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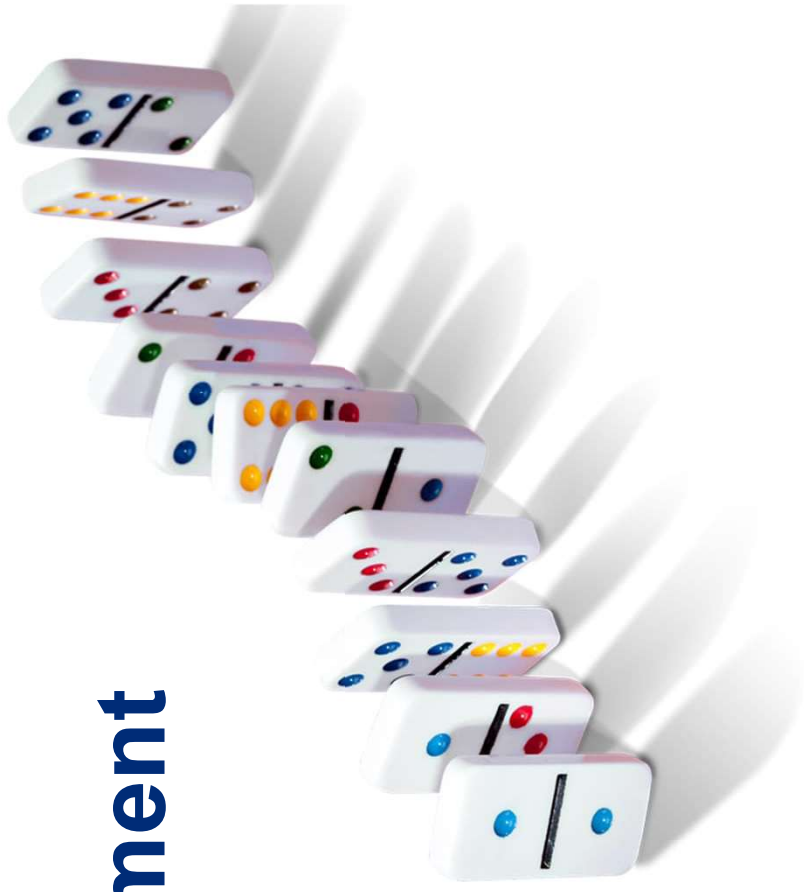
# Vermont Pension Investment Commission

## Compensation Review

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2. Interview Themes
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# Background and Objectives



# Background and Objectives

- VPIC has partnered with Mercer to examine the competitiveness of compensation levels for investment staff and the Chair of VPIC and make recommendations as appropriate
- In order to best serve VPIC, Mercer engaged in the following steps:
  - 1 Better understand the history of the organization, current concerns, future strategy, and specific roles through interviews with management and board members
  - 2 Document a desired compensation philosophy against which VPIC investment staff pay will be compared
  - 3 Benchmark compensation against the appropriate comparator groups
  - 4 Make recommendations based on findings for VPIC to consider
- The following pages document our process, findings and recommendations

# VPIC History and Context



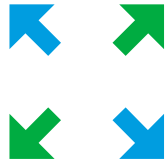
- The retirement assets of the State of Vermont are managed under the VPIC umbrella in order to more efficiently and systematically make decisions and meet the fiduciary responsibilities of the pension.

- VPIC has been on a journey to institutionalize more of the investment decisions and management of the assets while gaining more in-state knowledge and expertise to ensure better long term returns with appropriate risk and lower fees.



- The market for investment professionals is as tight as it has ever been as remote work has allowed for more opportunities for recruiting top performers. In State situations, more and more CIOs and investment professionals are moving to private institutions.

- VPIC currently employs three investment professionals. In addition, the Board Chair is also compensated. While turnover has not recently been an issue, stability and execution of long-term strategy is a key to maximizing the performance of the assets in the pension funds. In order to remain on track, VPIC is keen to ensure that compensation is as competitive as possible to round out the overall employee value proposition.



