

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**BOARD OF RETIREMENT  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CA 92701**

**PERSONNEL COMMITTEE MEETING**

**Monday, August 1, 2022  
10:00 a.m.**

**Members of the Committee**

Chris Prevatt, Chair  
Charles Packard, Vice Chair  
Richard Oates  
Shawn Dewane

Pursuant to Assembly Bill 361, signed into law on September 16, 2021 as urgency legislation; Governor Newsom’s Proclamation of a State of Emergency on March 4, 2020, which Proclamation is still in effect; and Board of Retirement Resolution 2022-07, this meeting will be conducted by video/teleconference, in compliance with Government Code section 54953 as amended by Assembly Bill 361. In addition, members of the Board and the public are welcome to participate in the meeting via Zoom from the OCERS Boardroom located at 2223 E. Wellington Ave., Santa Ana, CA. However, none of the other locations from which the Board members participate by teleconference will be open to the public.

Members of the public who wish to observe and/or participate in the meeting may do so (1) from the OCERS Boardroom or (2) via the Zoom app or telephone from any location. Members of the public who wish to provide comment during the meeting may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing \* 9 on your telephone keypad. Members of the public who participate in the meeting from the OCERS Boardroom and who wish to provide comment during the meeting may do so from the podium located in the OCERS Boardroom.

<b>OCERS Zoom Meeting Video/Teleconference Information</b>	
<p><b>Join Using Zoom App (Video &amp; Audio)</b></p> <p><a href="https://ocers.zoom.us/j/87582965865">https://ocers.zoom.us/j/87582965865</a></p> <p><b>Meeting ID: 875 8296 5865</b> <b>Passcode: 925391</b></p> <p>Go to <a href="https://www.zoom.us/download">https://www.zoom.us/download</a> to download Zoom app before meeting</p> <p>Go to <a href="https://zoom.us">https://zoom.us</a> to connect online using any browser.</p>	<p><b>Join by Telephone (Audio Only)</b></p> <p>Dial by your location</p> <ul style="list-style-type: none"> <li>+1 669 900 6833 US (San Jose)</li> <li>+1 346 248 7799 US (Houston)</li> <li>+1 253 215 8782 US (Tacoma)</li> <li>+1 312 626 6799 US (Chicago)</li> <li>+1 929 436 2866 US (New York)</li> <li>+1 301 715 8592 US (Germantown)</li> </ul> <p><b>Meeting ID: 875 8296 5865    Passcode: 925391</b></p>
<p>A <a href="#">Zoom Meeting Participant Guide</a> is available on OCERS website <a href="#">Board &amp; Committee meetings page</a></p>	

**AGENDA**

The Personnel Committee of the Orange County Board of Retirement welcomes you to this meeting. This agenda contains a brief general description of each item to be considered. The Committee may take action on any item included in the agenda; however, except as otherwise provided by law, no action shall be taken on any item not appearing on the agenda. The Committee may consider matters included on the agenda in any order, and not necessarily in the order listed.

In addition, public comment on matters listed on this agenda will be taken at the time the item is addressed.

**OPEN SESSION**

**CALL MEETING TO ORDER AND ROLL CALL**

**PLEDGE OF ALLEGIANCE**

**PUBLIC COMMENTS**

At this time, members of the public may comment on (1) matters not included on the agenda, provided that the matter is within the subject matter jurisdiction of the Board; and (2) any matter appearing on the Consent Agenda. **Members of the public who wish to provide comment at this time may do so by “raising your hand” in the Zoom app, or if joining by telephone, by pressing \* 9 on your telephone keypad.** Persons attending the meeting in person and wishing to provide comment at this time should fill out a speaker card located at the back of the Boardroom and deposit it in the Recording Secretary’s box located near the back counter. When addressing the Board, please state your name for the record prior to providing your comments. Speakers will be limited to three (3) minutes.

In addition, public comment on matters listed on this agenda will be taken at the time the item is addressed.

**CONSENT AGENDA**

All matters on the Consent Agenda are to be approved by one action unless a Committee Member requests separate action on a specific item.

