

MERCER WEBCAST

INVESTMENT MANAGEMENT FUNCTION IN PRIVATE FOUNDATIONS & EDUCATIONAL ENDOWMENTS: TRENDS IN PAY, PERFORMANCE & ROLES

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QUESTIONS?

Please type your question in the Q&A section of the toolbar and we will do our best to answer it.

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Agenda

What we'll cover today

- Highlights from Mercer's 2014 Compensation Survey of Investment Groups Within Educational Endowments and Foundations
- High level approach to investment management incentive plan design
- Trends in performance measurement
- Evolution of the Chief Investment Officer's role vis-à-vis the Investment Committee of the Board of Directors
- And a stay tuned...

Mercer's Compensation Survey: Investment Groups within Educational Endowments and Foundations

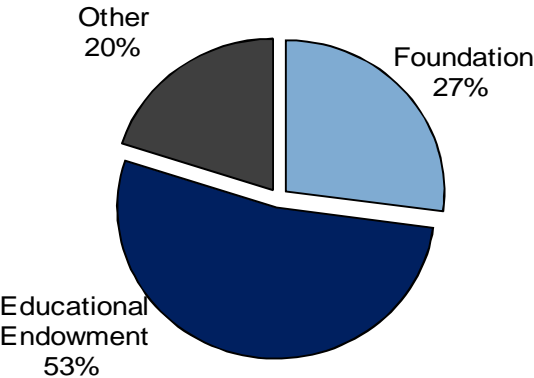
Background

- Annual survey begun 10 years ago
- 2014 sample characteristics:
 - 70 participating organizations
 - 716 incumbents
 - \$4.2 billion median assets under management
 - 51% = average allocation to alternative investments
 - 30% of organizations manage pension assets
 - 9.1% median 3 year investment performance

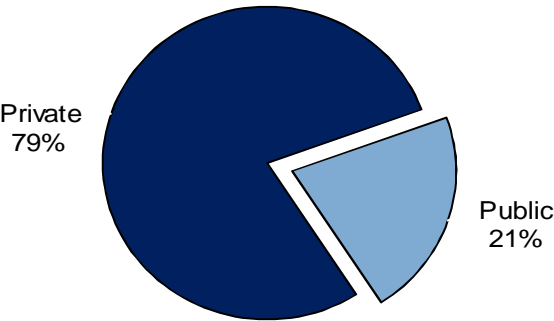
Mercer's Compensation Survey: Investment Groups within Educational Endowments and Foundations

Participant Profile

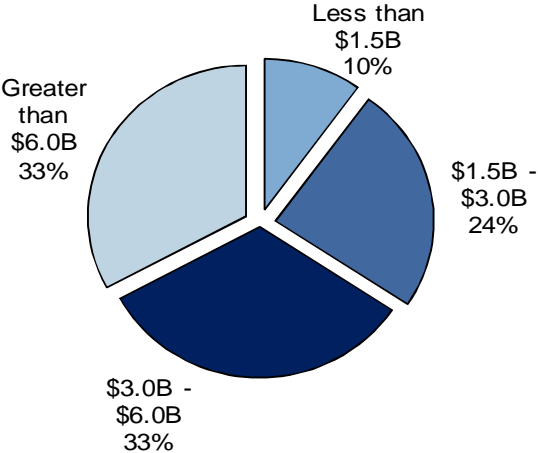
Type of Organization



Type of Educational Endowment



Total Assets Under Management (AUM)



Mercer's Compensation Survey: Investment Groups within Educational Endowments and Foundations

11 benchmark positions

- Top Investment Officer
- Top Portfolio Strategy/Asset Allocation Executive
- Senior Investment Executive
- Second Level Investment Executive
- Senior Investment Analyst
- Intermediate Investment Analyst
- Junior Investment Analyst
- Senior Investment Operations Executive
- Investment Operations Director/Manager
- Investment Reporting Manager
- Senior Risk Management Executive

Mercer's Compensation Survey: Investment Groups within Educational Endowments and Foundations

Survey highlights: salaries; incentive use; competitive positioning

Area	Mercer Survey Findings
Salary Increases	<ul style="list-style-type: none">• 99% gave increases to at least 1 member of investment staff• Median increase = 3.0%; average = 5.7%
Incentive Plan Use	<ul style="list-style-type: none">• 96% provide incentive compensation
Competitive positioning versus market	<ul style="list-style-type: none">• 67% target market median for base salary• 59% target market median for total cash

