal year but have been employed for fewer than three years as of the start of the fiscal year, the weighted average Fund VA applied to all participants will be used.

Individual Goals Component

The Individual Goals component is set by the manager of the Participant as part of the performance evaluation process. The final performance evaluation of each Participant is approved by the Executive Director. In addition, such Participants will be evaluated on leadership/behavioral and organizational competence factors. Some factors that may be considered include training and mentoring of staff, contribution to organizational strategic planning, and participation in projects or initiatives to update business and/or analytical processes and tools and the associated technology applications. The Executive Director will determine the amounts awarded for Individual Goals in consultation with managers.

Step 5: Allocate Discretionary Components Among Relevant Participants

Quantitative components are allocated to Participants directly without modification. Discretionary components for Individual Goals components, will be allocated by the Executive Director.

Step 6: Present Final Award Recommendations to the Board of Trustees

The Executive Director's award recommendations will be made to the ERCC. The ERCC will make a recommendation regarding the incentive compensation awards to the SIB for approval. For all Participants, an incentive compensation award is contingent on approval of the award by the SIB, in its sole discretion.

Step 7: Payment of Awards

Incentive compensation awards will be determined and authorized as soon as practical following the close of each fiscal year, with a target of within the first four months of each fiscal year for the previous fiscal year.

RIO shall be entitled to withhold or deduct, as applicable, from the amount of any payment under this Plan or any other compensation due to the Participant, all federal, state, city and other taxes and all other amounts, as applicable.

¹ ICMs are intended to reflect levels of net performance that are considered top quartile, based upon expected levels of risk and return.

Policy Implemented: May 17, 2024.

ND RIO Incentive Plan Review

February 2024

Josh Wilson, Partner
Susan Lemke, Principal
Aimee Kudela, Senior Associate
Lanni Barrie, Senior Analyst

Background & Context

- In late 2023, North Dakota Retirement and Investment Office (“RIO”) commissioned Mercer to review the incentive compensation program against other comparable plans at similar organization on various fronts (design, eligibility, target awards, etc.)
- RIO manages approximately \$20 billion in assets. The assets are divided between the ND State Investment Board (“SIB”) and the ND Teachers’ Fund for Retirement Board (“TFFR”). As of the beginning of 2023, RIO managed 28 client funds with 43 managers at RIO, with portfolios comprised of equity, fixed income, private equity, and real estate assets.
- RIO is in a transformative phase, gaining the capabilities of funds management and enhanced indexing in the next 2 years. Looking to the future, RIO strives to gain internal management and financed exposure capabilities in the next 5 years and become one of the more sophisticated state pension plans in the country.
- In order to retain and motivate current staff as well as attract future talent, RIO seeks to design and implement a performance incentive plan that will boost the overall competitiveness of investment professional compensation if performance warrants it. RIO has designed the plan and has asked Mercer to review the plan and opine on it.

Incentive Compensation Plan Current State

The plan reflects careful consideration of the following:

- Achieving long-term strategic and investment objectives with high-quality investment management staff
- A reasonable and competitive plan is critical to attracting and retaining high quality staff
- Staff should be motivated to earn the highest possible returns for RIO at reasonable costs and controlled levels of risk
- A meaningful portion of total pay opportunities should be provided through performance-based incentives
 - Investment-related awards should be earned only when net investment performance is above benchmarks
 - The greatest share of the excess value should accrue to the client funds, not to RIO staff.

The plan objectives include:

- Help attract and retain talented investment professionals
- Help RIO earn the highest possible investment returns at a reasonable cost and at controlled levels of risk
- Reward long-term investment performance
- Motivate staff to make good decisions for client funds
- Foster a collaborative approach to investing RIO's AUM
- Reward measurable and achievable performance
- Be clear and easily communicated in terms of the Plan's objectives, design features, and associated opportunities
- Be perceived as fair by RIO's employees and potential recruits

Incentive Design Mechanics

	Proposed RIO Incentive Plan Design
Eligibility	<ul style="list-style-type: none"> Investment-related positions <ul style="list-style-type: none"> 20 unique positions (13 current roles and 7 to-be-hired role) centered in the investment and leadership areas
Performance Measurement	<ul style="list-style-type: none"> Financial performance “Value added” to North Dakota Retirement and Investment Office (RIO) through fund performance as measured by basis point outperformance Individual performance
Performance Standards	<ul style="list-style-type: none"> Total Fund(relative to Benchmarks) <ul style="list-style-type: none"> Threshold performance: 1 Basis Point-At threshold performance, incentive plan pays out 10% of maximum Maximum performance: 50 Basis Points –At maximum performance, incentive plan pays out 100% of maximum <i>Achievement in between threshold and maximum performance levels will be interpolated on a straight-line basi</i>
Incentive Opportunity	<ul style="list-style-type: none"> Maximum incentive awards are set for all eligible positions, ranging from 25% - 100% For purposes of comparison, Mercer interpolates incentive targets as ½ of incentive maximums
Measurement Period/Timing of Payout	<ul style="list-style-type: none"> Performance period will be three-years but initial plans will be one and two years as start up plans

