

Governance and Policy Review Committee
Wednesday, July 27, 2022, 1:30 p.m.
RIO Conference Room
1600 E Century Ave, Ste. 3, Bismarck, ND
[Click here to join the meeting](#)

AGENDA

- I. **CALL TO ORDER AND ACCEPTANCE OF AGENDA**
- II. **MINUTES - MAY 18, 2022**
- III. **ELECTION OF CHAIR & VICE-CHAIR**
- IV. **EXECUTIVE REVIEW COMMITTEE SCOPE – MS. MURTHA**
- V. **TALENT MANAGEMENT – MR. ANDERSON**
- VI. **INVESTMENT COMMITTEE RECOMMENDATIONS – MR. ANDERSON**
- VII. **SIB MEMBER COMPOSITION – MS. MURTHA**
- VIII. **ADJOURNMENT**

**STATE INVESTMENT BOARD
GOVERNANCE & POLICY REVIEW COMMITTEE MEETING
MINUTES OF THE
May 18, 2022, MEETING**

MEMBERS PRESENT: Dr. Rob Lech, TFFR Board, Chair
Thomas Beadle, State Treasurer, Vice Chair
Jon Godfread, Insurance Commissioner

STAFF PRESENT: Scott Anderson, CIO
Eric Chin, Deputy CIO
Connie Flanagan, CFO/COO
Missy Kopp, Exec Assistant
Jan Murtha, Exec Dir
Ann Nagel, Investment Accountant
Sara Sauter, Suprv of Internal Audit

GUESTS : Colton Schulz, Insurance Dept.

CALL TO ORDER:

Dr. Lech called the State Investment Board (SIB) Governance and Policy Review (GPR) Committee meeting to order at 9:00 a.m. on Thursday, May 18, 2022, in the Retirement and Investment Office (Virtual Host) 1600 E Century Ave., Bismarck, ND.

AGENDA:

The agenda was considered for the May 18, 2022, meeting.

IT WAS MOVED BY TREASURER BEADLE AND SECONDED BY COMMISSIONER GODFREAD AND CARRIED BY A VOICE VOTE TO APPROVE THE AGENDA FOR THE MAY 18, 2022, MEETING AS DISTRIBUTED.

**AYES: TREASURER BEADLE, COMMISSIONER GODFREAD, AND DR. LECH
NAYS: NONE
MOTION CARRIED**

MINUTES:

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE APRIL 21, 2022, MINUTES AS DISTRIBUTED.

**AYES: COMMISSIONER GODFREAD, TREASURER BEADLE, AND DR. LECH
NAYS: NONE
MOTION CARRIED**

INVESTMENT COMMITTEE CHARTER:

Mr. Anderson reviewed the three investment committee archetypes that were discussed at the April 2022, meeting. Staff believe the hybrid committee composition would be the most agile because it would be able to meet more frequently and with shorter notice. The hybrid committee would provide a more diverse view with outside membership and would allow for more agility with most investment decisions made at the committee or staff level.

The hybrid committee would be composed of two Board members, two external investment professionals, and two RIO staff members. Committee members would be nominated and approved by the SIB. The external investment professionals should have substantial institutional investment experience. The Committee discussed the proposed committee composition and provided staff with feedback. Committee members expressed their comfort with moving forward with the investment committee composition as presented.

Mr. Anderson presented information about the necessary capabilities and knowledge, proposed duties and responsibilities, and general committee procedures. The Committee discussed the proposed investment committee charter and provided feedback to staff.

BOARD COMPOSITION:

Mr. Anderson provided information on board composition options for the SIB. When looking at board composition, the goals are an efficient board with less than 12 members; a balance of elected officials, appointed representatives, and beneficiaries; a trade off between outside expertise and beneficiaries. The Committee discussed the process for choosing the investment professionals, pension representation, and the need to discuss the composition of SIB committees if the Board composition is changed. The next steps will be to bring the Committee's recommendations to the SIB for an initial discussion at their May meeting.

ANNUAL INVESTMENT MANAGER MEETINGS:

Mr. Chin presented information to the Committee on Board policy E-10, Evaluation of Money Managers. This policy outlines the investment criteria that are assessed annually and states that the meetings will take place in Bismarck. Best practice is for staff to conduct these meetings and that the meetings are not conducted as an open meeting. Staff would like to change the language in the policy to add the option to visit managers onsite instead of in Bismarck. The Committee expressed their support of the changes. The amended policy will be presented to the SIB for a first reading at their May meeting.

COMMITTEE CALENDAR:

IT WAS MOVED BY COMMISSIONER GODFREAD AND SECONDED BY TREASURER BEADLE AND CARRIED BY A VOICE VOTE TO APPROVE THE SIB GPR COMMITTEE CALENDAR.

AYES: COMMISSIONER GODFREAD, TREASURER BEADLE, AND DR. LECH

NAYS: NONE

MOTION CARRIED

OTHER:

With no further business to come before the GPR Committee, Dr. Lech adjourned the meeting at 11:10 a.m.

Respectfully Submitted:

Missy Kopp
Assistant to the Board

MEMORANDUM

TO: SIB – Governance & Policy Review (GPR) Committee
FROM: Jan Murtha, Executive Director
DATE: July 26, 2022
RE: Committee Agenda Items

Agenda Item III. Election of Chair & Vice-Chair

GOVERNANCE COMMITTEE COMPOSITION AND TERM LIMITS The Governance Committee shall be composed of at least three members. They will be nominated and approved by a majority vote of the SIB. This is a standing committee with no term limits. The Executive Director will be responsible for meeting preparation.

The GPR committee may make recommendations to the SIB for changes to the charter. Currently the approved charter does not contain any requirements regarding election of officers for the committee itself. Staff is requesting that the committee elect a Chair and Vice Chair for the committee to facilitate administration of committee business.

COMMITTEE ACTION REQUESTED: Motion to nominate and approve Committee Chair and Vice Chair.

Agenda Item IV. Executive Review Committee Scope

Staff recommends expanding the scope of the Executive Review Committee to an Executive Review and Compensation committee. Staff will present the public policy basis for this request at the committee. A proposed amendment and proposed charter is included for your review and discussion.

Agenda Item V. Talent Management

Staff will present the benefits of leveraging Talent Management to the benefit of the organization and program results.

Agenda Item VI. Investment Committee Recommendations

At the SIB July meeting of the Board, the Chair appointed 4 of the 6 committee members and deferred recommendations for the two external investment professionals until the SIB GPR committee developed a list of candidates eligible for appointment at the preference of and for consideration by the Board Chair. The investment team will present.

Agenda Item VI. SIB Composition

Staff requests the committee to clarify whether further discussion on this topic is needed at this time.