Mercer's Compensation Survey: Investment Groups within Educational Endowments and Foundations

Survey highlights: incentive plan design features

Area	Mercer Survey Findings
Incentive Plan Eligibility	<ul style="list-style-type: none">• 100% include Top Investment Officer and Senior Executives• 98% include Second Level Executives• 87% include Investment Analysts
Measurement Approach	<ul style="list-style-type: none">• 88% are predominantly quantitative (formulaic)• 12% are predominantly qualitative• Typically align pay with portfolio performance and individual performance contribution
Total Portfolio Performance Measures	<ul style="list-style-type: none">• 98% relative to the policy portfolio• 30% relative to a peer group• 13% using absolute/real return

Mercer's Compensation Survey: Investment Groups within Educational Endowments and Foundations

Survey highlights: incentive plan design features (continued)

Area	Mercer Survey Findings
Measurement Period	<ul style="list-style-type: none">• 80% use 3 year rolling period
Incentive Opportunity Range	<ul style="list-style-type: none">• 50% to 200% of target incentive opportunity
2013 Actual Incentive Payouts	<ul style="list-style-type: none">• 136% of target incentive was average payout

Mercer's Compensation Survey: Investment Groups within Educational Endowments and Foundations

Survey highlights: incentive plan design features (continued)

Area	Mercer Survey Findings
Performance Standards	<ul style="list-style-type: none">• Threshold typically 0 bps above the benchmark policy• Target typically ranges from 50 to 150 bps above the benchmark policy• Superior (maximum) typically ranges from 100 to 300 bps above the benchmark policy
Deferred Compensation	<ul style="list-style-type: none">• 49% require deferral of portion of bonus• Typical period = 2 years• Step vest• Credited with the endowment's rate of return

Approach to Investment Management Incentive Plan Design

- Involve key stakeholders
- Establish a total compensation strategy
- Address key design features in the context of:
 - Performance objectives/focus
 - Competitive market practices
- Strengthen performance management process and tools
- Be clear about governance roles and process

Approach to Investment Management Incentive Plan Design

Sample total compensation strategy areas to address

1. Compensation strategy in context of performance focus and talent strategy
2. Purpose of different forms of remuneration
3. Definition of competitive market
4. Desired competitive positioning and mix versus market
5. Degree of emphasis on external and internal equity
6. Incentive plan design principles
7. Plan for monitoring effectiveness
8. Governance roles
9. Communications strategy

Approach to Investment Management Incentive Plan Design

Sample incentive plan design areas

1. Design principles should address:

- Eligibility
- Degree of risk/reward leverage
- Desired emphasis on team and individual performance
- Desired emphasis on quantitative versus qualitative performance
- Individual award determination
- Link to high performing behaviors
- Role of discretion
- Desired degree of simplicity
- Desired degree of transparency/openness in communications
- Payout timing

Approach to Investment Management Incentive Plan Design

Sample individual performance measurement areas

1. Quality of financial result
2. Degree of difficulty
3. Risk management
4. Portfolio management
5. Thought leadership
6. Communication and interaction with the board
7. Leadership competencies

Trends in Performance Measurement

1. Governance review to define roles and responsibilities
2. Leaning toward broad asset class categorization
3. Adoption of broad public benchmarks with premium for illiquidity
4. Risk aware portfolio construction and performance measurement
5. Focus on active risk to define excess return standards, less driven by peer group results
6. Review of quantitative and qualitative aspects of historical performance to determine incentive compensation
7. Inclusive of organization specific qualitative factors

