

**NORTH CAROLINA DEPARTMENT OF STATE TREASURER  
INVESTMENT MANAGEMENT DIVISION  
INVESTMENT ADVISORY COMMITTEE**

**MINUTES OF MEETING  
February 18, 2015**

Time and Location: The Investment Advisory Committee (“IAC”) met on Wednesday, February 18, 2015, in the Dawson Conference Room of the Albemarle Building, 325 North Salisbury Street, Raleigh, North Carolina.

Members Present: The following members were present: State Treasurer Janet Cowell (Chair) (in person), Neal Triplett (Vice-Chair) (by teleconference), John Aneralla (by teleconference), David Hartzell (by teleconference), and Mike Mebane (by teleconference).

Members Absent: Steve Jones and Courtney Tuttle.

Staff: The following staff members were present: Kristen Bierline, Fran Lawrence, Bryan Lewis, Kevin SigRist, Blake Thomas and Thom Wright (by teleconference).

Others in Attendance: Diane Choi of Mercer (by teleconference), Judith Estevez (in person), Gaynor Fries (in person), Jon Mason of Mercer (by teleconference) and Josh Wilson of Mercer (by teleconference).

**OPENING REMARKS**

The meeting was called to order at 10:00 a.m. The Chair, Treasurer Cowell, offered her appreciation to everyone joining the meeting today and was happy that, due to weather, Members had taken advantage of the conference call facility, rather than risking driving in the icy conditions.

Mr. SigRist outlined the plan for the meeting – firstly, that Mercer representatives would be presenting their slide deck containing their review and recommendations for changes to the compensation structure within the Department of State Treasurer generally. Secondly, the meeting would go to a closed session for IAC Members to discuss any matters specific to the performance of individual staff members.

Mr. Thomas confirmed that meeting law requires that general policy questions be conducted in open session and that conversations about individual employees need to happen in closed session. Therefore, compensation for a type of position – eg Investment Analyst – can be discussed in open session, but anything related to a particular employee in that position would need to be discussed in closed session. Ms. Estevez was introduced as the attorney representative to remain in closed session to ensure these practices were adhered to. Mr. Thomas also mentioned that the IAC is free to have another open session after the closed session, should they deem it necessary or valuable.

Mr. SigRist then introduced the DST employees in attendance to the IAC – namely, Ms. Bierline, Ms. Lawrence, and Mr. Lewis. He expressed appreciation to the General Assembly for providing the budget flexibility to address the issue of compensation and for the involvement of the IAC regarding a market-oriented structure.

Mr. SigRist acknowledged that there is a lot of work to do in implementing a strategy to fill existing vacancies and any new positions and stressed that this was a Department-level initiative - not just restricted to the Investment Division. It is vitally important that the Department retain people with

appropriate skills, expertise and knowledge to manage the retirement system, as well as the other pools we manage, to give good long-term returns.

The Chair asked the Members present to declare any conflicts of interest and, there being nothing declared, the meeting commenced.

## **COMPENSATION REVIEW AND RECOMMENDATIONS**

Jon Mason of Mercer introduced his colleagues Diane Choi and Josh Wilson. He confirmed that an additional presentation had taken place to Department staff earlier that morning to bring them up to speed on developments and the recommendations being presented to the IAC.

Mr. Mason outlined the Review process which had included stakeholder interviews, the preparation of the Statement of Compensation Objectives and the proposal for investment jobs to be exempt from the State Human Resources Act. A comparator group had been defined and then DST job data had been collected and matched against relevant compensation surveys – as well as being compared to market. Next, proposed compensation ranges were developed and the current situation was compared to the framework design. Results were then prepared for communicating.

The Project Team had included DST representatives as well as Mercer staff. Conversations had taken place with people at IMD, the State Treasurer's Office, the IAC and Managers at the State of North Carolina.

In preparation of the Statement of Compensation Objectives, Mercer determined that there were some comparable organizations that do have incentive programs in place, but their recommendation remains that the DST does not implement an incentive plan, but has a better base salary as part of its compensation package. The philosophy is to provide base salary compensation between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of comparable organizations.

Mr. Mason outlined the investment-related roles that were recommended to be included in the future compensation structure – the CIO, Investment Director – COO, Investment Directors, Portfolio Managers, Investment Analysts, General Counsel, Deputy General Counsel, CFO, Deputy Director – Financial Operations, Accounting Manager, Accounting Supervisor, Accountant, Accounting Tech. Roles to be excluded from the new structure were banking staff and administrative staff. Mr. Hartzell asked how many people would be included in the new structure and Mr. Mason confirmed there were 46 individuals currently.

