

PUBLIC AGENDA ITEM - #21

21. Review, Discussion and Consideration on the Appropriateness of Performance Metrics for the ERS Incentive Compensation Plan for Private Equity and Private Real Estate

August 25, 2009

BACKGROUND:

At its December 13, 2006 meeting, the Employees Retirement System of Texas' (ERS) Board of Trustees (Board) approved ERS' Incentive Compensation Plan (Plan). The Plan was designed to:

1. drive sustained levels of high investment performance,
2. promote teamwork among employees across all divisions,
3. support ERS' strategic and operation goals,
4. attract and retain key employees, and
5. focus employees on high quality outcomes.

Further, at its meeting on August 19, 2008, the ERS Board revised the Plan to increase the maximum incentive award from 25 percent to 50 percent of a qualified employee's base salary. Incentive awards continue to be spread over three years with 50 percent paid in the first year and 25 percent paid in each of the second and third years.

In 2009, staff asked plan consultants at Ennis Knupp & Associates, Inc., for their opinion on appropriate performance metrics for Private Equity and Private Real Estate investment professionals. Ennis Knupp did not recommend changes to the Plan at this time; however, did recommend that "the Executive Director continue to refine the metrics used at the outset of each fiscal year as required to establish individual performance goals."

Ennis Knupp's full report is included with this agenda item under Exhibit A

This agenda item is presented for discussion purposes only.

STAFF RECOMMENDATION:

No action is required on this agenda item.

ATTACHMENT – 1

Exhibit A – Ennis Knupp Memo on Review of Performance Metrics Contained in the ERS Incentive Compensation Plan for Private Equity and Private Real Estate