



pennsylvania
STATE EMPLOYEES' RETIREMENT SYSTEM

COMPENSATION POLICY FOR INVESTMENT PROFESSIONAL STAFF

STATE EMPLOYEES' RETIREMENT SYSTEM

Effective January 1, 2017
Amended Effective January 21, 2021

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Compensation Policy for Investment Professional Staff

State Employees' Retirement System

INTRODUCTION

SERS was established by the General Assembly of the Commonwealth of Pennsylvania in 1923. SERS' enabling legislation, the State Employees' Retirement Code, was recodified in 1959 and again in 1974.

The Retirement Code establishes the Board as an independent administrative board, which has the authority to make all decisions with respect to the implementation of the Retirement Code and the management of the State Employees' Retirement Fund.

Section 5902(a) of Title 71, amended April 2, 1998:

- (1) Effective 30 days after the effective date of this paragraph, the positions of secretary, assistant secretary and investment professional shall be placed under the unclassified service provisions of the act of August 5, 1941 (P.L.752, No.286), known as the Civil Service Act, as those positions are vacated. All other positions of the board shall be placed in either the classified or unclassified service according to the definition of the terms under the Civil Service Act.
- (2) Notwithstanding any other provisions of law, the compensation of investment professionals and legal counsel shall be established by the board. The compensation of all other officers and employees of the board who are not covered by a collective bargaining agreement shall be established by the board consistent with the standards of compensation established by the Executive Board of the Commonwealth.

SERS' *Compensation Policy for Investment Professional Staff* is established to:

- Maintain transparency for the compensation of investment professional staff
- Attract, motivate, and retain highly qualified, experienced investment professionals needed to satisfy the standard-of-care requirements of fiduciary obligations consistent with SERS Board policy
- Provide a reasonable and competitive pay program for investment professional staff

SERS continually strives to have a compensation plan for its investment professional staff that attracts and retains highly qualified individuals, establishes internal equity of positions, and maintains external competitiveness. The Board shall establish and maintain a pay schedule and structure that reflects market competitive salary ranges for each job classification based on median salary levels in the Public Pension Funds Comparator Group. This comparator group may be re-established as appropriate with changes in the public pension systems.

DELEGATION OF AUTHORITY

The Board has authority to set compensation for SERS' investment professional staff. With approval of this policy the Board delegates the following, effective January 1, 2017 and as amended:

- Authority to SERS' Chief Investment Officer and SERS' Executive Director, in consultation with SERS' Human Resources Director, to recommend salaries and annual salary adjustments for investment professional positions in the Investment Office to the Board Governance and Personnel Committee for approval as discussed in the PROGRAM ADMINISTRATION section; and
- Authority to SERS' Executive Director and SERS' Chief Financial Officer, in consultation with SERS' Human Resources Director, to recommend salaries and annual salary adjustments for the investment professional positions in the Office of Finance and Administration to the Board Governance and Personnel Committee for approval as discussed in the PROGRAM ADMINISTRATION section; and
- Authority to SERS' Executive Director in consultation with SERS' Human Resources Director to recommend the salary of the Chief Financial Officer position and annual salary adjustments to the Board Governance and Personnel Committee for approval as discussed in the PROGRAM ADMINISTRATION section.

If the parties named above cannot reach consensus concerning the actions that have been delegated by SERS Board, the issue(s) will be elevated to the Board Governance and Personnel Committee of SERS Board for a final determination.

The Board will maintain authority to approve the annual pay increase budget based on current market pay data and the availability of funds.

PEER COMPARATOR GROUP

The below peer comparator group, used to determine the appropriate compensation for SERS' investment professional staff, was originally established in June 2013 in conjunction with McLagan, a professional organization with well-established expertise in the area of pension system compensation. This group of 15 public pension systems, at the time the list was developed, was similar to SERS in size and investment approach, and none of the comparable pension systems utilized a bonus program. The salary structures of these comparative systems were used to determine the initial market pay for SERS' investment professional staff.