The board's standing committees are set forth in this policy as follows:

1. Audit Committee
2. Securities Litigation Committee
3. Executive Review and Compensation Committee
4. Governance and Policy Review Committee
5. Investment Committee

- A. The Audit Committee, Securities Litigation Committee, Executive Review and Compensation Committee, the Governance and Policy Review Committee, and the Investment Committee shall operate under the terms of a charter approved by the board.

INTRODUCTION – Audit Committee

An Audit Committee has been established as a standing committee of the State Investment Board (SIB). The Audit Committee will assist the SIB in carrying out its oversight responsibilities as they relate to the Retirement and Investment Office (RIO) internal and external audit programs, including financial and other reporting practices, internal controls, and compliance with laws, regulations, and ethics.

The primary objective of the internal audit function is to assist the SIB and management in the effective discharge of their responsibilities. To this end, internal auditing will furnish them with analyses, appraisals, recommendations, and pertinent information concerning the activities reviewed.

Functions and units within RIO will be reviewed at appropriate intervals to determine whether they are effectively carrying out their responsibilities of planning, organizing, directing, and controlling in accordance with SIB and management instructions, applicable laws, policies, and procedures, and in a manner consistent with both the RIO objectives and high standards of administrative practice.

POLICY OF THE STATE INVESTMENT BOARD – Audit Committee

The audit staff shall have full, free, and unrestricted access to all RIO activities, records, property, and personnel relative to the subject under review. The audit function will be conducted in a manner consistent with acceptable professional standards and coordinated with others to best achieve the audit objectives and the RIO objectives.

The Internal Audit Services Unit is responsible for developing and directing a broad, comprehensive program of internal auditing within RIO. The Internal Audit Services Unit will report administratively to management and functionally to the Audit Committee of the SIB.

The RIO unit supervisors are responsible for seeing that corrective action on reported weaknesses is either planned or taken within 30 days from the receipt of a report disclosing those weaknesses if known or applicable. The unit supervisors are also responsible for seeing that a written report of action planned or completed is sent to the executive director. If a plan for action is reported, a second report shall be made promptly upon completion of the plan.

INTRODUCTION – Securities Litigation Committee

A Securities Litigation Committee (SLC) has been established as a standing committee of the State Investment Board (SIB). The SLC will assist the SIB in fulfilling its fiduciary oversight responsibilities of monitoring the investment assets entrusted to it by the various statutory and contracted funds, and to serve as a communications link for the SIB, RIO's management and staff, third party securities litigation firms, and others.

POLICY TITLE: *STANDING COMMITTEES*

The SLC will determine when an active role should be pursued in regards to securities litigation affecting investments within the SIB's portfolios based on the SIB approved Securities Litigation Policy and approved SIB Securities Litigation Committee Charter.

POLICY OF THE STATE INVESTMENT BOARD – Securities Litigation Committee

The SLC is authorized to:

- Draft policy (to be formally approved by SIB) regarding dollar and/or risk thresholds for determining when to opt-out of class actions and/or seek direct litigation or lead plaintiff status;
- Based on SIB approved policy make decisions on the level of participation the SIB will take in direct litigation, opt-in or group litigation, anti-trust and other class actions; and
- Approve the selection of special assistant attorneys (in conjunction with the approval of the Office of the Attorney General) in cases of direct litigation.

RIO's management is responsible for ongoing monitoring of securities litigation and claims filing. RIO management and staff will enable the SLC to provide a periodic update to the SIB on the SLC's activities and related recommendations.

The SLC has the responsibility to provide oversight in the areas of:

- policy development;
- determination on direct litigation and/or lead plaintiff status; and
- approval of special assistant attorneys (outside counsel) with concurrence of the Attorney General.

INTRODUCTION – Executive Review and Compensation Committee

An Executive Review and Compensation Committee (ERCC) has been established as a standing committee of the SIB. The ERC-ERCC will assist the SIB in fulfilling its fiduciary oversight responsibilities of “monitoring executive performance (which) is synonymous with monitoring organizational performance against board policies on *Ends* and *Executive Limitations*”. The ERCC will also assist the SIB in developing compensation goals and strategies for the agency as a whole that are in alignment with the strategic plan of the agency. The Chief Fiscal Officer- Chief Operating Officer (CFO-COO) will be responsible for the preparation of all committee materials with the exception of internal survey and audit materials. Internal audit will be responsible for preparing an annual summary of the required reports submitted to the SIB by the Executive Director in connection with its review of policy adherence to *Ends* and *Executive Limitations*. Internal audit will also assist the ERC in completing annual surveys of the Executive Director and Chief Investment Officer with the SIB, SIB clients, and RIO team members, and Executive Director and Deputy Executive Director- Chief Retirement Officer with the TFFR Board, TFFR stakeholders, and RIO team members.

The ERCC will conduct a formal evaluation of the Executive Director, and survey's regarding the performance of the Chief Investment Officer, and Deputy Executive Director – Chief Retirement Officer during the first half of every calendar year. This formal evaluation by the ERCC will serve as the basis for an annual compensation recommendation for the Executive Director only to be reviewed and approved by the SIB on or before June 30th each year. The survey results for all three positions will be reported to both the SIB and TFFR Board. Internal audit will also assist the SIB and ERC in administering the annual board self-assessment process.

POLICY TITLE: *STANDING COMMITTEES*

POLICY OF THE STATE INVESTMENT BOARD – Executive Review and Compensation Committee

The ERCC is authorized to:

- Conduct a formal evaluation of the Executive Director annually;
- Obtain SIB approval of the annual performance evaluation of the Executive Director;
- Obtain performance survey's of the Chief Investment Officer and Deputy Executive Director- Chief Retirement Officer;
- Make a compensation recommendation for the Executive Director to the SIB on or before June 30th of each year; ~~and~~
- Administer a formal self-assessment of the SIB periodically (unless instructed otherwise);-
- Review and make recommendations regarding RIO's compensation policy to ensure RIO can recruit and retain superior talent to satisfy the core mission and strategic plan of the agency; and
- Conduct or procure a new peer compensation study or survey at least every three years to asses the current level of RIO staff compensation and recommend policy changes to address target salary ranges as appropriate.

The ERCC and/or RIO will seek SIB approval prior to formally engaging any third party assistance in conducting the annual executive review process or board self-assessment.

INTRODUCTION – Governance & Policy Review

A Governance and Policy Review Committee has been established as a standing committee of the SIB. The Governance and Policy Review Committee will assist the SIB in fulfilling its fiduciary oversight responsibilities to fulfill its responsibilities regarding matters that relate to governing the SIB, policies, and identifying and making recommendations to the SIB.