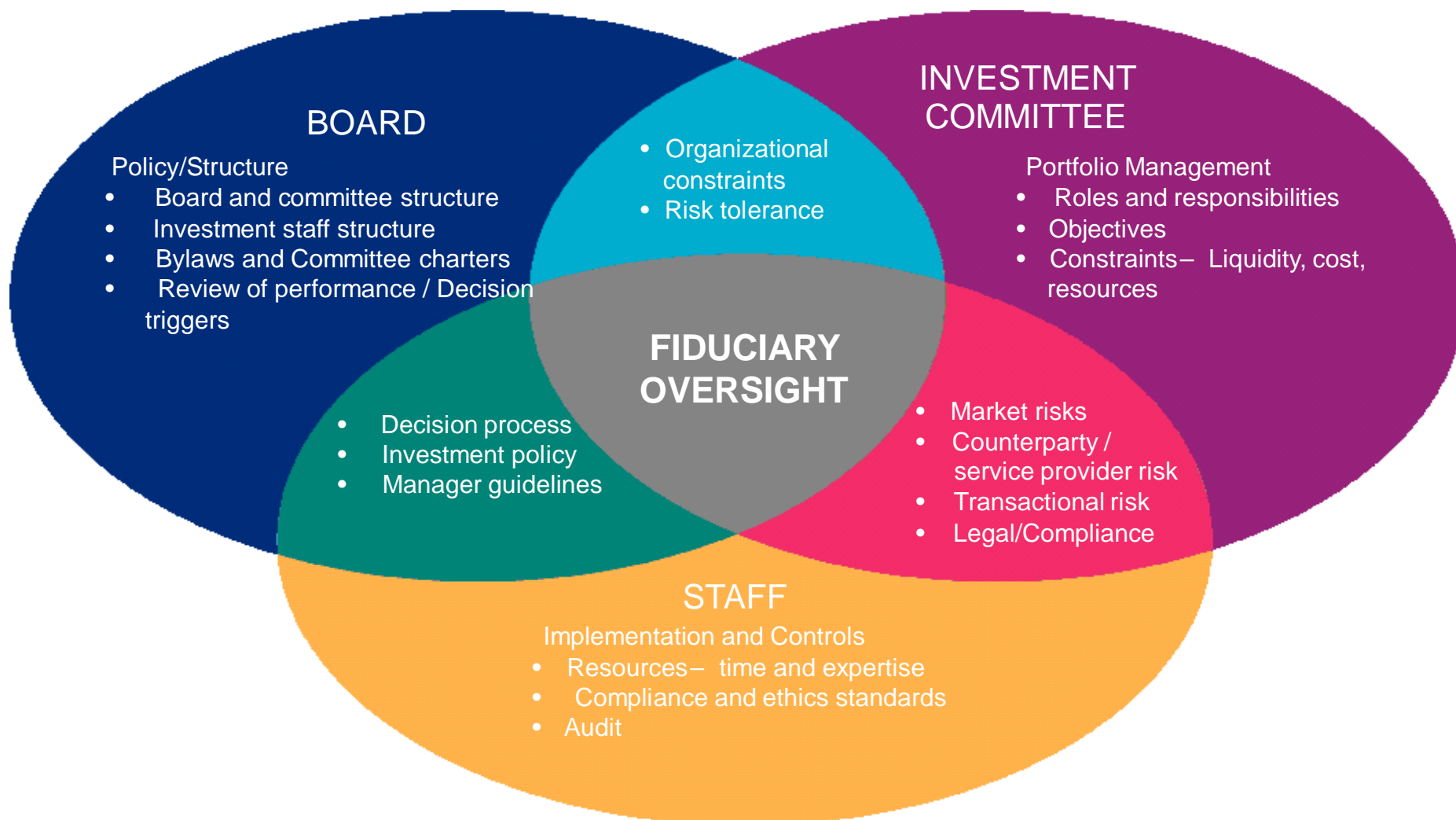
Evolution of the Chief Investment Officer's (CIO's) role vis-à-vis the Investment Committee of the Board

Area	Typical CIO Role vis-à-vis Investment Committee (IC)
Idea Generation	<ul style="list-style-type: none">• CIO plays lead role in bringing new investment ideas to the IC for the committee's consideration
Strategic Asset Allocation	<ul style="list-style-type: none">• CIO along with other investment staffs will typically perform the asset allocation analysis for the review and approval of the IC
Investment Structure	<ul style="list-style-type: none">• Similar to the asset allocation process, the CIO and other investment staffs will suggest recommended investment structure for each of the asset classes and solicit feedback from the IC