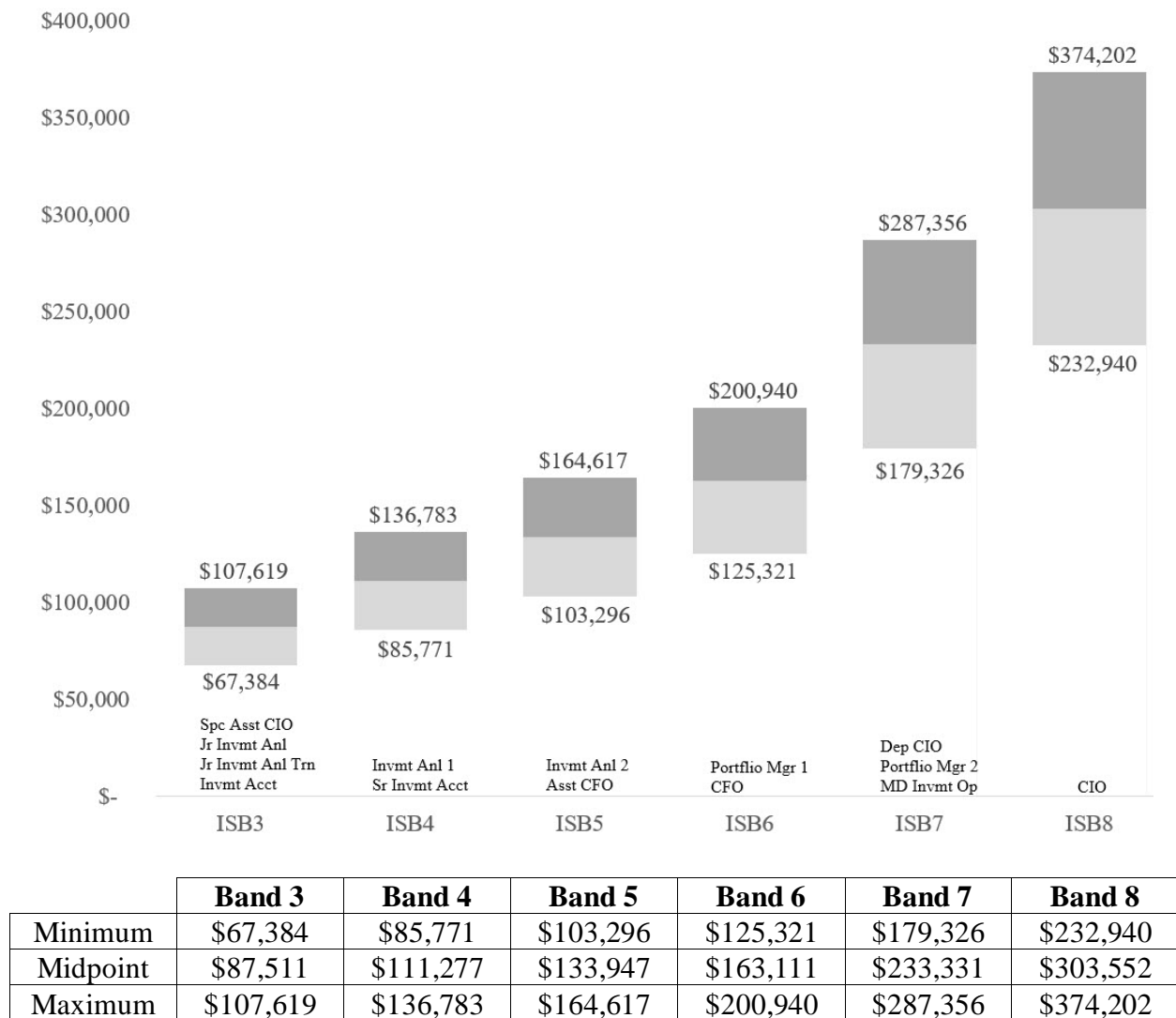
Illinois Municipal Retirement Fund
Indiana Public Retirement System
Iowa Public Employees Retirement System
LA County Employees Retirement Association
Maryland State Retirement Agency
Massachusetts Pension Reserves Investment Management Board
Minnesota State Board of Investment
Mississippi Public Employees Retirement System
Missouri Public Schools Retirement System
Nevada PERS
Pennsylvania Public School Employees' Retirement System (included in the comparator group due to geographical location)
South Carolina Retirement System
Texas County and District Retirement System
Texas Municipal Retirement System
Utah State Retirement System

PAY SCHEDULE

SERS moved investment professional positions from a pay schedule of 12 pay ranges with 20 steps within each range, to a banded pay structure effective January 1, 2017. Each investment professional position was appropriately placed within the respective band based on the comparative parity with peer pension systems, experience and credentials, contributions to SERS, and internal pay equity. The banded pay structure has six bands, with minimum and maximum annual salaries for each band, but no steps. This type of structure allows for increased flexibility to differentiate salaries based on an employee's performance, workload, contributions to SERS, etc. The below chart shows annual salaries down the left side and the bands across the bottom.