All jobs in the DST had been matched against the McLagan and Mercer compensation surveys and the grade structure was built off the mid-points – based on the average between the 50<sup>th</sup> and 75<sup>th</sup> percentiles of the surveys. The grades have ranges of +/- 25% of mid-point and progressions from 12.5% to 15% - based on market data and consistent with market practices.

Mr. Mason then highlighted the Sample Benchmark Market Data and showed an example of an Accountant's position/salary. Mr. Hartzell commented that he has not seen McLagan survey information previously and asked, was it the same type of sample as Mercer? Mr. Wilson replied that it was similar but generally more broad-based.

Mr. Mason outlined the preliminary recommended salary structure, which was a 16-grade traditional structure, starting at Grade 10. Range widths are set at 50% and mid-point progressions show typical level differentiation between jobs in the structure. Staff who are allocated at the minimum of the range would be someone new to the role, those at the maximum would be generally well-tenured and high-performing. Grade-to-grade progress would be 12.5% for most.

Mr. Mason illustrated to the IAC the Cost Impact Analysis when DST jobs were slotted into the proposed new compensation structure. He explained that the 'Cost to Min' was the total cost to get employees within that grade to the minimum point and that 'Cost to Min Per EE' was the average cost per employee to get them to the minimum point of that grade. 'Cost to Mid and 'Cost to Mid Per EE' was the same, but referred to the mid-point of the grade. The expected total cost to get relevant DST staff to the minimum grade points would be \$440,783 and to the mid-points in the grade would be \$1,209,498.

Administrative considerations to bear in mind are the ongoing program maintenance. Mr. Mason reported that organizations generally update their structure annually and conduct a market study every 2-3 years, depending on headcount growth. With respect to implementing the proposed salary increases, it was recommended that everyone be moved to the grade minimum point and then adjustments made based on relevant factors such as tenure, experience, job duties and performance. It was also recommended that the DST move quickly on the implementation and do not 'phase in' changes. Mr. Mason then asked the IAC if they had any questions.

Mr. Triplett asked how much the bonus structure in peer organizations impacted the total costs, other than the move to mid-point. Mr. Mason responded that it depends on what level was being referred to – for example, CIOs were more of an impact than at the Analyst position. Incentive opportunities for more senior positions at peer groups would be higher than at the lower staffing levels. Mr. Triplett then asked if consideration was given to median point vs 75% and Mr. Wilson responded that an Analyst might be at 10%, a CIO might be 30-40%, an Accountant might not have a bonus at all. The range was wide in incentive programs. Mr. Mason also added that the balance between what is practical and what is ideal had to be taken into account.

Mr. Hartzell asked if the data included in the Sample Benchmark Data included bonuses or was it referring only to salary and Mr. Mason confirmed the figures were salary only.

Mr. Mebane asked if the entire staff knows and understands the process that was undertaken and asked for clarification that we have the budget to cover this new structure. Mr. SigRist responded that money has been set aside by the Legislature to cover salary and implementation costs. Department staff have been kept in the loop on the new structure and know that, upon implementation, their position would come out from under the Human Resources Act. For further transparency, staff were all invited to attend an online meeting earlier today with Mercer.

In light of Mercer's recommendations, Mr. Mebane asked if it was planned to move quickly or to consider a phased-in approach to the new structure? Mr. SigRist responded that his personal view would be to move forward quickly and not phase in changes, as employee morale needs to be considered. It is also the case that the costs to get the staff to mid-point needs to be compared to the overall cost of investing. Mr. Mebane thought it was a reasonable adjustment.

Mr. Triplett asked if a move to the minimum or the mid-point was being favored and Mr. SigRist replied that the mid-point would be ideal. Individuals would not necessarily go to mid-point – we would expect to see more of the high-performers at that point.

Mr. Mebane commented that this was an opportunity to make a great management tool and recommended that we move to implementing as quickly as possible.

Mr. Triplett asked if there was any difference between the Mercer and McLagan data – was one significantly higher? Ms. Choi responded that Mercer tended to be slightly higher, on aggregate.


Ms. Cowell asked if the IAC had any further questions and, there being none, motioned to conclude the open session and move into closed session. Mr. Anarella seconded the motion.

Ms. Cowell gave her thanks to all people in attendance and on the call for their time and requested that those involved in the closed session hang up on the current call and dial into the new number for the closed session.

**ADJOURNMENT**

The meeting was adjourned at approximately 10.32 a.m.

**APPROVED BY:**

  
\_\_\_\_\_  
**JANET COWELL**  
**STATE TREASURER AND CHAIR**