



OCERS Board Policy

Incentive Compensation Policy

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%

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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”

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

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