The Governance and Policy Review Committee will be responsible for reviewing the governance manual, recommending policy changes, and when directed by the board review governance specific concerns, and make recommendations for improvement.

POLICY OF THE STATE INVESTMENT BOARD – Governance & Policy Review Committee

The Governance & Policy Review Committee is authorized to:

- Review and recommend policies for the governance manual.
- Ensure the governance manual reflects best practices and good governance.
- As directed by the board, review specific governance concerns, and make recommendations for improvement.

- Request RIO staff for specific topic training or education

INTRODUCTION – Investment Committee

The Investment Committee (the “Committee”) is created to provide oversight of SIB investments within the parameters established by the SIB. Oversight will include an analysis of risk and return at the portfolio, asset class, and client fund levels. Additionally, the Committee will provide input to the Board on asset allocation and benchmark recommendations.

In general, the Committee will focus on various policies and procedures of the agency to ensure they are consistent with industry standards and that they continue to keep pace with prudent investment theory and practice.

The Committee will review decisions made about deviations from established benchmarks and allocation of investments among internal management (if approved) and external management, including decisions about passive, active and quantitative styles.

POLICY OF THE STATE INVESTMENT BOARD – Investment Committee

The Investment Committee is authorized to:

- propose to the SIB changes to its Investment Policy including delegation of investment authority to RIO investment staff;
- approve the SIB Investment Committee Investment Guidelines (IC Guidelines);
- approve the general strategies for each investment division; and
- approve new investment instruments.

Executive Review and Compensation Committee Charter

I. PURPOSE

The Executive Review and Compensation Committee (“ERCC”) will assist the State Investment Board (SIB) to fulfill its responsibilities regarding matters that relate to “monitoring executive performance (which) is synonymous with monitoring organizational performance against board policies on *Ends* and *Executive Limitations*”. The ERCC will also assist the SIB in developing compensation goals and strategies for the agency as a whole that are in alignment with the strategic plan of the agency.

II. KEY RESPONSIBILITIES

The ERCC shall perform all duties as requested or required by the SIB. Specifically:

1. Conduct a formal evaluation of the Executive Director annually prior to June 30th of each year;
2. Obtain SIB approval of the annual performance evaluation of the Executive Director prior to June 30th of each year;
3. Obtain performance survey’s of the Chief Investment Officer and Deputy Executive Director- Chief Retirement Officer prior to June 30th of each;
4. Make a compensation recommendation for the Executive Director to the SIB on or before June 30th of each year;
5. Administer a formal self-assessment of the SIB periodically (unless instructed otherwise);
6. Review and make recommendations regarding RIO’s compensation policy to ensure RIO can recruit and retain superior talent to satisfy the core mission and strategic plan of the agency; and
7. Conduct or procure a new peer compensation study or survey at least every three years to assess the current level of RIO staff compensation and recommend policy changes to address target salary ranges as appropriate.

The ERCC will conduct a formal evaluation of the Executive Director, and performance survey’s regarding the performance of the Chief Investment Officer, and Deputy Executive Director – Chief Retirement Officer during the first half of every calendar year. This formal evaluation by the ERCC will serve as the basis for an annual compensation recommendation for the Executive Director only to be reviewed and approved by the SIB on or before June 30th each year. The survey results for all three positions will be reported to both the SIB and TFFR Board.

III. GOVERNANCE COMMITTEE COMPOSITION AND TERM LIMITS

The ERCC shall be composed of at least three SIB members as appointed by the SIB Chair at the first SIB meeting in July of each year or when a vacancy arises. This is a standing committee with no term limits. At least one committee member must be an elected or appointed official.

The Chief Fiscal Officer- Chief Operating Officer (CFO-COO) will be responsible for the preparation of all committee materials with the exception of internal survey and audit materials. Internal audit will be responsible for preparing an annual summary of the required reports submitted to the SIB by the Executive Director in connection with its review of policy adherence

to *Ends and Executive Limitations*. Internal audit will assist the ERC in completing annual surveys of the Executive Director and Chief Investment Officer with the SIB, SIB clients, and RIO team members, and Executive Director and Deputy Executive Director- Chief Retirement Officer with the TFFR Board, TFFR stakeholders, and RIO team members. Internal audit will also assist the SIB and ERC in administering the annual board self-assessment process.

IV. MEETINGS

The ERCC must meet at least twice in the second half of the fiscal year, and hold additional meetings as needed, to fulfill its responsibilities as described in this Committee Charter and as called by the Committee Chair. At its first meeting after July the Committee will elect a Committee Chair and Vice-Chair.

V. AUTHORIZATION AND LIMITATIONS OF POWER

The ERCC is established by the SIB governance manual and has no power or authority to act on behalf of the full board. The ERCC will abide by the provisions in the governance manual that pertain to the meetings and actions of the Board.