**C-1 COMMITTEE MEETING:**

**Approval of Meeting and Minutes**

Personnel Committee Meeting

July 14, 2022

**Recommendation:** Approve minutes.

**ACTION ITEMS**

**NOTE:** Public comment on matters listed in this agenda will be taken at the time the item is addressed, prior to the Board’s discussion of the item. **Members of the public who wish to provide comment in connection with any matter listed in this agenda may do so by “raising your hand” in**

Orange County Employees Retirement System  
August 01, 2022  
Personnel Committee Meeting - Agenda

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**the Zoom app, or if joining by telephone, by pressing \* 9, at the time the item is called. Persons attending the meeting in person and wishing to provide comment on a matter listed on the agenda should fill out a speaker card located at the back of the Boardroom and deposit it in the Recording Secretary's box located near the back counter.**

**A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

**A-2 INCENTIVE COMPENSATION POLICY**

*Presentation by Steve Delaney, CEO, OCERS*

**Recommendation:** Request the OCERS Board approve the proposed Incentive Compensation policy.

**INFORMATION ITEMS**

Each of the following informational items will be presented to the Committee for discussion.

**None**

**WRITTEN REPORTS**

The following are written reports that will not be discussed unless a member of the Board requests discussion.

**None**

**COMMITTEE MEMBER COMMENTS**

**CHIEF EXECUTIVE OFFICER/STAFF COMMENTS**

**COUNSEL COMMENTS**

**ADJOURNMENT**

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**NOTICE OF NEXT MEETINGS**

**GOVERNANCE COMMITTEE MEETING**

**August 3, 2022**

**9:00 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**DISABILITY COMMITTEE MEETING**

**August 15, 2022**

**8:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**REGULAR BOARD MEETING**

**August 15, 2022**

**9:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**INVESTMENT COMMITTEE MEETING**

**August 24, 2022**

**9:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

**PERSONNEL COMMITTEE MEETING**

**August 31, 2022**

**9:30 A.M.**

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM**

**2223 E. WELLINGTON AVENUE, SUITE 100**

**SANTA ANA, CA 92701**

Orange County Employees Retirement System  
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*All supporting documentation is available for public review in the retirement office during regular business hours, 8:00 a.m. – 5:00 p.m., Monday through Thursday and 8:00 a.m. – 4:30 p.m. on Friday.*

It is OCERS' intention to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or participant at this meeting, you will need any special assistance beyond that normally provided, OCERS will attempt to accommodate your needs in a reasonable manner. Please contact OCERS via email at [adminsupport@ocers.org](mailto:adminsupport@ocers.org) or call 714-558-6200 as soon as possible prior to the meeting to tell us about your needs and to determine if accommodation is feasible. We would appreciate at least 48 hours notice, if possible. Please also advise us if you plan to attend meetings on a regular basis.

**ORANGE COUNTY EMPLOYEES RETIREMENT SYSTEM  
BOARD OF RETIREMENT  
2223 E. WELLINGTON AVENUE, SUITE 100  
SANTA ANA, CALIFORNIA**

**PERSONNEL COMMITTEE MEETING  
Thursday, July 14, 2022  
1:00 PM**

**Members of the Committee**

Chris Prevatt, Chair  
Charles Packard, Vice Chair  
Richard Oates  
Shawn Dewane

**MINUTES**

Chair Prevatt called the meeting to order at 1:02 p.m.

Recording Secretary administered the Roll Call attendance.

Attendance was as follows:

Present via Zoom video teleconference pursuant to Executive Order N-29-20 issued by Governor Newsom on March 17, 2020:

Present: Chris Prevatt, Chair; Richard Oates; Shawn Dewane

Absent: Charles Packard, Vice Chair

Also

Present: Steve Delaney, Chief Executive Officer; Brenda Shott, Assistant CEO, Internal Operations; Suzanne Jenike, Assistant CEO, External Operations; Gina Ratto, General Counsel; Molly Murphy, Chief Investment Officer; Cynthia Hockless, Director of Human Resources; David Kim, Director of Internal Audit; Jeff Lamberson; Member Services Director; Anthony Beltran, Visual Technician; and Brittany Cleberg, Investment Staff Specialist; Carolyn Nih, Recording Secretary

Guests via

Zoom: Susie Baker, SPHR, County of Orange  
Allan Emkin, Meketa

**PUBLIC COMMENTS**

**None**

**CONSENT AGENDA**

**MOTION** by Dewane, **seconded** by Oates, to approve staff's recommendation on all of the following items on the Consent Agenda:

Orange County Employees Retirement System  
July 14, 2022  
Personnel Committee Meeting - Minutes

**C-1 COMMITTEE MEETING:**

Personnel Committee Meeting

April 5, 2022

**Recommendation:** Approve minutes.

The motion passed **unanimously**, pursuant to a Roll Call vote, as follows:

**AYES**

**NAYS**

**ABSTAIN**

**ABSENT**

Mr. Dewane  
Mr. Oates  
Chair Prevatt

**ACTION ITEMS**

**A-1 INDIVIDUAL ACTION ON ANY ITEM TRAILED FROM THE CONSENT AGENDA**

No items were trailed from the Consent Agenda.