The current salary band structure is depicted below (*Figure 1*).

Figure 1
As of 01/01/2021



CLASSIFICATION

The below job titles (*Figure 2*) are currently covered by this compensation policy. SERS-Human Resources Division is responsible for maintaining the job specifications (definition of work, examples of work, knowledge, skills, abilities, minimum experience and training) for each job title. SERS-Human Resources Division is authorized to make content changes to the job specifications with the concurrence of the Executive Director and the Chief Investment Officer or Chief Financial Officer, as applicable.

Adding new jobs, abolishing jobs, or changing the designated pay level for a job requires authorization from the Board Governance and Personnel Committee.

Figure 2

Job	SAP Code	Pay Band
Junior Investment Analyst Trainee SERS	R9403	Band 3 (ISB3)
Junior Investment Analyst SERS	R9404	Band 3 (ISB3)
Investment Accountant	R9300	Band 3 (ISB3)
Special Assistant to the Chief Investment Officer SERS	R9402	Band 3 (ISB3)
Investment Analyst 1 SERS	R9405	Band 4 (ISB4)
Senior Investment Accountant	R9305	Band 4 (ISB4)
Investment Analyst 2 SERS	R9406	Band 5 (ISB5)
Assistant Chief Financial Officer SERS	R9310	Band 5 (ISB5)
Portfolio Manager 1 SERS (Director)	R9513	Band 6 (ISB6)
Chief Financial Officer SERS	R9315	Band 6 (ISB6)
Portfolio Manager 2 SERS (Managing Director)	R9511	Band 7 (ISB7)
Managing Director of Investment Operations SERS	R9515	Band 7 (ISB7)
Director of Public Markets SERS	R9512	Band 7 (ISB7)
Deputy Chief Investment Officer SERS	R9514	Band 7 (ISB7)
Chief Investment Officer SERS	R9510	Band 8 (ISB8)

PROGRAM ADMINISTRATION

A high-level annual study will be conducted to determine current market pay for the industry. The Board Governance and Personnel Committee will use the data to determine whether adjustments should be made to the salary pay bands. The data will also be considered when establishing the annual aggregate pay increase budget subject to approval by SERS Board.

Pay increases shall give consideration to individual employee performance, changes to job duties, retention, internal pay equity relationships, periodic market comparison of peer pension systems, or other relevant issues. Annual salary reviews will be conducted to make adjustments to pay based upon merit and competitive levels as necessary. Reflecting good-governance practices, each employee's salary level will be reviewed annually to ensure pay levels remain competitive, high

performers are recognized, and staff development and growth are reinforced. Adjustments to current employees' salaries outside of the annual scheduled adjustments may be made under the delegation of authority of this policy for retention purposes to meet a critical need of the agency. These adjustments will be recommended to the Board Governance and Personnel Committee for approval.

A comprehensive study, if approved by the SERS Board, will be conducted every three to five years by an external and qualified consultant, and appropriate adjustments will be made to this compensation policy to maintain comparative parity with peer pension systems.

Investment Office professional staff are currently, and will remain, on a January 1 through December 31 performance review cycle with performance reviews due to the Human Resources Division by January 31 each year. They will receive pay increases, if appropriate, effective the first full pay in March each year. Effective January 1, 2017, investment professional staff in the Investment Office will no longer be eligible to receive the general pay increases, service increments, or any other one-time pay adjustments approved by the SERS Board for management employees.

Office of Finance and Administration investment professional staff are currently on an October 1 through September 30 performance review cycle. Effective January 1, 2017, they will be transferred to the January 1 through December 31 performance review cycle. Their performance reviews will be due to the Human Resources Division by January 31 each year and they will receive pay increases, if appropriate, effective the first full pay in March each year. Effective January 1, 2017, investment professional staff in the Office of Finance and Administration will no longer be eligible to receive the general pay increases, service increments, or any other one-time pay adjustments approved by the SERS Board for management employees.

When a new investment professional is hired, initial placement in the appropriate band will take into account the person's relevant work experience, relevant education, relevant professional credentials, and pay equity.