# Interview Themes



# Interview Themes

**Compensation is not perceived as competitive** (locally or nationally); EEs are at VPIC for a reason besides rewards (e.g., role / responsibility, interesting work, ties to VT)

In addition to retention, potential expansion of investment headcount to execute longer-term strategy **necessitates better alignment of compensation to market** for the sake of recruitment

At current levels, compensation will force the acquisition of **talent that is either underqualified or already financially stable** (typically late career); concern about a “revolving door” of hires once title or experience is achieved

While retention has not been a recent issue, **current economic and remote working trends increase the likelihood of a current VPIC employee being recruited** by another organization

Ideally, **talent would come from other state pensions, endowments, and foundations**, all of which generally demand a higher compensation range, even locally

Interest in **exploring a performance-based incentive program**, recognizing that it is a longer-term goal for VPIC but a growing trend in state pensions

# Compensation Philosophy

# 3



# Cost of Operations

## Vs. Compensation

- One of the questions that arose during the process was how Pension funds manage costs and **whether compensation can be managed through a cost of operations umbrella**
- Mercer examined the cost structure of 192 public funds (State, Municipal, City, etc.) using The Center for Retirement Research at Boston College information and found the following:

Rank	Fees as a % of Assets (Basis Points)
Top Quartile	23.73
<b>Median</b>	<b>36.08</b>
Lowest Quartile	53.94
<b>Vermont Rank (12.1 BPs)</b>	<b>90th %ile</b>

- In general, State Pension funds are so large that **reasonable, market-based compensation will not have an impact on the overall cost**. A single basis point of Vermont's \$5.6 billion in assets represents more than the total compensation of the three investment managers combined
- This also implies that **ensuring that salaries are market competitive will not have a material impact on the cost structure**, but will have a significant impact on the human capital of the fund

# Establishing a Compensation Philosophy

## Where Do We Compete for Talent?

- Based on the interviews conducted with management and VPIC Members, the following were determined to be the markets in which VPIC competes to attract talent from or lose talent to, in the order of their perceived relevance:

### Public Pension Funds

- Similar labor pools, public scrutiny, and optics
- Similar objectives from an investment standpoint and resulting skill sets of employees are transferable
- Common reward elements

### Endowments + Foundations

- Similar skill sets, although investment objectives differ
- Different scopes and organization structures
- Different levels of scrutiny from stakeholders

### Corp. Pension Funds / Inv. Roles

- Similar skill sets
- These orgs have provided historical talent pipeline
- Different optics and reward elements than VPIC

### Banking

- Somewhat similar skillsets, but different portfolio and focus areas
- Local but different labor market

### Other Govt. Entities

- Similar working characteristics
- Different skill sets and labor market

- Based on this analysis, VPIC has decided to focus on the **Public Pension Funds** with an eye on **Endowments + Foundations** as the primary competitive labor markets for talent

# Establishing a Compensation Philosophy

## Establishing Desired Competitive Positioning

### Competitive Market Weighting

- With the selection of the **Public Pension Funds and Endowments + Foundations** as the primary competitive labor markets for talent, consideration was taken into the **desired weighting of the markets** as well as **desired positioning against the markets**
- Through the interviews, it was determined that both Public Pension Funds and Endowments + Foundations are the most analogous labor markets for VPIC based on skillset and organizational goals. However, given current state and the reality of the economics of both types of organizations, **VPIC should currently target Public Pension Fund compensation** with a future target of including Endowments and Foundations
- In the future, when VPIC is more competitive with Public Pension Funds, it is proposed to that the future compensation philosophy be a blend of Public Pension Funds and Endowments + Foundations to capture the labor market in which VPIC competes

### Market Positioning

- A **market median position for market total cash compensation** is both appropriate and fiscally responsible
- It is recognized that today, the market positioning is likely closer to the 25th percentile. The gap between actual compensation and desired compensation will be discussed and various solutions will be presented