**A-2 MID-YEAR STAFFING ADJUSTMENTS**

Presentation by Steve Delaney, CEO, OCERS

After discussion by the Committee and direction to change the staff recommendation from two (2) limited term Internal Auditor positions to two (2) permanent Internal Auditor positions to ensure higher quality applicants, **MOTION** by Oates, **seconded** by Dewane, to approve and recommend the Board of Retirement approve the following items at the July 18, 2022, Board meeting:

1. Drop a Retirement Benefits Program Supervisor position (currently vacant) and add an additional Member Services Director position
2. Add a new Legal Analyst classification
3. Add an additional Investment Analyst position
4. Add two (2) permanent Internal Auditor positions

The motion passed **unanimously**, pursuant to a Roll Call vote, as follows:

**AYES**

**NAYS**

**ABSTAIN**

**ABSENT**

Mr. Dewane  
Mr. Oates  
Chair Prevatt

**INFORMATION ITEMS**

The following informational items were presented to the Committee:

**I-1 OCERS COUNTY EMPLOYEES TO OCERS DIRECT STATUS UPDATE**

Orange County Employees Retirement System  
July 14, 2022  
Personnel Committee Meeting - Minutes

Presentation by Cynthia Hockless, Director of Human Resources, OCERS

**I-2 INVESTMENT TEAM INCENTIVE PAY PROGRAM**

Presentation by Steve Delaney, CEO, OCERS

The Committee provided staff direction to proceed with developing the Investment Team Incentive Pay Program for the full team with a 50% payout after Year 1 with 50% paid after Year 2 (prior to March 15 for IRS purposes). The Committee directed that the incentive program to begin 12/31/2022 with a three-year lookback.

The basic eligibility requires the team member achieve “meets expectations” to participate. The team member must be employed for the entire incentive period and must be employed at time of payment or forfeiture. The incentive program will cover the full investment team which includes analysts, officers, directors, and CIO. Maximum percentage of base salary will be tiered by position with a target percentage determination. The program design is 80% quantitative and 20% qualitative. The benchmark is OCERS’ total fund plan benchmark.

**I-3 OCERS INCENTIVE CERTIFICATION PROGRAM - UPDATE**

Presentation by Steve Delaney, CEO, OCERS and Brenda Shott, Assistant to CEO of Internal Operations, OCERS

**WRITTEN REPORTS**

The following are written reports that will not be discussed unless a member of the Board requests discussion.

**None**

**COMMITTEE MEMBER/CEO/COUNSEL/STAFF COMMENTS**

None

The meeting **ADJOURNED** at 2:38 p.m.

Submitted by:

Approved by:

\_\_\_\_\_  
Steve Delaney  
Secretary to the Committee

\_\_\_\_\_  
Chris Prevatt  
Chair





## Memorandum

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**DATE:** August 1, 2022  
**TO:** Members of the Personnel Committee  
**FROM:** Steve Delaney, Chief Executive Officer  
**SUBJECT:** **INCENTIVE COMPENSATION POLICY**

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### Recommendation

Request the OCERS Board approve the proposed Incentive Compensation policy.

### Background

The Personnel Committee met on July 14 and after viewing my presentation regarding a proposed Incentive Compensation Policy for the investment team (PowerPoint presentation attached), the committee made the following directives:

1. Apply the program to the entire OCERS direct investment team.
2. Provide a maximum % of Base Salary annual award tiered from 75% for the Chief Investment Officer down to 20% for an Investment Analyst.
3. Have the payout occur over two years, at 50% per year.
4. Begin the Incentive Compensation Policy as of December 31, 2022, based on a rolling look back of the returns for past three years (2020-22).
5. Use the standard OCERS portfolio benchmark for incentive compensation determination purposes.

I was then instructed to craft the above into a written policy for consideration by the Personnel Committee on August 1, with the goal of carrying the policy on to the OCERS Board for approval on August 15, 2022.

