

### **Introduction**

Under Section 104.210, RSMo, the general administration and proper operation of the System, including responsibility for the System's compensation plan, is vested in the Board. The System's compensation plan must be sufficient to attract and retain capable staff and to provide incentives for outstanding performance consistent with professional and prudential standards.

### **Compensation Plan**

The System will provide compensation that is competitive in the local and state market for staff and competitive in the state and national market for executive staff. The System's compensation plan may consist of three components: base pay, incentive/performance pay, and benefits. The System's compensation plan is not affected by state compensation decisions in any particular budget year.

State law prohibits the payment of bonuses or extra compensation after service has been rendered. Thus, in the instances where incentive pay is incorporated in the System's compensation plan, it must be based upon appropriate service and performance standards defined in advance of service.

The Board shall hire a compensation consultant, not less than every five years, to provide advice and input regarding the System's compensation plan and changes or modifications to the plan to best serve the needs of the System.

### **Executive Director Compensation**

The Board will review the Executive Director's compensation in conjunction with the Executive Director's annual evaluation. The Board will consider the Executive Director's experience, personal and organizational accomplishments for the year, external labor markets, and internal equity with other executive staff members when making the salary determination. The Board will also take into account, if applicable, any written employment contract and the information provided by the Board's compensation consultant.

### **Staff Compensation**

The Executive Director will determine staff compensation in accordance with the System's compensation plan and subject to the System's annual budget approved by the Board. The Executive Director is responsible for implementing and maintaining the System's compensation plan and advising the Board of the status of the plan. The Executive Director will obtain and keep relevant survey data for appropriate salary comparisons or other information to assist in maintaining the System's compensation plan.

### **Performance Pay Plan for Benefit/Operational Employees<sup>1</sup>:**

Subject to the parameters set forth herein, all employees excluding Investment Staff and the Executive Director, shall be eligible for performance based increases in pay as described herein. The Executive Director shall include a pay for performance pool of 3% of base salary for applicable staff that will be included in the annual operating budget. Within the confines of this performance pool, the Executive Director, in collaboration with applicable supervisory personnel, will evaluate staff annually to determine what, if any, performance increase is earned either by exceptional

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<sup>1</sup> Revised June 18, 2015.

work/accomplishment or work that is above and beyond normal expectations for the position. The performance increase earned by an individual may range from 0-5%. The Executive Director is not obligated to use all of the allocated budget for any given year if performance does not support it. Earned increases will be effective July 1 of each fiscal year and become a permanent part of base pay.

### **Incentive Compensation for Investment Employees<sup>2</sup>:**

Subject to the qualifications set forth herein, all employees of the Investment Staff, as designated herein, excluding the Chief Investment Officer, shall be eligible to earn annual incentive compensation (“Performance Incentive”) up to the limits designated below. The Performance Incentive is based on the employee’s annual base salary in effect on July 1 of the fiscal year for which the incentive is being considered.

Maximum level of incentive compensation:

Manager	50%
Senior Investment Officer	30%
Investment Officer	20%
Investment Analyst	10%

If a Performance Incentive is earned, it will be paid within ten (10) business days of year-end performance numbers being finalized by the custodian of records and approved by the general investment consultant, of the fiscal year following the year being evaluated.

In order for the employee to earn this Performance Incentive, the Fund must have earned an amount that exceeds what the Fund would have earned had it been invested in the Fund’s Total Policy Index. **Employees must be employed for the entire fiscal year in which the Performance Incentive is being considered.**<sup>3</sup> A sample step-by-step illustration of how to calculate MPERS’ Total Policy Index shall be maintained by the Executive Director and made available for inspection.

The measurement period will be weighted 100 percent to a rolling five-year return. The Performance Incentive begins to be earned with performance in excess of the Total Policy Index of 16 basis points. The Performance Incentive is maximized when performance reaches 50 basis points in excess of the Total Policy Index. Performance anywhere in between these two amounts results in an incentive compensation award that is a pro-rated percentage of the maximum, pursuant to the chart below:

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<sup>2</sup> Revised September 26, 2013.