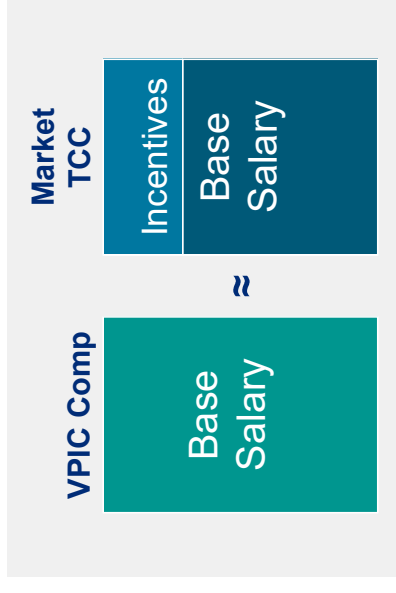
# Market Compensation Benchmarking Results



# Market Compensation Benchmarking

## Methodology

- Per the compensation philosophy and interview findings, the market is defined as **Public Pension Funds** with **Endowments + Foundations** for reference to capture the labor market in which VPIC competes
- The data sources used are:
  - Mercer’s Aggregate Public Pension Data, 2022
  - Endowments and Foundations: 2022 Mercer Investment Group Survey of Endowments and Foundations
    - Scope: <\$3B AUM
- All data were aged to 1/1/23 at a factor of 3.5% per year
- VPIC base salary data is **as of 9/30/22** and is compared to the market base salary and total cash compensation (TCC, Base Salary + Incentive Compensation)
- VPIC plans to target the **market median of TCC for Public Pensions**; as VPIC does not have an incentive program, Base Salary = TCC



# VPIC Chair Compensation

- The Chair of VPIC is compensated at a rate equal to one-third the compensation rate of the State Treasurer.
  - The most recent State Treasurer salary is \$127,546 and as such, the VPIC Chair compensation is \$42,515
  - As VPIC works to establish its independence, the relationship between treasurer pay and VPIC Chair may be delinked.
- In most other state organizations that are comparable to Vermont, the role of the VPIC Chair is most often played by a combination of an executive director and a politically appointed Chair
- Executive directors are compensated (typical compensation is approximately \$200,000 per year) but the role is a full time position and accountable for many things, including the duties covered in the VPIC Chair role
- Many States rely on political appointees with financial backgrounds to serve on the boards and committees of their pension plans. The effectiveness, added value, and consistency of input varies widely from State to State as a result.
- Another logical assessment of the VPIC Chair role is a Chair of public company Board of Directors. These roles require expertise and cooperation/coordination with company executives while governing independently. Small public companies usually compensate their Chairs around \$170,000 per year. Based on an average of 25 hours a month of work, the Board Chairs are compensated at a rate of approximately \$600/hr.
- Assuming the VPIC Chair spends an average of 24 hours a month (3 full days) working on VPIC affairs, the current hourly rate would be ~\$150/hr.
- Given that most individuals in these types of roles are not compensated, the compensation for the VPIC Chair seems reasonable. It is considerably less than a public company Board Chair, and is about 20% of what a full time Executive Director is paid.

# The State of State Pension CIO Roles

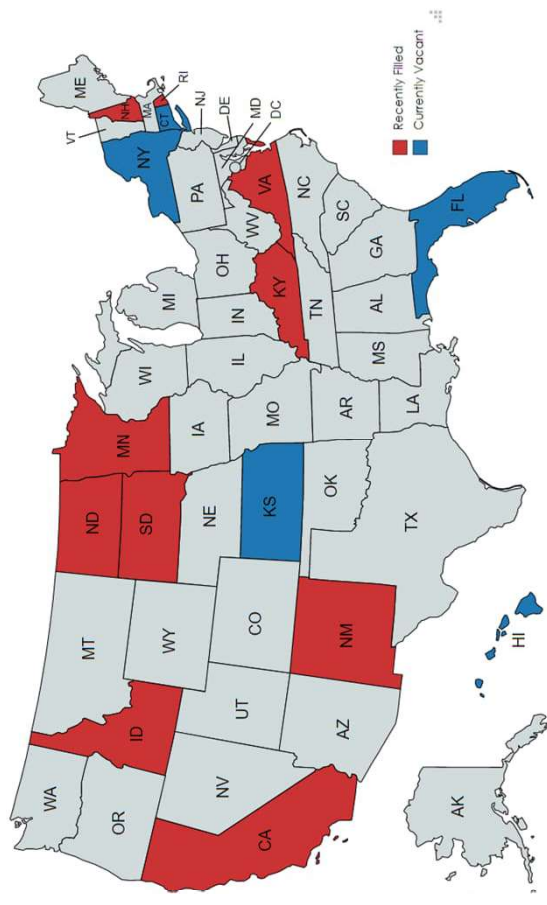
## CIO Salaries of Smaller Public Pension Plans