The salary range in each band can be broken down into thirds that fit the following general or illustrative profiles:

Lower Third

- Employees who are not meeting the established performance criteria for the position, or
- Employees who have minimum qualifications to fulfill the job responsibilities, or
- Employees with minimum amount of relevant work experience

Middle Third

- Employees who fully meet the established performance criteria, or
- Employees who are fully qualified for the position, or
- Employees with critical skills, yet no shortage of talent for the role in the market

Upper Third

- Employees who exceed established performance criteria, or
- Employees with a higher degree of qualifications of the position requirements, or
- Employees who occupy key jobs with hard to recruit talent

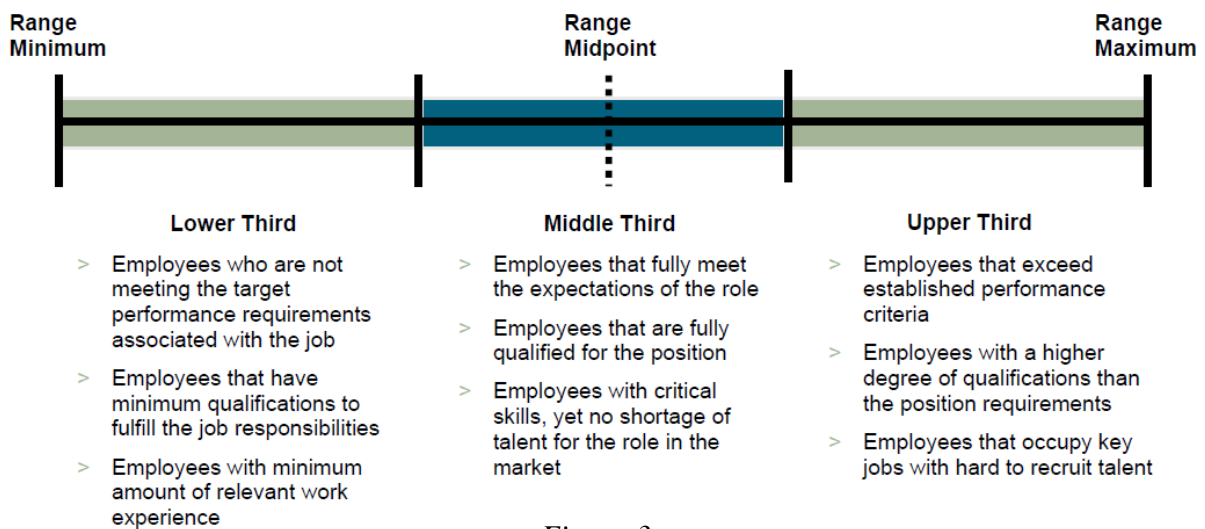


Figure 3

As shown in *Figure 3* above, employees who fully meet the expectations of their positions should fall within the middle third of the pay range, taking into account length of service with SERS and job relevant experience. Annually each investment professional shall be evaluated on a calendar year basis and receive a performance review by January 31 of each year.

The following process applies to all investment professional staff in SERS:

- Supervisors meet with each employee at the beginning of the review cycle to set goals and objectives for the year, set clear expectations, and provide performance standards
- Supervisors conduct a mid-year review with each employee to discuss/confirm progress toward goals and adjust, as appropriate, objectives of the program plan. If progress is less than expected the supervisor will contact the Human Resources Division for assistance in improving performance
- At the end of each rating cycle supervisors complete the *Employee Performance Review* form (Form 363L) for each employee and discuss performance and recommended pay

increase with the Executive Director and Human Resources Director. Pay increases are recommended to the Board Governance and Personnel Committee for approval

- Supervisors conduct an annual performance review with each employee, communicate the salary increase, and link the salary increase to overall performance. Pay increases for investment professional staff will be effective the first full pay in March each year
- Supervisors will conduct a formal six month performance review, using the *Employee Performance Review* form (Form 363L), for each newly appointed investment professional employee.

GUIDELINES FOR PAY ADJUSTMENTS

Annually, taking into account the pay increase budget approved by the Board, the Chief Investment Officer, with the concurrence of the Executive Director and in consultation with the Human Resources Director, will submit pay adjustment recommendations to the Board Governance and Personnel Committee. The pay adjustment for each investment professional staff member in the Investment Office will be within the assigned pay band and will be based on the individual's overall annual performance evaluation and the individual's position in the band at the time of the annual review. When the annual employee review results in an overall less than satisfactory rating, no pay increase is awarded. A less than satisfactory rating may result in employee discipline, up to and including termination.

For investment professional positions in the Office of Finance and Administration, the Chief Financial Officer, with the concurrence of the Executive Director and in consultation with the Human Resources Director, will follow the same process.

