



ERICK RUSSELL
TREASURER

State of Connecticut
Office of the Treasurer

MEMORANDUM

TO: Members of Investment Advisory Council Talent Resources Committee

FROM: Erick Russell, State Treasurer and Council Secretary

DATE: October 4, 2023

**SUBJECT: Investment Advisory Council Talent Resources Committee
Special Meeting – October 6, 2023**

Enclosed is the agenda for the Investment Advisory Council Talent Resources Committee special meeting on Friday, October 6, 2023, starting at 8:30 A.M. The meeting will be held virtually via Zoom.

The following subjects will be covered at the meeting:

- Item 1: Approval of the Minutes of the September 13, 2023, special meeting**
- Item 2: Opening Comments by the Chair**
- Item 3: Committee Goals Discussion**
- Item 4: Executive Session**

Executive Session to discuss incentive compensation plan design options and the potential financial effect on PFM current investment staff salaries and the recruitment of new investment staff.
- Item 5: Committee Recommendations Discussion**
- Item 6: Comments by the Chair**
- Item 7: Adjournment**

We look forward to reviewing these agenda items with you at the October 6th special meeting. Please confirm your attendance with Raymond Tuohey (raymond.tuohey@ct.gov) as soon as possible.

ER/rt

**DRAFT VERSION – MINUTES OF THE INVESTMENT ADVISORY COUNCIL TALENT RESOURCES
COMMITTEE SPECIAL MEETING**

WEDNESDAY, SEPTEMBER 13, 2023 – SUBJECT TO REVIEW AND APPROVAL

**FINAL VERSION OF THESE MINUTES WILL BE POSTED AFTER APPROVAL OF THE INVESTMENT
ADVISORY COUNCIL TALENT RESOURCES COMMITTEE AT THE NOVEMBER 8, 2023 MEETING**

MEETING NO. 524

Members present: Myra Drucker, Chair
William Murray
Attended Exec.Sess. Via Audio Patrick Sampson
D. Ellen Shuman

Others present: Treasurer Russell
Thomas Fiore, Investment Advisory Council Member
William Myers, Investment Advisory Council Member
Harry Arora, Investment Advisory Council Member
Ginny Kim, Assistant General Counsel, Chief Compliance and
Diversity Officer
Gary Hudepohl, Hudepohl and Associates
Ted Wright, Chief Investment Officer
Raymond Tuohey, Executive Secretary

Guests: Public Line

With a quorum present, Chair Drucker called the Investment Advisory Council (“IAC”) Talent Resources Committee special meeting to order at 1:01 p.m.

Approval of the Minutes of the August 4, special meeting

Chair Drucker called for a motion to accept the minutes of the August 4, 2023, IAC Talent Resources Committee Meeting. Mr. Murray moved to approve the minutes. The motion was seconded by Ms. Shuman. There being no further discussion, the Chair called for a vote to accept the minutes of the meeting, and the motion passed.

Opening Comments by the Chair

Chair Drucker welcomed the IAC Talent Resources Committee members and provided some brief comments regarding the purpose of the meeting.

PFM Compensation Study – Peer Group Update

Gary Hudepohl, of Hudepohl and Associates, updated the committee on any recommended changes to the peer group for future PFM compensation studies.

Executive Session

Chair Drucker asked for a motion to move into Executive Session. **A motion was made by Mr. Murray, seconded by Ms. Shuman that the IAC Talent Resources Committee enter in to Executive Session to discuss (1) PFM’s current compensation philosophy and the effect of any potential changes on current investment staff salaries and the recruitment of new investment staff, and (2) additional compensation options including plan design choices and the potential effect on PFM current investment staff salaries and the recruitment of new investment staff at 1:09 p.m. The motion passed unanimously.** Thomas Fiore, Investment Advisory Council Member; William Myers, Investment Advisory Council Member; Harry Arora, Investment Advisory Council Member; Ted Wright, Chief Investment Officer; Ginny Kim, Assistant General Counsel, Chief Compliance and Diversity Officer; and Gary Hudepohl, Hudepohl Associates, were invited to attend the Executive Session.

Chair Drucker reconvened the regular session at 3:27 p.m. **Chair Drucker noted that no substantive votes or actions were taken during the Executive Session.**

Comments by the Chair

Chair Drucker made some brief comments regarding the substance of the meeting.

Meeting Adjourned

There being no further business, Chair Drucker called for a motion to adjourn the meeting. **Mr. Murray moved to adjourn the meeting, and the motion was seconded by Mr. Myers. There being no discussion, the motion passed, and the meeting was adjourned at 3:30 p.m.**

**Talent Resources Committee
Total Compensation Review Project
Part 1 – Public Session**

Committee Goals

C.G.S. 3-13a provides that the Treasurer establishes the salary ranges “in consultation with the Investment Advisory Council.” The Talent Resources Committee goals are in furtherance of the IAC’s function:

- Review options available to make the total compensation package more attractive to support recruitment and retention of highly qualified and motivated investment staff, which correlates to high CRPTF performance.
- Submit recommendations to the IAC.

Total Compensation Package Considerations

Some options to consider for total compensation to be more competitive include paying (a) higher base salaries, (b) base salary + incentive plan, and/or (c) base salary + retention bonus.

At the September 13, 2023, committee meeting, educational time was allocated to incentive plan design. Additionally, the structure of other public fund incentive plans, including the financial and non-financial components, was discussed.

Research was done to determine how many of the top public funds had an incentive plan and if there was any difference in investment returns between the funds that implemented a plan and those that did not.

Market Research

- 55% of the Top 40 U.S. public plan sponsors, sovereign wealth funds and state investment agencies (AUM \$432B to \$35B) have an incentive plan.

Correlation to Performance

- Various factors contribute to better investment returns, including paying market competitive compensation.
- There is a direct correlation between paying competitive market compensation in attracting, recruiting, and retaining higher skilled investment professionals.

Correlation to Performance (cont.)

- While staffing and retention data is not available from these 40 funds, it is reasonable to assume that a fully staffed investment office with long tenure in key investment positions will likely result in better investment results.
- For the 5-Year period ended June 30, 2022, 36 of the Top 40 outperformed the benchmark.
- 21 of 23 (91%) funds offering an incentive plan outperformed their benchmark for the 5-Year period at June 30, 2022.
- 15 of 17 (88%) funds not offering an incentive plan outperformed their benchmark for the 5-Year period at June 30, 2022.
- The average outperformance for the funds offering an incentive plan was 99 basis points compared to 66 for those not offering an incentive plan.