Entity	AUM	Salary
Hawaii	\$21B	\$315,000
Idaho	\$18B	\$360,000
Maine	\$18.3B	\$251,000
Nebraska	\$17B	\$310,000
City of San Diego	\$11B	\$259,000
New Hampshire	\$11.5B	\$250,000*
Wyoming Retirement System	\$10B	\$250,000**
Rhode Island	\$10B	\$290,000

\*Previous salary of new incumbent in a Deputy CIO role in CT

\*\* Wyoming also has an incentive plan of up to 100% of salary for the CIO

## Significant Movement of CIOs in State and City Pension Plans



# Market Gap Analysis Results

## Aggregate Results

- In aggregate, VPIC is positioned below the 25<sup>th</sup> percentile of market base salary and total cash compensation for both **Public Pension and Endowments and Foundations**.
- Compared to Public Pensions, the aggregate gap to market median base salary is **61%** and **80%** of base salary to median total cash.
- The gap to Endowment and Foundations is much larger and will be more difficult to attain from current levels, particularly comparing to Total Cash Compensation; **as VPIC grows more competitive with Public Pensions, more emphasis should be placed on E+Fs.**
- **The lower-level Investment Analyst has a significantly lower gap to market** than the high-level Investment Officers, even compared to E+Fs; VPIC is more competitive with, and could potentially pull from, a wider talent pool at the lower levels.
- However, as the investment organization grows or if turnover occurs, there will be more difficulty **recruiting and retaining the more experienced roles.**

Market Scope	VPIC Job Title	Market Base Salary (\$000s)				Market Total Cash (\$000s)				
		25th	50th	75th	Base Gap to 25th	25th	50th	75th	Base Gap to Median	Percentile Positioning
Public Pension	Chair, VPIC Board	\$43	\$53	\$64	-3%	\$44	\$55	\$76	-3%	<25th %ile
	Chief Investment Officer	\$174	\$298	\$413	-62%	\$282	\$343	\$467	-62%	<25th %ile
	Deputy Chief Investment Officer	\$96	\$185	\$223	-59%	\$167	\$203	\$289	-75%	<25th %ile
	Investment Analyst	\$84	\$97	\$121	-16%	\$104	\$112	\$129	-24%	<25th %ile
	<b>VPIC Overall</b>				<b>-45%</b>				<b>-61%</b>	<b>&lt;25th %ile</b>
Endowments + Foundations	Chair, VPIC Board	\$43	--	--	--	--	--	--	--	--
	Chief Investment Officer	\$174	\$549	\$663	-190%	\$707	\$835	\$1,143	-305%	<25th %ile
	Deputy Chief Investment Officer	\$96	\$389	\$506	-306%	\$560	\$654	\$848	-485%	<25th %ile
	Investment Analyst	\$84	--	--	--	--	\$121	--	--	<50th %ile
	<b>VPIC Overall</b>				<b>-231%</b>				<b>-207%</b>	<b>&lt;25th %ile</b>



# Market Gap Analysis Results

## Aggregate Results by Scope

VPIC is positioned below market median against Public Pensions with regards to base salary, with the largest gaps for the CIO and Deputy CIO; all roles are positioned lower when considering total cash