The performance review of the Chief Investment Officer will be conducted by the Executive Director and Investment Committee Chair with input from the Board. Pay adjustments will be recommended to the Board Governance and Personnel Committee and approved by the SERS Board.

The performance review of the Chief Financial Officer will be conducted by the Executive Director who will recommend to the Board Governance and Personnel Committee, in consultation with the Human Resources Director, movement within the salary range based on the overall annual performance evaluation and the individual's placement in the range at the time of the annual review.

The Executive Director, in conjunction with the Chief Investment Officer or Chief Financial Officer, as appropriate, and in consultation with the Human Resources Director, may recommend to the Board Governance and Personnel Committee salary adjustments for new investment professional staff in conjunction with a six-month performance evaluation. No action related to salary adjustments will be considered for new employees until the completion of a six-month performance evaluation.

PROMOTION/RECLASSIFICATION

Individuals promoting from Junior Investment Analyst Trainee to Junior Investment Analyst may receive up to a 9% pay increase.

For all other promotion actions (excluding trainee to working level), a 9% pay increase is recommended per pay band or placement at the minimum of the pay band, whichever is greater, however, the actual percentage may be less or more depending on the circumstances. Placement should be in the appropriate band, not to exceed the band maximum, taking into account the person's relevant work experience, relevant education, relevant professional credentials, and pay equity. Sufficient justification must be provided in support of pay increases less than or exceeding the recommended 9% per pay band.

A promotion is defined as moving from one job title to a higher job title either as a result of moving to a different position or the reclassification of a current position. Changes to job title within the same pay band are generally not considered promotions, although exceptions may apply. For example, changes to pay may be appropriate when moving between investment professional titles with accounting functions and investing functions or appointment from Portfolio Manager 2 to Deputy Chief Investment Officer. Any changes to pay resulting from changes to job title within the same pay band must be sufficiently justified.

Placement within the pay bands under this section is at the discretion of the Chief Investment Officer or Chief Financial Officer subject to the concurrence of the Executive Director and in discussion with the Human Resource Director. Issues which cannot be resolved will be escalated to the Board Governance and Personnel Committee to make the final determination.

DEMOTION

When an employee demotion results from employee poor performance, or the employee voluntarily agrees to be demoted to a position in a lower pay band, the employee's current salary may be reduced by 9% and then compared to the maximum pay of the lower pay band. If the employee's adjusted salary is greater than the new salary grade maximum, the new salary will be reduced to the maximum pay of the lower pay band.

When an organizational change results in an employee's job title being changed to a job title in a lower pay band, the employee will be demoted to the new job title and will maintain the current pay level.

COMPLETION OF CHARTERED FINANCIAL ANALYST (CFA) EXAM

When completion of the above exam is relevant to the employee's current role at SERS, the Chief Investment Officer, with the concurrence of the Executive Director and Human Resources

Director, shall have the discretion to award an individual an increase of up to 2.5% of annual salary each time one of the three levels that make up the Chartered Financial Analyst (CFA) certification examination is successfully completed. The Executive Director, with the concurrence of the Human Resources Director, shall have discretion to award the same increase to the Chief Investment Officer for successfully completing each level of the exam. Said increases shall be effective prospectively from the date the successful exam completion notification has been provided to the employee's supervisor.

COMPLETION OF CERTIFIED PUBLIC ACCOUNTANT (CPA) EXAM

When completion of the above exam is relevant to the employee's current role at SERS, the Chief Financial Officer, with the concurrence of the Executive Director and Human Resources Director, shall have the discretion to award an individual an increase of up to 2% of annual salary each time one of the four sections of the CPA certification exam is successfully completed. The Executive Director, with the concurrence of the Human Resources Director, shall have discretion to award the same increase to the Chief Financial Officer for successfully completing each level of the exam. Said increases shall be effective prospectively from the date the successful exam completion notification has been provided to the employee's supervisor.

COMPLETION OF CHARTERED ALTERNATIVE INVESTMENT ANALYST (CAIA) EXAM

When completion of the above exam is relevant to the employee's current role at SERS, the Chief Investment Officer, with the concurrence of the Executive Director and Human Resources Director, shall have the discretion to award an individual an increase of up to 2% of annual salary each time one of the two levels of the CAIA certification exam is successfully completed. The Executive Director, with the concurrence of the Human Resources Director, shall have discretion to award the same increase to the Chief Investment Officer for successfully completing the exam. Said increases shall be effective prospectively from the date the successful exam completion notification has been provided to the employee's supervisor.