Attachment

### Submitted by:



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Steve Delaney  
Chief Executive Officer



# **Investment Team Incentive Pay Program**

# Executive Summary

- The Personnel Committee has determined a need and has decided to evaluate potential options for incentive compensation for Investment Department personnel
- This process will include:
  - Setting of goals for an incentive pay program
  - Determination of covered or eligible employees and their respective maximum % of base that could be paid as incentive pay
  - Approving a policy for incentive pay (new or amending the current compensation policy to include a new section or appendix)
  - Approving the design of the program including the metrics by which covered/eligible employees will be measured for success and subsequently paid

# Rationale

- OCERS' investment program has grown in size, stature and complexity, OCERS must ensure that it can continue to recruit and retain top talent for the investment department.
- Specifically, over the past decade, OCERS has become a top allocator in private markets which often requires deep investment networks and stable investment teams to access top tier General Partners and funds.
- Over the next decade, OCERS is predicted to become one of the top 50 public pension defined benefit funds in the US by AUM.
- Per a recent NASRA survey, 27 of 69 respondents (38%) offered incentive pay to the pension system Chief Investment Officer, with many assumed to offer incentive pay to other eligible investment employees.
- With historically tight labor markets, recruiters are actively pulling out top talent from pension systems and new job applicants often have multiple offers to consider.
- Many investment professionals are attracted to or accustomed to a partial variable pay-for-performance model (which they view as favorable as it is deemed more merit based)

# Personnel Committee Implementation Decisions

- Program Goals\*
  - See slide #11
- Basic Eligibility\*
  - Must achieve “meets expectations” to participate
  - Must be employed for entire incentive period
  - Must be employed at time of payment or forfeiture
- Covered Employees: *Choose One*
  - Full Team: Analyst/Officer/Director/CIO\*
  - Officer/Director/CIO
  - Director/CIO
  - CIO

- Payout Scheme: *Choose One*
  - 100% after Year 1
  - 50% after Year 1 with 50% paid after Year 2 (prior to March 15 for IRS purposes)
- Maximum % of Base Salary\*
  - Tiered by position
  - Target % determination
- Program Design\*
  - 80% Quantitative
  - 20% Qualitative
- Benchmark\*
  - OCERS’ Total Fund Plan Benchmark

*\*recommended*

## Background

- A recent study published from the Wharton School at the University of Pennsylvania found that *top quartile pay* was a determining factor in hiring more talented CIOs and retaining that talent, correlating with higher portfolio returns.
- Attribution analysis of CIO pay showed a correlation to higher allocations to private equity and real estate, lower allocations to “lottery” stocks and better stock/manager selection.
- In summary, top performing CIOs have better access to private markets, resist the herd mentality and guide their portfolios to the more complex areas of the markets where expertise matters.

Source: Lu, Yan; Mullally, Kevin; and Ray, Sugata, "Paying for Performance in Public Pension Plans" (2022). Wharton Pension Research Council Working Papers. 727. [https://repository.upenn.edu/prc\\_papers/727](https://repository.upenn.edu/prc_papers/727)

# Defining OCERS' Peer Group and Top Quartile Pay

Peer Group
CalPERS
CalSTRS
LACERA
SFERS
<b>OCERS</b>
SDCERA
SBCERA
SCERA
CCCERA
County of Orange*

- Based on OCERS' CPS Study
- OCERS is the median for peer group pay
- Green denotes top quartile
- Blue denotes 2<sup>nd</sup> quartile
- Top quartile delineation sits between CalSTRS and LACERA
- Due to its proximity to LACERA, OCERS should want to compete for similar talent and would strive to retain said talent

*\*does not have applicable investment staff*



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# Proposed Bonus Incentive Schedule

Position	Maximum % of Base Salary	Target % of Base Salary @ 50%
Chief Investment Officer	75%	37.5%
<i>Deputy Chief Investment Officer*</i>		
Managing Director	45%	22.5%
Director of Investments	40%	20%
Senior Investment Officer	35%	17.5%
Investment Officer	30%	15%
Senior Investment Analyst	25%	12.5%
Investment Analyst	20%	10%

**Note:** *If the entire current OCERS' investment team earned the maximum % of base salary, incentive payout would equate to approximately \$700,000 for 2022, or approximately 0.3 bps of expense to the pension fund*

*\*possible future position*



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## 2022 Salary Range Comparison: LACERA vs. OCERS

LACERA		OCERS		
TITLE	SALARY RANGE	TITLE	SALARY RANGE	MAXIMUM SALARY + MAXIMUM PROPOSED BONUS
Finance Analyst I	\$87,520.32-\$114,786.60	Investment Analyst	\$79,885-\$115,833	\$138,999.60
Finance Analyst II	\$126,681.12-\$191,741.64	Senior Investment Analyst	\$99,341-\$153,823	\$192,278.75
Finance Analyst III	\$169,178.64-\$256,065.00	Investment Officer	\$123,286-\$191,094	\$248,422.20
Senior Investment Officer	\$225,932.88-\$341,967.00	Senior Investment Officer	\$142,473-\$220,833	\$298,124.55
Principal Investment Officer	\$280,675.80-\$424,824.48	Director of Investments	\$164,645-\$255,200	\$357,280.00
		Managing Director	\$204,538-\$317,034	\$459,699.30
Chief Investment Officer	\$402,946.32-\$609,890.52*	Chief Investment Officer	\$293,641-\$455,144	\$796,502.00

\*LACERA Board approved a CIO current base salary exception. 2022 CIO amended base salary is \$708,946 plus 17% cafeteria pay and \$7,200 transportation allowance. Total cash compensation is estimated to be approximately \$836,667.