TALENT MANAGEMENT

Scott M Anderson, CFA

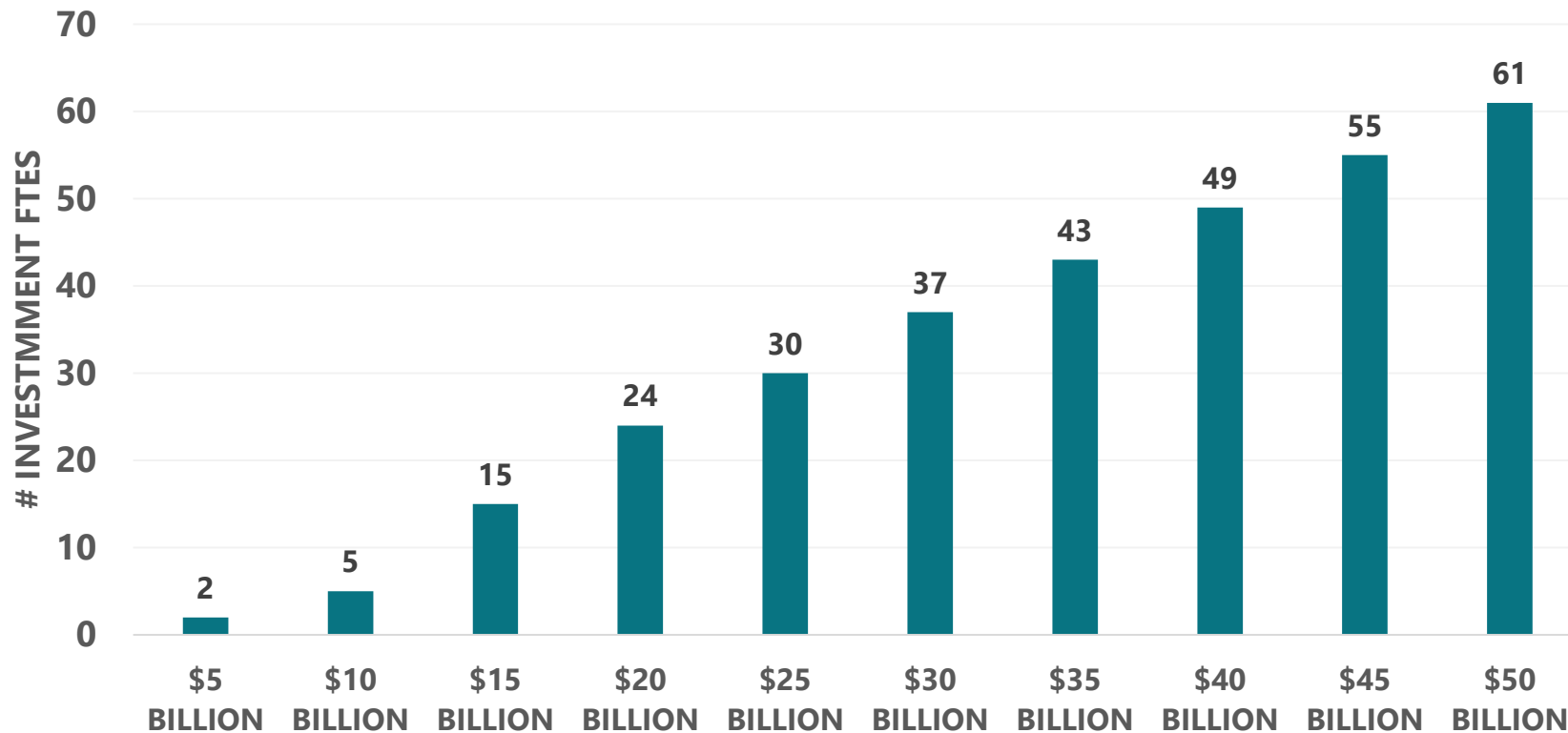
July 27, 2022

NORTH
Dakota
Be Legendary.

Retirement & Investment

STAFF LEVELS GROW WITH ASSETS UNDER MANAGEMENT

INVESTMENT FTEs BY AUM¹



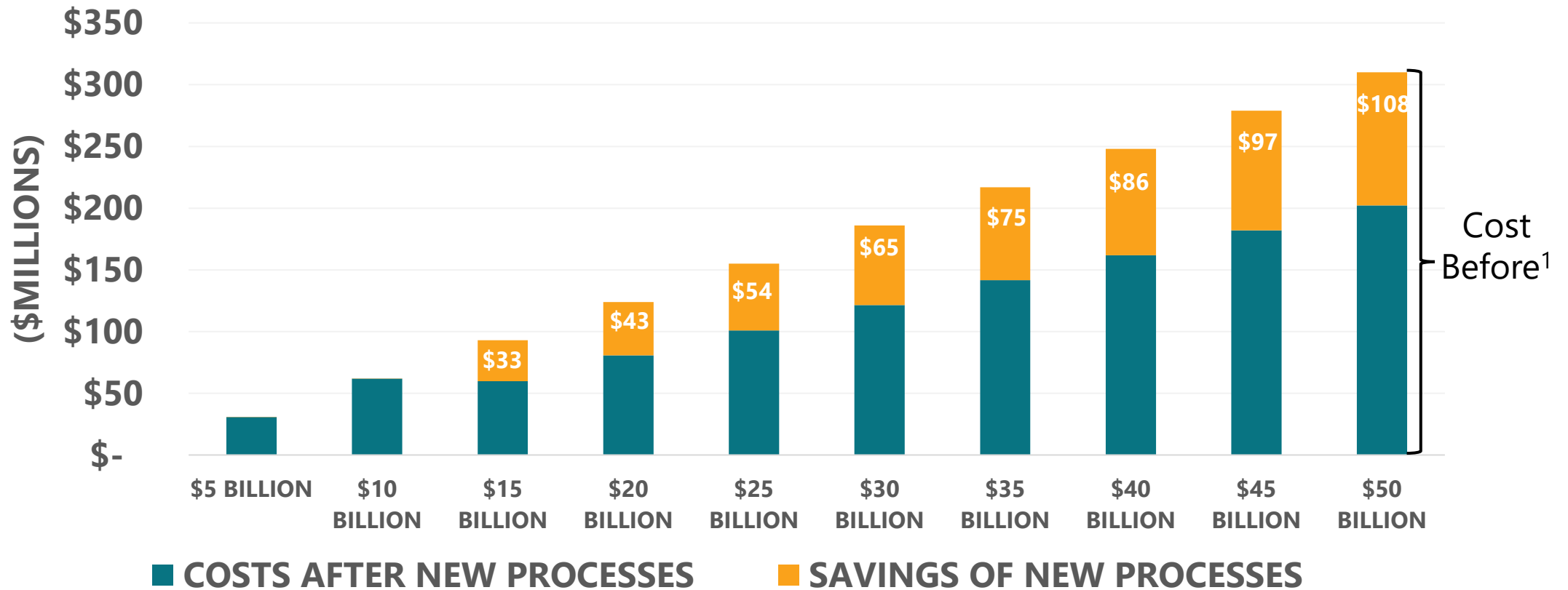
- DIVISION OF LABOR/FOCUS
- INCREASED EXPERTISE
- REDUCED COST PER AUM
- NEW FUNCTIONS AND CAPABILITIES
- NEW SPECIALIZED INVESTMENT PROCESSES
- INCREASED RETURN/RISK

1. Based on CEM Benchmarking Study – Assumes mostly external management for assets less than \$10 billion and 50% internal management for assets greater than \$10 billion

THERE ARE SIGNIFICANT COST AND RETURN ENHANCEMENTS WITH NEW INVESTMENT PROCESSES

Illustration

ESTIMATED COST SAVINGS PER YEAR FROM NEW INVESTMENT PROCESSES



1. Estimation: Assumes \$250K cost per investment professional, \$300 K for each \$5 Billion in AUM for infrastructure, 50% of assets managed internally based on IG FI and Domestic Large Cap equities and nets returns on cash when a liquidity overlay is in place. The mix of internally managed strategies likely would be different in practice when larger AUM is being managed.