PERFORMANCE MANAGEMENT

SERS is committed to attracting, developing, managing, and retaining a high performing, diverse, and productive workforce. This requires effective performance management. Performance management entails constructive direction, training, assessment, feedback, and recognition of employees by managers and supervisors to assure a competent, high-performing, and motivated workforce. Establishing clear expectations and evaluating performance are very important parts of that process. The SERS General Performance Standards, provided by the supervisor to each new employee and also annually in conjunction with the performance review, provide supervisors with the opportunity to establish clear expectations. The annual performance review provides supervisors the opportunity to formally discuss performance outcomes with staff.

As part of the performance management process, performance evaluations for investment professional staff shall be issued consistent with the Management Directive 540.7, Performance Management Program, and as discussed in PROGRAM ADMINISTRATION section.

New employees will receive an interim evaluation after six months to review performance and evaluate continued employment.

The annual performance evaluation rating will be used to determine annual salary increases as outlined in PROGRAM ADMINISTRATION section.

RECRUITMENT AND PLACEMENT

SERS Board has the authority to hire the Chief Investment Officer. Recruitment for this position will be conducted internally or through the services of an executive search firm, as determined by the Board.

The filling of all investment professional vacancies will comply with the Commonwealth policies for filling senior level non-civil service positions and may involve internal promotions or active recruitment.

With the exception of the Chief Investment Officer position, investment professional positions in the Investment Office will be filled at the discretion of the Chief Investment Officer, with the concurrence of the Executive Director and in consultation with the Human Resources Director.

The Chief Financial Officer position will be filled at the discretion of the Executive Director in consultation with the Human Resources Director. All other investment professional positions in the Office of Finance and Administration will be filled at the discretion of the Chief Financial Officer and Executive Director, in consultation with the Human Resources Director.

Background investigations will be conducted on all new SERS employees. Although employees may begin employment, their continued employment is contingent upon a satisfactory background investigation report. Background investigations are conducted by the Office of Inspector General.

Consistent with Commonwealth policies and directives, recruitment shall not be influenced by race, color, religious creed, ancestry, union membership, age, gender, sexual orientation, gender identity or expression, national origin, AIDS or HIV status, or disability.

AT-WILL EMPLOYMENT

The State Employees' Retirement System reserves the right to terminate the employment of an investment professional at any time for any reason or no reason, except as prohibited by law.

SUCCESSION PLANNING

The Chief Investment Officer, Chief Financial Officer, and their direct subordinate staff are responsible for workforce and succession planning in their respective areas to ensure effective business continuity. Areas to include for this purpose include knowledge management, staff development, career progression, and staffing projections.

EXCEPTIONS

SERS Board reserves the right to revise or make exceptions to this policy at any time.

HISTORY OF POLICY CHANGES

10/2/2013	Final draft created
03/30/2015	Revisions to draft
08/09/2016	Updates to include CAIA, current dates
09/30/2016	Incorporated final edits from 08/2016
10/19/2016	Incorporated edits from PC to give Personnel Committee approval for pay increases
01/03/2017	Incorporated recommendations from SERS Board and CBIZ
05/24/2017	Updated pay band chart on page 5 with approved minimum and maximum salaries
03/16/2018	Updated pay band chart on page 5 with 01/2018 board approved min and max amts
01/01/2019	Updated pay band chart. Added classification section and removed appendix containing job specifications. Updated committee name to Board Governance and Personnel Committee. Added Investment Committee Chair to performance review of CIO. Changes approved at 12/05/2018 SERS Board meeting to be effective 01/01/2019.
12/07/2019	Removed reference to background, most recent salary, and comparison to other staff and added reference to education and professional credentials under PROGRAM ADMINISTRATION section regarding determination of pay for new investment professionals. Revised entire PROMOTION/RECLASSIFICATION section to provide increased flexibility in employee placement in pay bands instead of restricting to just 9%. Changes approved at 12/04/2019 SERS Board meeting to be effective 12/07/2019.
02/10/2020	Adjusted pay band chart values upwards 2% as approved at 12/04/2019 SERS Board meeting to be effective 01/01/2020. Added “and legal counsel” to INTRODUCTION Section 5902(a)(2) because of Act 2017-5.
01/21/2020	Adjusted pay band chart values upwards by 1.7% as approved at 12/02/2020 SERS Board meeting to be effective 01/01/2021.