VPIC Job Title	Base Salary (\$000s)	Market Base Salary (\$000s)				Percentile Positioning	Market Total Cash (\$000s)						
		25th	50th	75th	Base Gap to 25th		Base Gap to Median	25th	50th	75th	Base Gap to 25th	Base Gap to Median	Percentile Positioning
Chair, VPIC Board	\$43	\$44	\$53	\$64	-3%	-25%	<25th %ile	\$44	\$55	\$76	-3%	-29%	<25th %ile
Chief Investment Officer	\$174	\$282	\$298	\$413	-62%	-71%	<25th %ile	\$282	\$343	\$467	-62%	-96%	<25th %ile
Deputy Chief Investment Officer	\$96	\$153	\$185	\$223	-59%	-93%	<25th %ile	\$167	\$203	\$289	-75%	-112%	<25th %ile
Investment Analyst	\$84	\$97	\$105	\$121	-16%	-25%	<25th %ile	\$104	\$112	\$129	-24%	-33%	<25th %ile
<b>VPIC Overall</b>					<b>-45%</b>	<b>&lt;25th %ile</b>					<b>-51%</b>	<b>-80%</b>	<b>&lt;25th %ile</b>

## VPIC vs. E + F Market Data

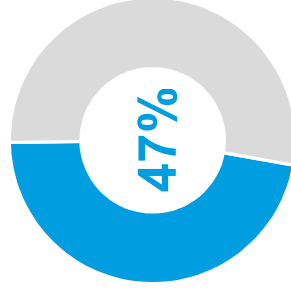
VPIC Job Title	Base Salary (\$000s)	Market Base Salary (\$000s)				Percentile Positioning	Market Total Cash (\$000s)						
		25th	50th	75th	Base Gap to 25th		Base Gap to Median	25th	50th	75th	Base Gap to 25th	Base Gap to Median	Percentile Positioning
Chair, VPIC Board	\$43	--	--	--	--	--	--	--	--	--	--	--	--
Chief Investment Officer	\$174	\$507	\$549	\$663	-190%	-215%	<25th %ile	\$707	\$835	\$1,143	-305%	-379%	<25th %ile
Deputy Chief Investment Officer	\$96	\$389	\$439	\$506	-306%	-359%	<25th %ile	\$560	\$654	\$848	-485%	-584%	<25th %ile
Investment Analyst	\$84	--	\$100	--	--	-19%	<50th %ile	--	\$121	--	--	-44%	<50th %ile
<b>VPIC Overall</b>					<b>-231%</b>	<b>-207%</b>	<b>&lt;25th %ile</b>				<b>-369%</b>	<b>-355%</b>	<b>&lt;25th %ile</b>

Endowments and Foundations pay at higher levels than public pensions at all components of cash compensation and are not currently a reasonable compensation target; they also tend to pay heavily in incentive comp, so gaps grow significantly with TCC, doubling or more vs Base gaps

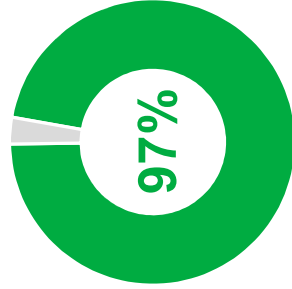
# Incentive Plan Overview

Regardless of whether or not VPIC has an incentive plan, competitors for talent often do. The gap between VPIC and market TCC can be bridged by significant base salary increases or by a combination of more modest base salary increases and the addition of incentive compensation.

Approximately half of **public pensions** have incentive programs and many more are investigating the possibility of implementing them



of 2022 Mercer survey **Endowment and Foundation peers** had incentive programs



Eligibility and payout opportunity tend to increase with level as does total fund performance weighting in targets

## Incentive programs:

- ✓ Increase competitiveness of compensation
- ✓ Encourage high team and individual performance; only pay when targets are met
- ✓ Act as a retention tool multi-year performance and with vesting schedules
- ✓ *Require aspirational but realistic performance goals*

**While performance goals need to be tailored to each specific organization, typical programs consider a combination of:**

- Total fund performance
- Asset class performance
- Other quantitative measures
- Individual, qualitative performance measures

See Appendix for Specific Plan Examples

# Recommendations



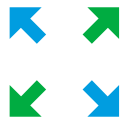
# Recommendations



**Participate in McLagan State Pension Compensation Survey** to ensure that VPIC has current State Pension data going forward