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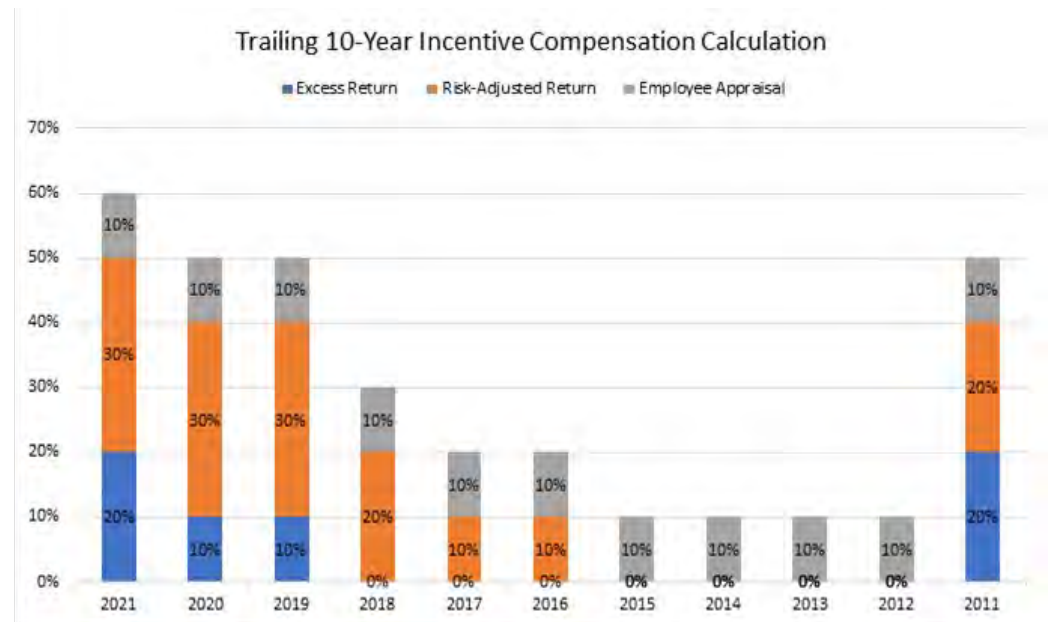
# Proposed Program Design

QUANTITATIVE COMPONENT (Rolling 3-year period, net of fees)	% of Incentive	% of Incentive
<b>Portfolio Excess Return vs Benchmark (Alpha)</b>		<b>0-50%</b>
0-25 bps	10%	
26-50 bps	+10%	
51-75 bps	+10%	
76-100 bps	+10%	
>101 bps	+10%	
<b>Risk Adjusted Return (Sharpe Ratio)</b>		<b>0-30%</b>
A) Portfolio Sharpe Exceeds Benchmark	10%	
B) Above Median Peer Rank	10%	
1 <sup>st</sup> Quartile Peer Rank	+10%	
<b>QUALITATIVE COMPONENT</b>		
<b>Annual Employee Performance Appraisal</b>		<b>0-20%</b>
Meets	0%	
Exceeds	10%	
Exceptional	20%	



# 10-Year Back Tested Results

- Median annual incentive since 2011 = 20% of maximum
- Median annual incentive since 2017 = 50% of maximum
- 100% participation requires:
  - > 100 bps of rolling 3-year excess returns
  - Top quartile Sharpe Ratio
  - Exceptional personal effort and teamwork
- OCERS system benefits from incremental return, best-in-class deployment of risk capital and engaged employees

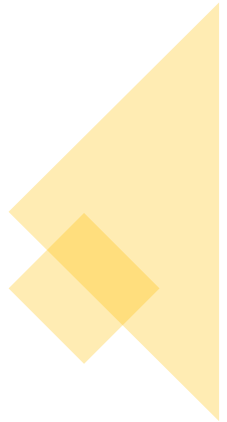


# Rigorous Oversight and External Validation

- Measurement
  - Quantitative inputs:
    - OCERS' benchmark will be validated annually by its risk consultant, Meketa
    - Quantitative data provided by third parties:
      - Returns calculated by custodian, State Street Bank and Trust
      - Sharpe Ratio information provided by General Investment Consultant, Meketa
  - Qualitative inputs:
    - Follows OCERS' annual performance evaluation standards
    - Investment team member performance evaluations approved by the CIO and CEO for quality and consistency
- Internal Process
  - OCERS' Finance Department will calculate the award
  - OCERS' Internal Audit Department will validate the process and results
  - OCERS' CEO final approval