Annual Incentive Plan

Executive Summary

Alignment with Objectives

Competitive



Uncompetitive



Design Feature	ND RIO Practice	Market Practice	Rating	Commentary
Plan Eligibility	Direct management and investment positions.	Eligibility is typically extended to Top Investment Officer through Senior Investment Analyst, however, only about 50% the market provides incentives to all investment positions.		More inclusive than market.
STI Award Opportunity	Maximum incentive awards are set for all incentive-eligible positions, ranging from 25% to 100%; target ranges are interpolated to be ½ of maximum incentive award opportunity.	At the median, the maximum incentive awards are set for all incentive-eligible positions, ranging from 20% to 150%. Target ranges are set from 10% to 82%. The endowment peers have much wider ranges than the pension peers.		At market (or slightly above) for Pension plans; slightly below market median for maximum incentive awards when considering both pensions and endowments.
Performance Measures / Plan Design	<ul style="list-style-type: none"> 80% Total Fund performance 20% Individual / Qualitative performance <ul style="list-style-type: none"> Asset Class performance may, to start the program, fall into the Individual / Qualitative bucket; consideration to measure performance partially off asset class performance in the future 	Majority of the market (>90%) measures performance of the Total Fund against a composite benchmark. It is most likely that in tandem with the quantitative performance of the total fund, there is a qualitative component. For pension peers, 11% of firms use asset class performance, while individual performance is measured in 85% (specifically for senior and second level investment executives).		More competitive than the market as more investment positions are rewarded for the performance of asset class funds compared to the market.
Market Performance Standards	The threshold for performance is 1 BP and the Maximum is 50 BPS.	All Endowments/Foundations: <ul style="list-style-type: none"> Threshold: 0 BPS Target: 95 BPS Maximum: 190 BPS Pensions: <ul style="list-style-type: none"> Threshold: 0 BPS Target: 35 BPS Maximum: 70 BPS 		Performance expectations calculated by independent 3rdparty expert and outperformance factors in risk. 50 BPS of outperformance represents top quartile of performance
Measurement Period	Measurement period is a one-year individual performance period (calendar year) <ul style="list-style-type: none"> Performance of the fund: three-year rolling period Initial periods will be one and two years respectively 	Majority of the market (>80%) utilizes a three-year rolling period. Some funds who use a three-year rolling period also utilize another rolling period (one- or five-years)		Aligned with market.

RIO Incentive Eligibility and Metrics

Opportunity

Tier	Min (% of Base)	Target (% of Base)	Max (% of Base)	Positions
1	0%	50%	100%	CIO Executive Director
2	0%	45%	90%	Deputy CIO
3	0%	37.5%	75%	Portfolio Manager Chief Risk Officer Senior Investment Officer
4	0%	30%	60%	Chief Financial Officer / Chief Operating Officer
5	0%	25%	50%	Investment Officer Risk Officer Accounting Manager
6	0%	12.5%	25%	Senior Investment Accountant Investment Accountant

Market Eligibility

Pension Survey	Endowment Survey	Financial Services (STI Survey)
<ul style="list-style-type: none"> 60% provide incentive compensation; of those who provide incentive compensation, 57% possess less than \$150 B in AUM. Eligibility is typically extended to the Top Investment Officer through Senior Investment Analysts, and to managers and above for investment operations staff. Incentive opportunities decline at the analyst level; of those who provide executive compensation, only 50% offer junior analysts incentives (67% offer intermediate analysts incentives). Of those who provide incentive compensation, 83% provide incentives to Operations Directors, which is exponentially higher than the 29% that provide incentives to Operations Analysts. 	<ul style="list-style-type: none"> 92% provide incentive compensation. Of those providing incentive compensation, virtually all include Senior Investment Analysts and above; prevalence drops slightly to approximately 90% for lower-level investment analysts. 59% extend participation to all investment operations staff. 	<ul style="list-style-type: none"> Incentive compensation is most common at the Executive Level 3 (E3), Executive Level 3 (E3), and Senior Manager II (M5); 90% of companies provide incentive compensation for E1 and E3 executives, while 91% provide incentive compensation for M5 managers. Professionals at the Entry Professional (P1) level are significantly less likely to receive incentive compensation from their companies compared to other professionals; 47% of companies offer P1 professionals incentive compensation, compared to the 72% that offer P2 professionals incentive compensation. Companies provide incentive compensation to Entry Support (S1) more often compared to Experienced and Senior Support; 49% of companies provide incentive compensation for S1 support employees.