Target **above-market salary increases for the next 3-4 years** to catch up to the market and to position VPIC closer to the median salary levels of the market



**Consider a performance-based annual incentive** which would tie the compensation levels of the investment professionals to the short- to medium-term (1-5 year) performance of VPIC and is in line with other state pension plans



**Review compensation elements bi-annually** to maintain competitive positioning and respond to changes in the labor market as appropriate

# Appendix

# Specific State Incentive Plan Examples

- **Example 1:**

- 60+ investment management staff and senior management eligible
- Incentive targets represent 10% to 35% of salary, depending on role
- There is a 50% upside on target incentives
- The plan measures outperformance against a benchmark over a 3 year period, and includes total fund/asset classes as appropriate and individual performance
- The plan pays out 50% of award immediately and the other 50% is deferred year as a retention hook

- **Example 2:**

- 30+ investment management staff eligible
- Incentive targets represent 15% to 40% of salary, depending on role
- There is a 100% upside on target incentives
- The plan measures outperformance using the information ratio, which captures risk in the form of standard deviation, and includes total fund/asset classes as appropriate and individual performance
- The plan pays out 50% of award immediately and the other 50% is deferred year as a retention hook

- **Example 3:**

- 7 investment management staff eligible
- Incentive maximums range from 100% to 25% of salary levels
- Incentive plan measures outperformance (alpha) over benchmark over a 3 year period

- **Example 4:**

- Investment management staff and senior management eligible
- Incentive maximums range from 40% to 150% of salary depending on role
- Plan measures outperformance of the fund over a 5 year period with a multiplier for individual performance

# Market Results by Position

## Chair, VPIC Board

Chair, VPIC Board	Scope	Adjustment	Weighting	Job Title	Base Salary			Total Cash Compensation		
Market Source					25	50	75	25	50	75
Mercer Public Pension Data	Public Pensions: <\$10B	-75% for role responsibility	70%	Executive Director Without CIO Responsibilities - All Focuses All Levels	\$43,768	\$52,996	\$64,029	\$43,781	\$54,918	\$75,606
2022 Mercer Endowments and Foundations Survey	E+F: <\$3B AUM	--	30%	--	--	--	--	--	--	--

VPIC	VPIC Base Salary	Market View	Base Salary			Total Cash Compensation		
			Gap to 25th Percentile	Gap to 50th Percentile	Market Positioning	Gap to 25th Percentile	Gap to 50th Percentile	Market Positioning
	\$42,511	Vs. Public Pensions	-3%	-25%	<25th %ile	-3%	-29%	<25th %ile
		Vs. Endowments and Foundations	--	--	--	--	--	--

# Market Results by Position

## Chief Investment Officer

Chief Investment Officer		Adjustment		Weighting		Job Title		Base Salary			Total Cash Compensation		
Market Source	Scope							25	50	75	25	50	75
Mercer Public Pension Data	Public Pensions: <\$10B	--		70%	Chief Investment Officer - All Levels	\$282,374	\$297,913	\$282,374	\$413,091	\$282,374	\$342,600	\$466,721	
2022 Mercer Endowments and Foundations Survey	E+F: <\$3B AUM	--		30%	Top Investment Officer	\$506,625	\$549,150	\$662,865	\$707,175	\$835,065	\$1,142,715		

VPIC		Market View		Base Salary			Total Cash Compensation		
VPIC Base Salary		Gap to 25th Percentile	Gap to 50th Percentile	Market Positioning	Gap to 25th Percentile	Gap to 50th Percentile	Market Positioning		
\$174,470	Vs. Public Pensions	-62%	-71%	<25th %ile	-62%	-96%	<25th %ile		
	Vs. Endowments and Foundations	-190%	-215%	<25th %ile	-305%	-379%	<25th %ile		