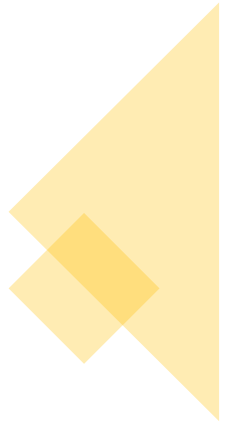
## Summary: *Align and Achieve Long-Term Goals*

- Ensure the long-term success and stability of the pension fund
- Recruit and retain top talent
- Create a natural alignment of interests and values
- Build and maintain an engaged and motivated investment team
- Improve succession planning
- Enable investment team members to achieve and earn top quartile pay



# July Outcomes and Follow Up

- Today:
  - Approve Program Options
  - Approve Program Design
- Follow up:
  - Respond to questions or requested design changes
  - Draft program documentation and related policies for review
  - Coordinate with OCERS' Legal and Human Resources department on policy process and approval



## Recap: Committee Implementation Decisions/Approvals

- Program Goals\*
  - See slide #11
- Basic Eligibility\*
  - Must achieve “meets expectations” to participate
  - Must be employed for entire incentive period
  - Must be employed at time of payment or forfeiture
- Covered Employees: *Choose One*
  - Full Team: Analyst/Officer/Director/CIO\*
  - Officer/Director/CIO
  - Director/CIO
  - CIO

- Payout Scheme: *Choose One*
  - 100% after Year 1
  - 50% after Year 1 with 50% paid after Year 2 (prior to March 15 for IRS purposes)
- Maximum % of Base Salary\*
  - Tiered by position
  - Target % determination
- Program Design\*
  - 80% Quantitative
  - 20% Qualitative
- Benchmark\*
  - OCERS’ Total Fund Plan Benchmark

*\*recommended*

# Appendix

## Supporting Data



## Proposed Incentive Program: Current Expected Cost

Position Title	Current Base Salary	Base + Proposed Target	Base + Proposed Maximum
Chief Investment Officer	\$450,000.10	\$618,750.14	\$787,500.18
Director of Investments	\$241,004.40	\$289,205.28	\$337,405.60
Director of Investments	\$200,000.11	\$240,000.13	\$280,000.15
Senior Investment Officer	\$175,935.55	\$206,724.27	\$237,512.99
Investment Officer	\$147,423.74	\$169,537.30	\$191,650.86
Investment Officer	\$140,000.02	\$161,000.02	\$182,000.03
Investment Analyst	\$105,221.79	\$115,743.97	\$126,266.15
Investment Analyst	\$102,584.14	\$112,842.55	\$123,100.97
Investment Analyst	\$95,000.00*	\$104,500.00*	\$114,000.00*
<b>EXPECTED INCENTIVE COST</b>		<b>\$361,133.81</b>	<b>\$722,266.18</b>

\*estimated costs of current unfilled position



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# Back Test Data

## 3-year Rolling Sharpe Ratio

Date	Total Portfolio	Policy Benchmark	Universe Top Quartile	Universe Median	Universe Bottom Quartile	Total Portfolio Quartile Ranking	Policy Benchmark Quartile Ranking	Exceeds Benchmark	Above Median Rank	First Quartile Rank
12/31/2021	1.72	1.61	1.49	1.35	1.29	1st Quartile	1st Quartile	10%	10%	10%
12/31/2020	0.78	0.74	0.65	0.59	0.50	1st Quartile	1st Quartile	10%	10%	10%
12/31/2019	1.49	1.49	1.36	1.16	1.07	1st Quartile	1st Quartile	10%	10%	10%
12/31/2018	1.19	1.28	1.12	0.83	0.73	1st Quartile	1st Quartile	0%	10%	10%
12/31/2017	1.40	1.66	1.48	1.35	1.24	2nd Quartile	1st Quartile	0%	10%	0%
12/31/2016	0.78	1.07	0.84	0.77	0.64	2nd Quartile	1st Quartile	0%	10%	0%
12/31/2015	0.94	1.37	1.33	1.17	1.01	4th Quartile	1st Quartile	0%	0%	0%
12/31/2014	1.67	2.00	1.97	1.91	1.81	4th Quartile	1st Quartile	0%	0%	0%
12/31/2013	1.06	1.33	1.30	1.24	1.13	4th Quartile	1st Quartile	0%	0%	0%
12/31/2012	0.90	1.02	1.02	0.94	0.92	4th Quartile	2nd Quartile	0%	0%	0%
12/31/2011	1.01	0.98	1.02	0.98	0.93	2nd Quartile	2nd Quartile	10%	10%	0%