<sup>3</sup> Revised June 23, 2016.

Manager Level (50% maximum)

Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)
16	1.4	23	11.4	30	21.4	37	31.4	44	41.4
17	2.8	24	12.8	31	22.8	38	32.8	45	42.8
18	4.2	25	14.2	32	24.2	39	34.2	46	44.2
19	5.7	26	15.7	33	25.7	40	35.7	47	45.7
20	7.1	27	17.1	34	27.1	41	37.1	48	47.1
21	8.5	28	18.5	35	28.5	42	38.5	49	48.5
22	10	29	20	36	30	43	40	50	50

Senior Investment Officer (30% maximum)

Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)
16	0.9	23	6.9	30	12.9	37	18.9	44	24.9
17	1.7	24	7.7	31	13.7	38	19.7	45	25.7
18	2.6	25	8.6	32	14.6	39	20.6	46	26.6
19	3.4	26	9.4	33	15.4	40	21.4	47	27.4
20	4.3	27	10.3	34	16.2	41	22.3	48	28.3
21	5.1	28	11.1	35	17.1	42	23.1	49	29.1
22	6.0	29	12.0	36	18.0	43	24.0	50	30.0

Investment Officer (20% maximum)

Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)	Excess Return (in BP)	Bonus (vs. Base)
16	0.6	23	4.6	30	8.6	37	12.6	44	16.6
17	1.1	24	5.1	31	9.1	38	13.1	45	17.1
18	1.7	25	5.7	32	9.7	39	13.7	46	17.7
19	2.3	26	6.3	33	10.3	40	14.3	47	18.3
20	2.9	27	6.9	34	10.9	41	14.9	48	18.9
21	3.4	28	7.4	35	11.4	42	15.4	49	19.4
22	4.0	29	8.0	36	12.0	43	16.0	50	20.0

## Investment Analyst (10% maximum)

Excess Return (in BP)	Bonus (vs. Base)		Excess Return (in BP)	Bonus (vs. Base)		Excess Return (in BP)	Bonus (vs. Base)		Excess Return (in BP)	Bonus (vs. Base)
16	0.3		23	2.3		30	4.3		37	6.3
17	0.6		24	2.6		31	4.6		38	6.6
18	0.9		25	2.9		32	4.9		39	6.9
19	1.1		26	3.1		33	5.1		40	7.1
20	1.4		27	3.4		34	5.4		41	7.4
21	1.7		28	3.7		35	5.7		42	7.7
22	2.0		29	4.0		36	6.0		43	8.0
									44	8.3
									45	8.6
									46	8.9
									47	9.1
									48	9.4
									49	9.7
									50	10.0

All return comparisons are conducted using the Fund's actual return (net of fees) minus the return of the Total Policy Index.

While the Performance Incentive is based entirely upon the quantitative benchmark, incentive compensation can be reduced or revoked at any time by the CIO, subject to Executive Director's approval, upon documented performance issues.

### **Pay for Certain Credentials/Professional Designations**

MPERS acknowledges that certain professional designations are becoming more prevalent, and in some cases expected for investment professionals. To encourage and support the attainment of such certification, MPERS may adjust the base compensation for investment staff who obtain either the Chartered Financial Analyst (CFA) or the Chartered Alternative Investment Analyst (CAIA) certification.

Upon successful completion of the CFA, a 20% increase in base compensation (however, base compensation shall never exceed the maximum step of the employee's applicable pay range) may be granted effective the first pay period of the month following MPERS' receipt of notification and verification of attainment of such official certification.

Upon successful completion of the CAIA certification, a 10% increase in base compensation may be granted in similar manner as the increase for attainment of the CFA certification.

For the purposes of this policy, the pursuit of either designation must be approved by the Executive Director and all base compensation increases shall be subject to approval by the Executive Director.

This policy shall not apply to the Chief Investment Officer.