# Market Results by Position

## Deputy Chief Investment Officer

Deputy Chief Investment Officer		Adjustment		Weighting		Job Title		Base Salary			Total Cash Compensation		
Market Source	Scope							25	50	75	25	50	75
Mercer Public Pension Data	Public Pensions: <\$10B	-		70%	Deputy Chief Investment Officer - All Levels	\$152,545	\$184,706	\$223,161	\$203,176	\$289,045	\$167,378	\$203,176	\$289,045
2022 Mercer Endowments and Foundations Survey	E+F: <\$3B AUM	-		30%	Blend: Top Investment Officer and Senior Investment Executive	\$388,500	\$438,900	\$505,995	\$654,098	\$848,190	\$559,650	\$654,098	\$848,190

VPIC		Market View		Base Salary			Total Cash Compensation		
VPIC Base Salary		Gap to 25th Percentile	Gap to 50th Percentile	Market Positioning	Gap to 25th Percentile	Gap to 50th Percentile	Market Positioning		
\$95,680	Vs. Public Pensions	-59%	-93%	<25th %ile	-75%	-112%	<25th %ile		
	Vs. Endowments and Foundations	-306%	-359%	<25th %ile	-485%	-584%	<25th %ile		

# Market Results by Position

## Investment Analyst

Investment Analyst Market Source	Scope	Adjustment	Weighting	Job Title	Base Salary			Total Cash Compensation		
					25	50	75	25	50	75
Mercer Public Pension Data	Public Pensions: <\$10B	--	70%	Blend: Manager of Managers - All Focuses Advanced and Investment Operations - All Focuses Advanced Blend: Intermediate Investment	\$97,167	\$104,634	\$120,932	\$103,968	\$111,959	\$129,397
2022 Mercer Endowments and Foundations Survey	E+F: <\$3B AUM	--	30%	Analyst and Investment Operations Analyst	--	\$99,750	--	--	\$121,170	--

VPIC	VPIC Base Salary	Market View	Base Salary			Total Cash Compensation		
			Gap to 25th Percentile	Gap to 50th Percentile	Market Positioning	Gap to 25th Percentile	Gap to 50th Percentile	Market Positioning
	\$84,032	Vs. Public Pensions	-16%	-25%	<25th %ile	-24%	-33%	<25th %ile
		Vs. Endowments and Foundations	--	-19%	<50th %ile	--	-44%	<50th %ile

# Market Benchmarking

## Mercer Endowment and Foundation Peer Group: <\$3B AUM (n=30)

Participant (n=30)	AUM Range	AUM Range
Adventist Health	\$2B - \$3B	\$1B - \$2B
Alfred P. Sloan Foundation	\$2B - \$3B	< \$1B
Bowdoin College	\$2B - \$3B	\$1B - \$2B
Brandeis University	\$1B - \$2B	\$1B - \$2B
Casey Family Programs	\$2B - \$3B	\$2B - \$3B
Children's Health System of Texas	\$2B - \$3B	\$2B - \$3B
Colby College	\$1B - \$2B	\$2B - \$3B
Dietrich Foundation	\$1B - \$2B	\$2B - \$3B
Doris Duke Charitable Foundation	\$2B - \$3B	\$1B - \$2B
GHR Foundation	\$1B - \$2B	\$2B - \$3B
Global Health Investment Corporation	< \$1B	\$2B - \$3B
Gore Creek Asset Management	\$2B - \$3B	\$2B - \$3B
Group Health Foundation	\$2B - \$3B	\$2B - \$3B
Institute for Advanced Study	\$1B - \$2B	\$1B - \$2B
Mount Holyoke College	\$1B - \$2B	\$2B - \$3B
<b>75th Percentile</b>		<b>\$2.6B</b>
<b>Median</b>		<b>\$2.1B</b>
<b>25th Percentile</b>		<b>\$1.3B</b>

# Interviewee List

## Board and Executive

- Tom Golonka, Board Chair
  - Jim Salsgiver, Board Member and Finance Committee Member
  - Kim Gleason, Vice Chair
  - Eric Henry, CIO
- 
- While Mercer interviewed the aforementioned VPIC employees and Board Members about VPIC and the roles within the organization, Mercer’s findings and recommendations are based on years of experience consulting to various pension plans and asset management entities, as well as on our data and data from other compensation surveys



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