## 3-year Rolling Returns

Date	Total Portfolio	Policy Benchmark	Excess Return	0 - 25bps	26 - 50bps	51 - 75bps	76 - 100bps	>101bps
12/31/2021	14.1%	13.7%	0.38%	10%	10%	0%	0%	0%
12/31/2020	7.8%	7.6%	0.21%	10%	0%	0%	0%	0%
12/31/2019	8.8%	8.7%	0.06%	10%	0%	0%	0%	0%
12/31/2018	6.9%	7.1%	-0.21%	0%	0%	0%	0%	0%
12/31/2017	7.5%	7.9%	-0.41%	0%	0%	0%	0%	0%
12/31/2016	4.3%	5.2%	-0.92%	0%	0%	0%	0%	0%
12/31/2015	5.1%	6.1%	-1.07%	0%	0%	0%	0%	0%
12/31/2014	9.1%	9.5%	-0.37%	0%	0%	0%	0%	0%
12/31/2013	7.7%	8.3%	-0.67%	0%	0%	0%	0%	0%
12/31/2012	7.8%	7.9%	-0.09%	0%	0%	0%	0%	0%
12/31/2011	9.8%	9.4%	0.40%	10%	10%	0%	0%	0%



*"We provide secure retirement and disability benefits with the highest standards of excellence."*

## Wharton Study: Link to Paper

- University of Pennsylvania study, “Paying for Performance in Public Pension Plans,” published in March 2022 by Yan Lu, Kevin Mullally and Sugata Ray, concluded that there is a correlation between CIO compensation and portfolio outperformance:
- Link: [https://repository.upenn.edu/prc\\_papers/727/](https://repository.upenn.edu/prc_papers/727/)

“Higher paid CIOs outperform their counterparts by 47 – 60 bps per year, largely through increased and superior investment in private equity and real estate. This outperformance generates an additional \$74.91 – \$95.63 million in economic value. Plans offering higher compensation hire better educated CIOs and are more likely to retain their CIOs. Higher CIO compensation is positively correlated with the use of incentive compensation, but incentive compensation does not directly affect performance.”

-Yu, Mullally and Ray



## OCERS Board Policy

# Incentive Compensation Policy

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### Purpose and Background

The philosophy behind the Incentive Compensation Policy is to create and maintain a pay structure that attracts, develops and retains strong leaders who achieve results and model and promote OCERS' mission and values. This Incentive Compensation Policy outlines a performance-based, cash compensation program that, when aligned with a market competitive salary compensation program, will support, reinforce, and align OCERS' values, business strategy, operations and financial needs and, ultimately, provide secure retirement benefits to OCERS' members with the highest standards of excellence.

The goals of this Incentive Compensation Policy are to:

- Ensure the long-term success and stability of the pension fund
- Recruit and retain top talent
- Build and maintain an engaged and motivated team
- Create a natural alignment of interests
- Improve succession planning
- Enable employees to achieve and earn top quartile pay for top quartile results

In alignment with OCERS' culture, the goals of the agency and the design of the Incentive Compensation Program ("Program") will be communicated openly to all employees covered under this policy.

### Covered Positions and Participation

Recognizing that investment results are created through collective effort, the Program aims to reward all OCERS Direct Employees serving in the Investment Division ("Covered Employees"). Individuals with the following job titles are covered by this policy and may participate in the Program and earn incentive pay up to the maximum of base salary indicated below:

Position Title	Maximum % of Base Salary
Chief Investment Officer	75%
Managing Director	45%
Director of Investments	40%
Senior Investment Officer	35%
Investment Officer	30%
Senior Investment Analyst	25%
Investment Analyst	20%



## OCERS Board Policy

# Incentive Compensation Policy

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### Eligible Employees

In order to receive incentive compensation for the calendar year, Covered Employees must meet all of the following three requirements:

- Achieve a “Meets Expectations” review as part of OCERS’ annual performance evaluation process for the most recent calendar year of the measurement period
- Serve as a Covered Employee in the OCERS’ Investment Division for the full calendar year prior to the end of the computation period (e.g. Jan 1 through December 31)
- Continue to be employed as a Covered Employee in the OCERS’ Investment Division at the time of payment

### Program Design and Benchmark

The Program is designed around three components: 1) total portfolio excess return (alpha) over a benchmark; 2) risk-adjusted return (Sharpe Ratio); and 3) employee performance, as shown in the chart below. For the alpha and Sharpe Ratio calculations, the OCERS’ Total Fund Plan Benchmark serves as the relative comparison benchmark.