Considerations for RIO

- In relation to other endowment and pension funds, RIO's eligibility list is appropriate. The participants are direct investment professionals and management.
- The implementation of an incentive compensation program will require strict guidelines and be primarily leadership-driven.
- Companies have been rewarding employees who are ineligible to participate in the incentive compensation plan with one-time rewards or bonuses, which helps increase retention and awards employees past base pay.
- It is becoming an increasing trend for companies to consider non-investment staff to be included in incentive plans, but the actual implementation is much slower; consider increasing eligibility to those in the Operations department, especially because it is more common to include Operations Directors as opposed to Operations Analysts.

RIO Incentive Targets

Tier	Positions	ND RIO		Pension Survey				Endowment Survey			
		Target	Max	Target		Max		Target		Max	
				25 th	Med.	25 th	Med.	25 th	Med.	25 th	Med.
1	CIO Executive Director	50%	100%	22%	50%	33%	100%	55%	82%	100%	150%
2	Deputy CIO	45%	90%	22%	38%	34%	72%	50%	80%	100%	150%
3	Portfolio Manager Chief Risk Officer Senior Investment Officer	37.5%	75%	18%	45%	29%	90%	40%	55%	75%	120%
4	Chief Financial Officer / Chief Operating Officer	30%	60%	-	-	-	-	-	-	-	-
5	Investment Officer Risk Officer Accounting Manager	25%	50%	11%	18%	21%	35%	25%	45%	40%	76%
6	Senior Investment Accountant Investment Accountant	12.5%	25%	-	15%	-	28%	20%	30%	30%	50%

Market Practices – Measuring Performance

RIO

- Performance measures are based on financial performance, value added, and individual performance.
- Measurement period is a one-year individual performance period that aligns to the calendar year; the goal is to distribute payouts within the first four months of the following calendar year.
 - Performance of the fund is awarded on a one- and three-year rolling period.
 - Performance of asset class funds are awarded on a one- and five-year rolling period.

Considerations for RIO

- Weighting on individual performance metrics and goals is significantly higher than it used to be; some funds, such as CalPERS have switched their compensation plan to make it more focused on performance pay rather than salaries.

Pension Survey

Performance Measures and Weighting

- Of those that provide incentive compensation, all (100%) measure performance based on measured performance of the total fund relative to a composite benchmark.
 - Out of the 100% who do provide incentive compensation based on measured performance, 89% also include a qualitative/individual component
 - 89% use an asset class measure Investment positions (Executives, Managers, Executives)

Measurement Period

- 89% of organizations utilize a three-year period, and of those who use a three-year period, 38% also include another measurement period (either one-year or five-years).

Endowment Survey

Performance Measures and Weighting

- 89% of organizations that offer incentive compensation use a formulaic (quantitative) approach, which is often in tandem with a qualitative approach.
 - 92% of organizations measure relative to policy portfolio benchmarks
 - 37% of organizations measure relative to a peer group
 - Specific to Senior and Second Level Investment Executives: 11% of firms use asset class performance, while individual performance is measured in 85%.
- The remaining 11% of organizations utilize a predominately qualitative approach.

Measurement Period

- The investment measurement period is measured over a rolling three-year period in the majority (81%) of organizations.
- Less common is the use of a one-year performance period (29%).
- It is common for organizations to use multiple periods to measure performance, more than 1/3 of organizations utilize multiple periods.

Market Performance Standards

Market Practice

- For pensions, the target typically ranges from 20 – 50 BPS and the maximum typically ranges from 40 – 100 BPS.
- For endowments, the target typically ranges from 50 – 100 BPS and the maximum typically ranges from 100 – 200 BPS.
- Median performance standards at threshold, target, and maximum are shown for the Endowment Survey and the Pension Survey.

Median Total Fund Performance Standards			
	Threshold	Target	Maximum
All Endowments/Foundations	0 BPS	75 BPS	190 BPS
Pension Survey	0 BPS	35 BPS	70 BPS
ND RIO	1 BPS	-	50 BPS

Considerations for RIO

- RIO is aligned to pension peers, especially if the target performance is assumed to be ½ of maximum
- RIO used a 3rd party benchmark consultant, Verus, to establish the performance levels
- A historical back testing of the goals is a good way to determine if the plan goals are reasonable
- In a new plan, it is reasonable to assume that over time, the goals will change to reflect the reality of the incentive plan