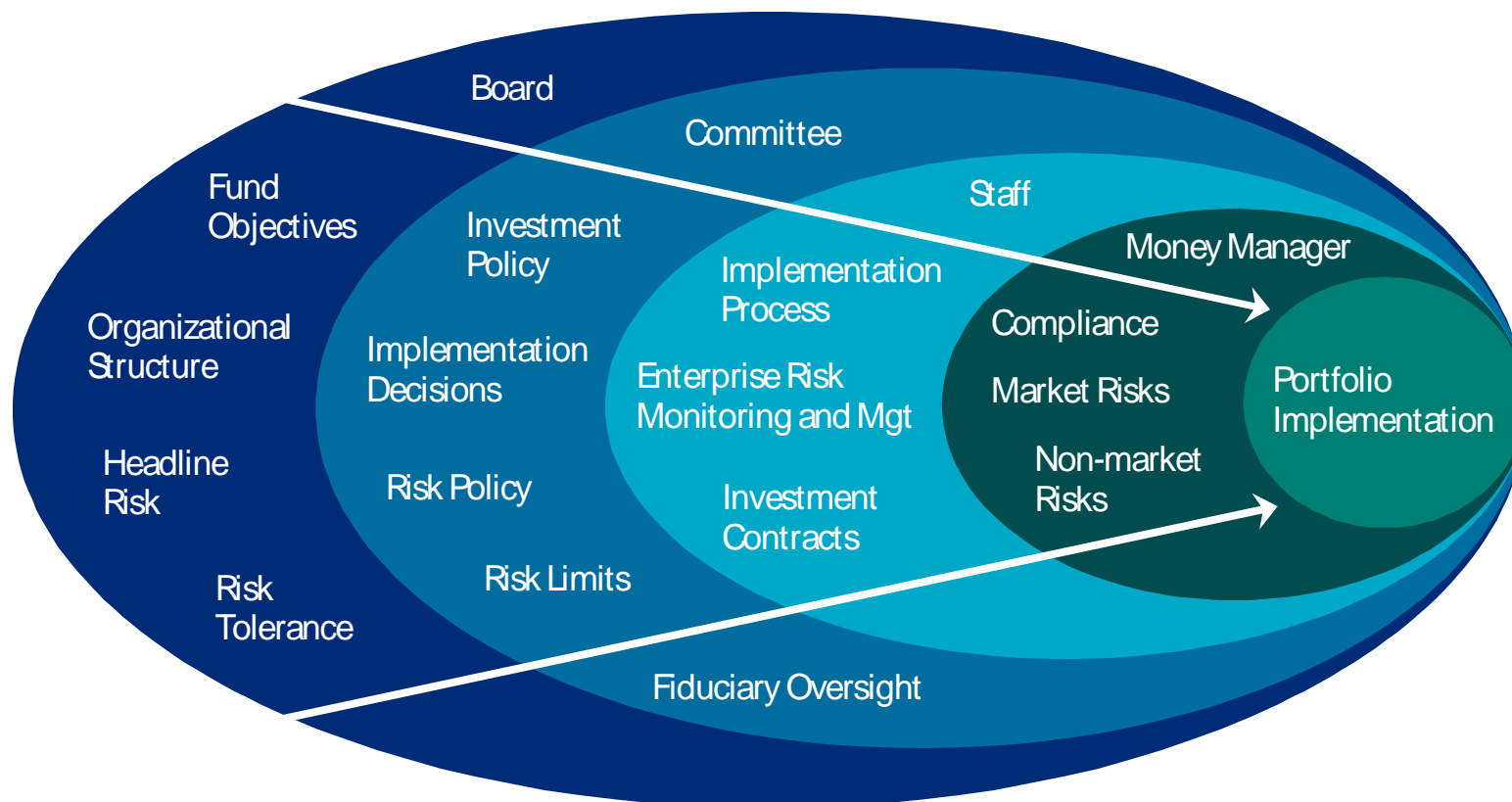
Evolution of the Chief Investment Officer's (CIO's) role vis-à-vis the Investment Committee of the Board

Area	Typical CIO Role vis-à-vis Investment Committee
CIO flexibility to make portfolio changes	<ul style="list-style-type: none">• Range of asset allocation change the CIO and the investment staff can make without approval from the IC has widened over time• Greater use of tactical asset allocation and dedicated opportunistic allocation within the portfolio have only expanded the flexibility given to the investment staff• Use of cross asset class managers has given CIOs even greater flexibility

Governance Models



Governance Models



Next Mercer Webcast: Investment Management Career Paths

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Stay Tuned for More on Applying Mercer's Career Framework to Investment Management Roles

Career Path Guides

Job Related Information

Major responsibilities

Investment specific experiences

Broadening experiences

Career Path Guidance

Typical feeder roles

Potential next roles

Core competencies/skills

Technical competencies/skills

Questions



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