The measurement period is the prior three years (“Rolling 3-year Period”) ended December 31. For example, at December 31, 2022, the measurement period would include performance results for the calendar years 2020, 2021 and 2022. All OCERS’ portfolio results will be reflected as net of fees.

1. Portfolio Excess Return vs. Benchmark: eligible employees earn 10% of their maximum payout for each 25 basis points of alpha generated by the OCERS’ Total Portfolio, up to 50% of maximum payout
2. Risk-adjusted return:
  - a. Sharpe Ratio exceeds Benchmark: eligible employees earn 10% of their maximum payout if the Sharpe Ratio of the OCERS’ Total Portfolio exceeds that of the Benchmark (i.e. that a dollar of risk was invested more efficiently relative to an indexed portfolio)
  - b. Sharpe Ratio Peer Rank: eligible employees earn 10% of their maximum payout if the OCERS’ Total Portfolio Sharpe Ratio exceeds the median Sharpe Ratio of the public pension peer group, with an additional 10% credited for a first quartile Sharpe Ratio, relative to peers
3. Annual Employee Performance Appraisal: eligible employees earn 10% of their maximum payout for a rating of “Exceeds” on their annual review; they earn the full 20% of maximum for this component of the Program with a rating of “Exceptional”



## OCERS Board Policy

# Incentive Compensation Policy

QUANTITATIVE COMPONENT (Rolling 3-year period, net of fees)	% of Incentive	% of Incentive
<b>Portfolio Excess Return vs Benchmark (Alpha)</b>		<b>0-50%</b>
0-25 bps	10%	
26-50 bps	+10%	
51-75 bps	+10%	
76-100 bps	+10%	
>101 bps	+10%	
<b>Risk Adjusted Return (Sharpe Ratio)</b>		<b>0-30%</b>
A) Portfolio Sharpe Exceeds Benchmark	10%	
B) Above Median Peer Rank	10%	
1 <sup>st</sup> Quartile Peer Rank	+10%	
<b>QUALITATIVE COMPONENT</b>		
<b>Annual Employee Performance Appraisal</b>		<b>0-20%</b>
Meets	0%	
Exceeds	10%	
Exceptional	20%	

## Incentive Calculation and Payment

The Incentive Compensation Program requires an annual calculation, for period ended December 31, with payments made in two tranches, Year 1 and Year 2. Once eligibility has been confirmed and the annual incentive compensation has been earned and calculated, the two payments for the Program are paid as follows:

- Year 1: the first 50% of the annual award paid within 60 days of the calculation of the OCERS' Total Plan Benchmark and its rolling three-year returns (period ended December 31) and the availability of the relevant Sharpe ratio information
- Year 2: the remaining 50% of the annual award paid in the calendar year following the first payment, prior to March 31 of that year

If a Covered Employee earns a promotion to another Covered Position during the most recent calendar year of the measurement period, the Covered Employee shall have their incentive compensation calculated to reflect the proportion of calendar days spent in each position.

If an Eligible Employee takes a Leave of Absence, other than Annual Leave, during the most recent calendar year, then the annual incentive payment amount will be reduced by a percentage that reflects the amount of leave time taken during the year by the employee.



# OCERS Board Policy Incentive Compensation Policy

## Third Party Validation and Oversight

In order to ensure a fair, correct and transparent process, several layers of oversight and validation are built into the annual process. Before any payments are confirmed or paid, the following steps will occur:

1. OCERS' General/Risk Consultant will validate the OCERS' Total Plan Benchmark constitution and calculation.
2. OCERS' Custodian will calculate and validate OCERS' portfolio returns.
3. OCERS' General/Risk Consultant will calculate and provide Sharpe Ratio data relative to benchmark and peers.
4. OCERS' CEO and CIO will review and approve all annual performance reviews for each Covered Employee and Eligible Employee.
5. OCERS' Finance Department will calculate the annual incentive compensation awards for each Eligible Employee.
6. OCERS' Internal Audit Department will validate the Program process and results.
7. OCERS' CEO will have final approve of all incentive compensation awards and payments.

## History

This policy was adopted by the Board of Retirement on August 15, 2022.

## Secretary's Certificate

I, the undersigned, the duly appointed Secretary of the Orange County Employees Retirement System, hereby certify the adoption of this policy.

Steve Delaney  
Secretary of the Board

**AUGUST 15, 2022**

Date