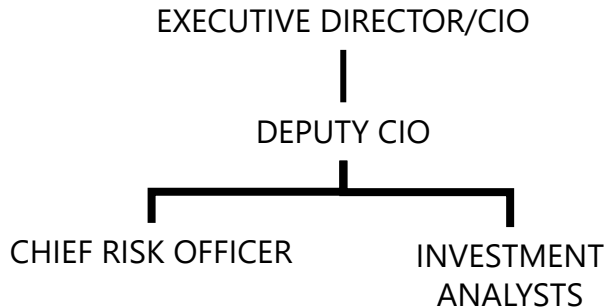
TALENT MANAGEMENT IS AN IMPORTANT CAPABILITY FOR UNLOCKING INVESTMENT RESULTS

- STRUCTURE THE ORGANIZATION FOR COLLABORATION AND KNOWLEDGE DEVELOPMENT
- ATTRACT GREAT TALENT
- DEVELOP STAFF TO GROW AND EXCEL
- MOTIVATE STAFF TO PERFORM WELL

STRUCTURE EVOLVES AS CAPABILITY EVOLVES (Organization Archetypes)

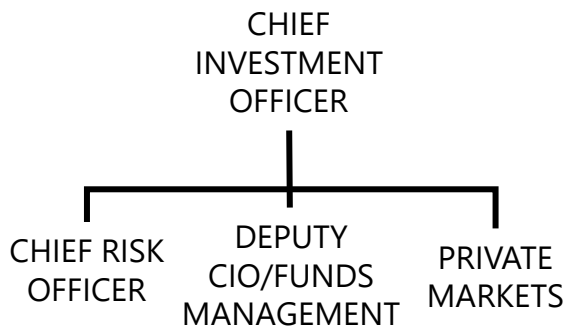
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PROCUREMENT AND IMPLEMENTATION



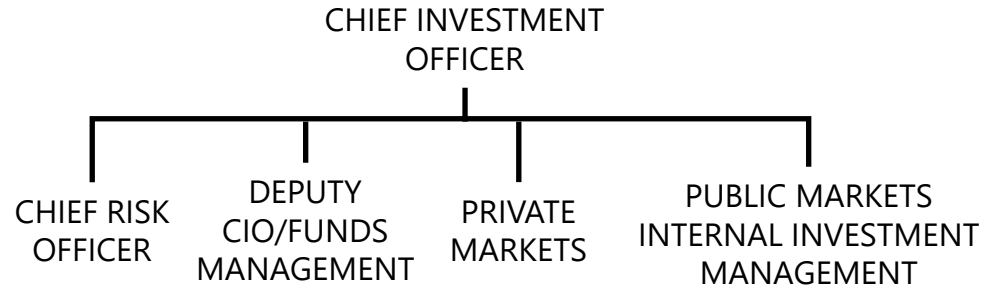
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SELECTION AND PORTFOLIO STRUCTURE



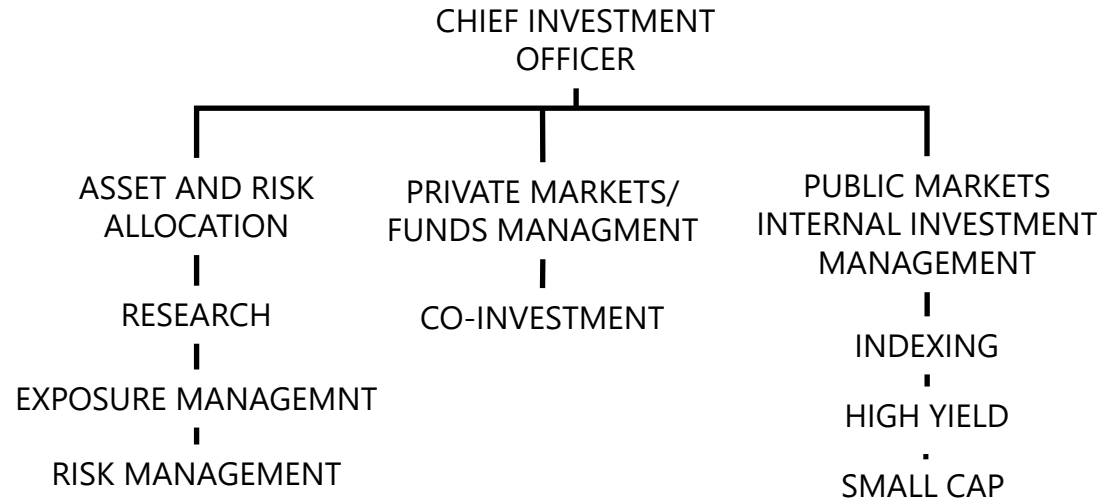
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ADVANCED FUNDS MANAGEMENT



4

ASSET AND RISK ALLOCATION/ ACTIVE RETURN OPTIMIZATION



- INCREASING INVESTMENT FOCUS
- INCREASING ANALYST DRIVEN CULTURE
- INCREASING KNOWLEDGE/ COLLABORATION
- INCREASING SPECIALIZATION
- INCREASING SOPHISTICATION
- INCREASING FUND LEVEL/PORTFOLIO LEVEL HARMONIZATION
- INCREASING RISK MANAGEMENT ORIENTATION
- INCREASED RETURN/RISK

TYPICAL INVESTMENT MANAGEMENT ROLES

ROLE	DESCRIPTION
CHIEF INVESTMENT OFFICER	<ul style="list-style-type: none"> • VISIONS AND LEADS INVESTMENT STRATEGY, EXECUTION, ORGANIZATION DEVELOPMENT, TALENT MANAGEMENT AND STAKEHOLDER MANAGEMENT
DEPUTY CIO	<ul style="list-style-type: none"> • ASSISTS WITH VISIONING AND LEADING INVESTMENT STRATEGY AND EXECUTION; IS BACK-UP TO CIO; OFTEN RESPONSIBLE FOR FOCUSED AREA OF INVESTMENT ORGANIZATION
HEAD OF/MANAGING DIRECTOR	<ul style="list-style-type: none"> • VISIONS AND LEADS INVESTMENT STRATEGY, EXECUTION AND ORGANIZATION DEVELOPMENT FOR FOCUSED AREA; WORKS WITH SENIOR TEAM TO VISION AND LEAD HIGH LEVEL INVESTMENT STRATEGY AND EXECUTION
CHIEF RISK OFFICER	<ul style="list-style-type: none"> • IN INVESTMENT ORGANIZATION: DEVELOPS FRAMEWORK, TOOLS AND EXECUTION OF RISK MANAGEMENT CONTROLS AND ACTIVE RISK MANAGEMENT, PARTICIPATES IN INVESTMENT DECISIONS; AT THE ENTERPRISE LEVEL: ALSO RESPONSIBLE FOR OPERATIONS RISK
PORTFOLIO MANAGER	<ul style="list-style-type: none"> • DEVELOPS AN INVESTMENT STRATEGY FOR A SPECIFIC ASSET CLASS AND SUB-ASSET CLASS MANADATE; HIRES AND DEVELOPS A TEAM OF ANALYSTS TO SELECT SECURITIES/DEVELOP INVESTMENT METHODOLOGY, MANAGE THE DEVELOPMENT OF THE INVESTMENT PROCESS AND TOOLS, INVESTS FUNDS.
RESEARCHER	<ul style="list-style-type: none"> • PROVIDES MACRO-ECONOMIC, AND INDUSTRY, ASSET CLASS SPECIFIC INSIGHTS WITH COMPREHENSIVE QUALTATIVE AND QUANTIATIVE RESEARCH AND ANALYSIS. ASSISTS PORTFOLIO MANAGERS WITH UNIQUE MARKET INSIGHTS
ANALYST	<ul style="list-style-type: none"> • SUPPORTS PORTFOLIO MANAGERS BY RESEARCHING SPECIFIC INVESTMENTS AND INVESTMENT METHODOLOGIES THAT ARE SELECTED AND WEIGHTED IN A PORTFOLIO FOR OPTIMAL RETURN AND RISK.

FUNCTIONS OFTEN COMBINED AND SIMILAR

ATTRACT GREAT TALENT

TYPICAL GREAT INVESTOR

- INTELLECTUALLY CURIOUS
- DIVERSE INTERESTS
- CREATIVE ANALYTICS
- PERFORMANCE DRIVEN
- ABLE TO CREATE A GOOD NARRATIVE
- TRUTH SEEKERS/LEARNERS
- OBSESSED WITH VALUE CREATION
- PATTERN RECOGNIZERS
- MORE CONCERNED WITH GO THAN SHOW
- COLLEGIAL BUT NOT POLITICAL
- DEDICATED TO THEIR CRAFT
- KNOW WHEN THIS TIME ITS DIFFFERENT
- INSATIABLE DESIRE FOR KNOWLEDGE

INTROVERT, INTUITIVE, THINKING, JUDGING

ATTRACT A GREAT INVESTOR

- TEAM OF MANY DIFFERENT BACKGROUNDS
- PROVIDE A LEARNING ENVIRONMENT
- ENABLE WITH TOOLS AND INFORMATION SOURCES
- A CLEAR CULTURE OF MERIT, EXCELLENCE, AND ANALYSIS
- LOW ON POLITICS HIGH ON INVESTMENT PERFORMANCE
- CLEAR PROMTION CRITERIA
- MARKET BASED COMPENSATION/ MERIT BASED COMPENSATION
- REPUTATION FOR GROWING PEOPLE
- SOME INTELECTUAL FREEDOM
- ENABLE EXPLORATION WITH BEST IDEAS PORTFOLIO

COLLEGIAL ORGANIZATION WITH HIGH EXPECTATIONS

DEVELOP GREAT TALENT

CHIEF INVESTMENT OFFICER

- NETWORK WITH OTHER ORGANIZATION'S LEADERS, HAVE CONVERSATIONS WITH GOVERNANCE LEADERS, SEARCH FOR ORGANIZATION AND STRATEGY OPPORTUNITIES, DEVELOP NEXT LEVEL

HEAD/MD/DEPUTY CIO/CRO

- ATTEND LEADERSHIP TRAINING, PARTICIPATE IN TALENT MANAGEMENT, VISION DEVELOPMENT AND ORGANIZATION STRATEGY, OBSERVE CIO, DEVELOP AREA VISION AND STRATEGY, LEAD EXECUTION

PORTFOLIO MANAGER

- SELECT INVESTMENTS AND PROCESS ENHANCEMENTS TO BE INCORPORATED INTO PORTFOLIO, OBSERVE MD'S, RESPONSIBLE FOR AND MANAGE PORTFOLIO CONSTRUCTION-RETURN/RISK, DEVELOP PORTFOLIO MANAGEMENT METHODOLOGIES AND TOOLS, COACH INVESTMENT ANALYSTS, ATTEND MANAGEMENT AND LEADERSHIP TRAINING

RESEARCHER

- DEVELOP ASSIGNED RESEARCH TO DETERMINE NEW RESEARCH AGENDAS AND THEMES, ATTEND CONFERENCES, AND SEMINARS

SENIOR ANALYST

- HAVE CFA, CAIA, FRM, CIPM, ETC., CONDUCT ANALYSIS ON A SUB-SET OF SECURITIES OR PARTICULAR QUANTITATIVE PROCESSES, OBSERVE PORTFOLIO MANAGER'S DECISION PROCESS MAKE RECOMMENDATIONS FOR INDIVIDUAL INVESTMENTS OR PROCESS ENHANCEMENTS, DEVELOP METHODOLOGY AND TOOLS, COACH ANALYSTS

INVESTMENT ANALYST

- PREPARE PERFORMANCE AND RISK REPORTS, COLLECT, COLLATE AND ANALYZE DATA, OBSERVE SENIOR ANALYST'S DECISION PROCESS; HELP DEVELOP INVESTMENT TOOLS, OBTAIN CREDENTIALS

TRADITIONAL SCHOOLING

- ACCOUNTING, FINANCE, ECONOMICS, LIBERAL ARTS, MBA, MS FINANCE; SEE SIMPLE MODELS AND THEORETICAL CONCEPTS



TALENT
MANAGEMENT
COUNCIL

ACTIVITIES

- REVIEW AND CALIBRATE PERFORMANCE
- SET PERFORMANCE HURDLES
- SET PROMOTION CRITERIA
- IDENTIFY AND APPROVE PROMOTION CANDIDATES
- APPROVE QUALITATIVE PERFORMANCE COMPENSATION
- PROVIDE CROSS ORGANIZATION DEVELOPMENT OPPORTUNITIES
- MANAGE TALENT DEVELOPMENT
- IDENTIFY TRAINING OPPORTUNITIES
- HARMONIZE ANALYST PROCESSES

DEVELOPMENT OPPORTUNITIES

- WHITE PAPERS/INDEPENDENT RESEARCH
- BEST IDEAS PORTFOLIO
- INFRASTRUCTURE/CROSS PORTFOLIO METHODOLOGY PROJECTS
- PERFORMANCE IMPROVEMENT PROPOSALS
- INTRA AND INTER – TEAM COLLABORATION
- STRATEGY, PORTFOLIO AND FUND LEVEL PERFORMANCE
- SHARE OUTS
- ORGANIZE EDUCATION SESSIONS

MOTIVATE STAFF TO PERFORM WELL

QUALITATIVE

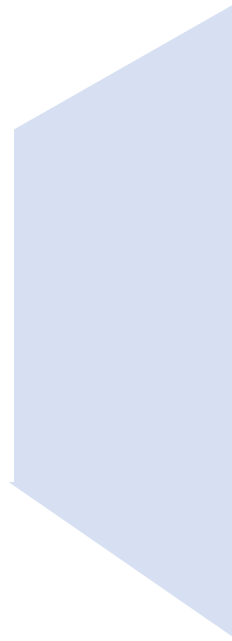
- IMPORTANT MISSION BASED WORK
- A MERIT BASED CULTURE AND COLLEGIALITY
- AN ORGANIZATION THAT LISTENS
- A COMBINATION OF TEAM AND INDIVIDUAL OPPORTUNITIES TO EXCEL AND BE RECOGNIZED
- EDUCATIONAL, LEARNING AND DEVELOPMENT OPPORTUNITIES
- PROMOTION OPPORTUNITIES/INCREASED RESPONSIBILITY
- RESOURCES AND TOOLS TO DO THE JOB
- FLEXIBLE WORK ENVIRONMENT
- HIGH PERFORMING TEAMS
- ENJOYABLE WORK ENVIRONMENT AND GEOGRAPHIC LOCATION

QUANTITATIVE

- MARKET BASED SALARY
- TOTAL REWARDS INCLUDING BENEFITS
- MERIT BASED QUALITATIVE INCENTIVE COMPENSATION
- MERIT BASED QUANTITATIVE COMPENSATION

MARKET BASED SALARY

- MCGLAGAN
- MERCER
- CBIZ



- ROLE
- FUND TYPE
- FUND SIZE
- GEOGRAPHY



- SALARY
- TOTAL CASH
- QUARTILE

INCETIVE COMPENSATION

100% QUALITATIVE	CRITERIA	100% QUANTITATIVE
100% INDIVIDUAL	SOURCE OF PERFORMANCE	100% TEAM
STRATEGY	LEVEL OF PERFORMANCE	FUND
1 YEAR	MIX OF TIME HORIZON OF CALCULATION	5 YEAR
40% OF SALARY	EXPECTED PAYOUT	60% OF SALARY
50% OF SLARY	MAX PAYOUT (MAY VARY BY LEVEL)	200% OF SALARY

INCETIVE COMPENSATION CRITERIA

QUALITATIVE

- SPECIAL PROJECTS
- IMPROVEMENT PROPOSALS
- COACHING AND MENTORING
- RESEARCH
- COLLABORATION AND COLLEGIALITY
- FUND LEVEL PERFORMANCE

QUANTITATIVE

- HURDLE RATE BASED ON AN INVESTABLE BENCHMARK
- MIX OF SHORT-TERM AND LONGER-TERM PERFORMANCE (I.E. 30% 1 YEAR/70% FIVE YEAR)
- MIX OF QUALITATIVE AND QUANTITATIVE (I.E. 30% QUALITATIVE /70% QUANTITATIVE)
- MIX OF TARGET AND STRETCH COMPENSATION (I.E. 60% TARGET/ 40% STRETCH – MORE DIFFICULT) – MULTIPLE HURDLES
- % OBTAINED PER UNIT OF OUT-PERFORMANCE, POTENTIAL DEFERRAL
- MAX, AND MIX BY ROLE AND ASSET CLASS

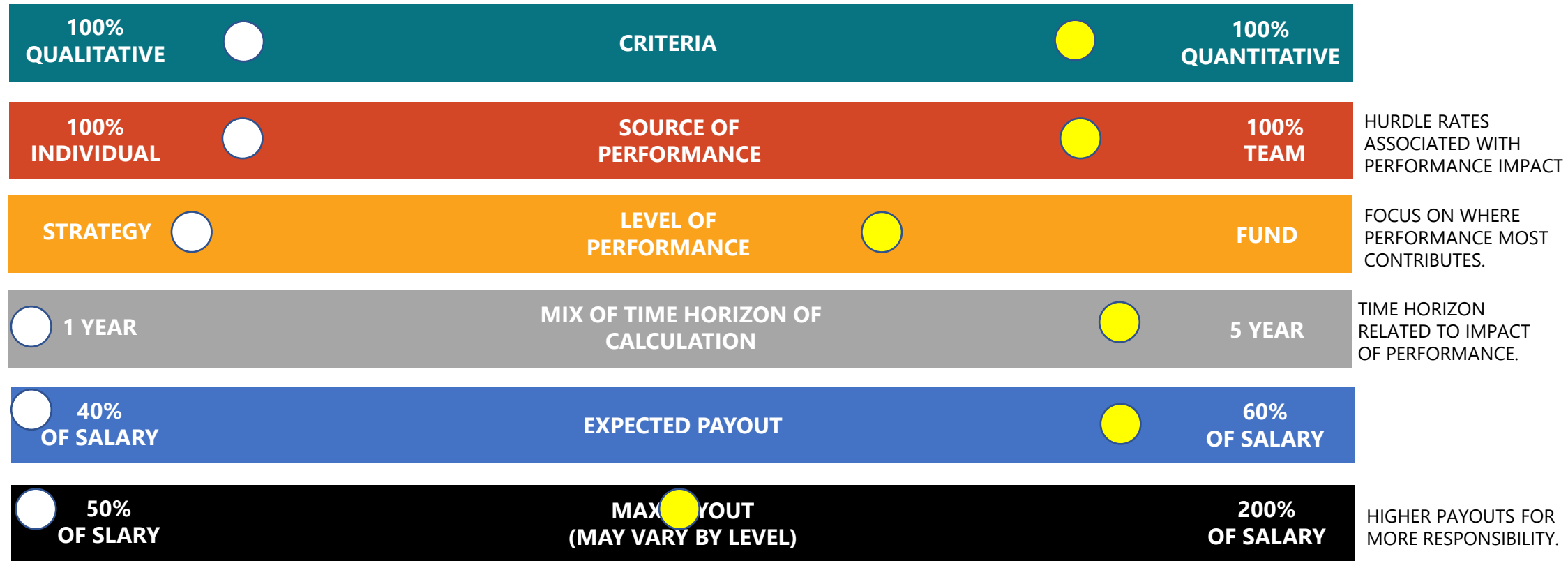
CASE STUDY #1 – ALL QUALITATIVE

★ 100% QUALITATIVE	CRITERIA	100% QUANTITATIVE
100% INDIVIDUAL	SOURCE OF PERFORMANCE	★ 100% TEAM
STRATEGY	LEVEL OF PERFORMANCE	FUND ★
★ 1 YEAR	MIX OF TIME HORIZON OF CALCULATION	5 YEAR
40% OF SALARY	EXPECTED PAYOUT	60% OF SALARY ★
50% OF SLARY	MAX PAYOUT (MAY VARY BY LEVEL)	200% OF SALARY ★



TOTAL FUND EXCESS RETURN DRIVES SIZE OF BONUS POOL

TEAM MEMBERS RANK EACH OTHER FOR COLLABORATION AND SUPPORT. MANAGERS PROVIDE HIGHER RANKED EMPLOYEES A BIGGER PAYOUT. VERY SUBJECTIVE BUT REINFORCES COLLABORATION AND TEAM-WORK.

CASE STUDY #2 – MIX OF QUANTITATIVE AND QUALITATIVE VARIES BY LEVEL



INCENTIVE COMP IS A MIXTURE OF QUALITATIVE AND QUANTITATIVE COMPENSATION. A JUNIOR PERSON'S COMP IS ALL QUALITATIVE AND SENIOR'S COMP LEANS TOWARDS QUANTITATIVE. A JUNIOR PERSON'S INCENTIVE COMP IS A SMALLER % OF SALARY THAN A SENIOR PERSON'S COMP (I.E. JUNIOR – 25% MAX; SENIOR 100% MAX)

-  JUNIOR TEAM MEMBER
-  SENIOR TEAM MEMBER

CASE STUDY #3 – COMPLEX

100% QUALITATIVE	CRITERIA	100% QUANTITATIVE
100% INDIVIDUAL	SOURCE OF PERFORMANCE	100% TEAM
STRATEGY	LEVEL OF PERFORMANCE	FUND
1 YEAR	MIX OF TIME HORIZON OF CALCULATION	5 YEAR
50% OF SALARY	EXPECTED PAYOUT	60% OF SALARY
50% OF SALARY	MAX PAYOUT (MAY VARY BY LEVEL)	20% OF SALARY

BASIC FORMULA (PORTFOLIO MANAGER)

550 UNITS	TOTAL CASH COMPENSATION	MCGLAGAN UNIVERSE MEDIAN (I.E INSURANCE OR ALL)
55 UNITS	-GEOGRAPHY DISCOUNT	EXAMPLE 10% DISCOUNT FOR COST OF LIVING
495 UNITS	CASH COMP COMPARABLE	
60%	X UNIVERSE NORMALIZATION %	EXAMPLE 60%: BROAD UNIVERSE INCLUDING INVESTMENT MANAGERS
300 UNITS	EXPECTED CASH COMP	
71%	X SALARY %	71% OF EXPECTED CASH COMP (40% BONUS OF SALARY EXPECTATION)
215 UNITS	SALARY	
40%	X EXPECTED BONUS %	40% EXPECTED BONUS
85 UNITS	BONUS	
700 UNITS	MAX BONUS	200% TIMES SALARY

MIX OF COMPENSATION (PORTFOLIO MANAGER)

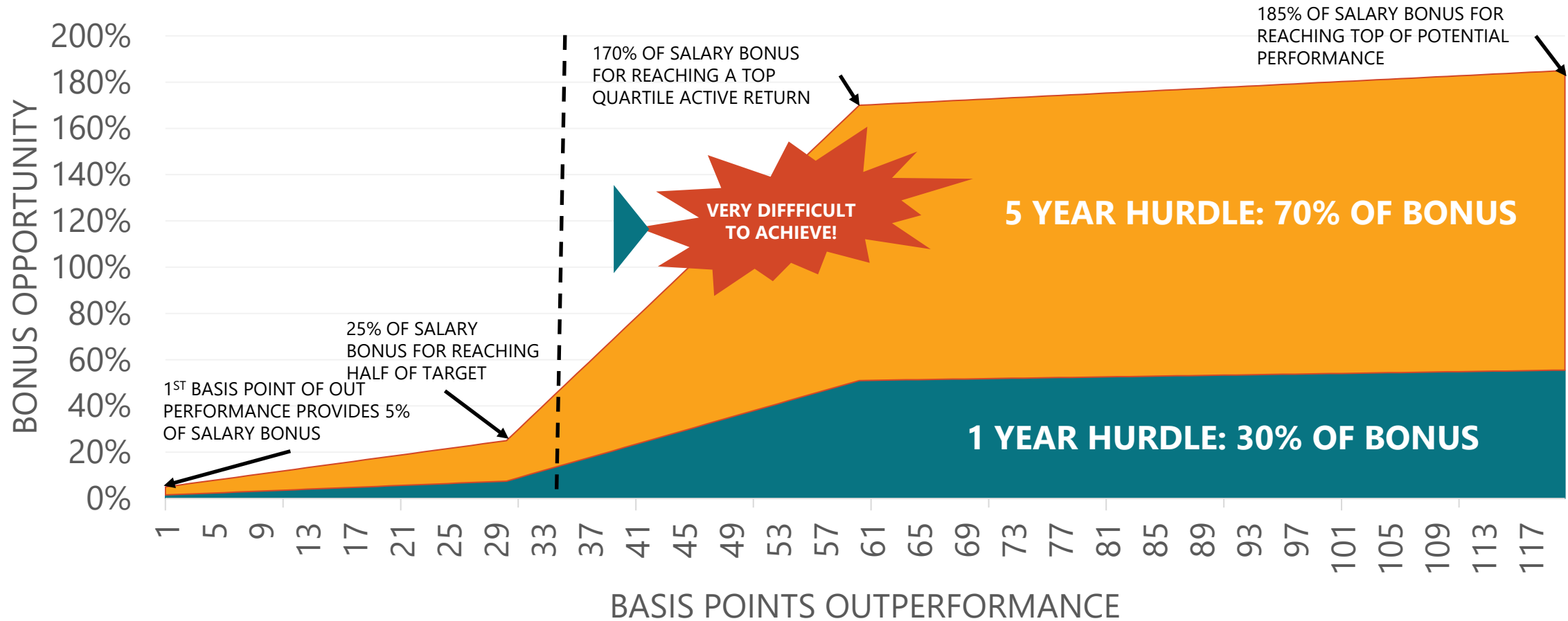
QUALITATIVE

- SPECIAL PROJECTS
- IMPROVEMENT PROPOSALS
- COACHING AND MENTORING
- RESEARCH
- COLLABORATION AND COLLEGIALLY
- FUND LEVEL PERFORMANCE

QUANTITATIVE

- HURDLE RATE BASED ON AN INVESTABLE BENCHMARKS
- MIX OF SHORT-TERM AND LONGER-TERM PERFORMANCE (I.E. 30% 1 YEAR/70% FIVE YEAR)
- 15% QUALITATIVE
- 5% FOR 1 BASIS POINT OUT PERFORMANCE ON EITHER 1 YEAR OR FIVE YEAR
- MAX 120 BP OUT PERFORMANCE, EXPECTED 30 BP; DESIRED 60 BP
- MAY DEFER BONUS IF FUND RETURN LESS THAN ZERO

QUANTITATIVE PORTION OF BONUS (PORTFOLIO MANAGER)



■ ONE YEAR PERFORMANCE OPPORTUNITY

■ 5 YEAR PERFORMANCE OPPORTUNITY