



Agenda Item 6

May 14, 2013

ITEM NAME: Revised Investment Office Management Classifications

PROGRAM: Administration

ITEM TYPE: Action

RECOMMENDATION

Approve the following recommendations of the Investment Office Classification and Organization Redesign Project:

- Submission of the Classification Proposal to the California Department of Human Resources (CalHR) and the State Personnel Board.
- Salary range for the Associate Investment Manager classification
- Revised incentive compensation structure for investment management classifications based on the new functional specialty groupings (does not require CalHR approval)

EXECUTIVE SUMMARY

The second phase of the Investment Office Classification and Organization Redesign Project has concluded with specific recommendations to strengthen the Investment Office's (INVO) hierarchical and classification structures, as well as the incentive compensation structure for the investment management classifications.

A revised series classification specification has been drafted which includes proposed classification titles and task descriptions which better communicate the broad range of investment-related work performed by the incumbents (Attachment 1). Broadening of the class series also includes the creation of an Associate Investment Manager classification between the Investment Officer III and the former Portfolio Manager classifications. This class will serve as a "bridging" class to better prepare our internal Investment Officer IIIs for the jump in level of responsibilities to the Investment Manager (currently Portfolio Manager) level.

STRATEGIC PLAN

This agenda item supports Goals A and B of the 2012-17 Strategic Plan, including recruitment and retention of individuals with the skills and capabilities necessary to meet investment performance objectives and effectively manage operational and investment risk.

BACKGROUND

In support of the Investment Office Roadmap strategic priority to strengthen its organizational systems and controls, staff has provided the Committee with three informational presentations (December 2011, June 2012, and April 2013) regarding work that has been undertaken to achieve this important goal.

In April 2013, staff presented a detailed information item on the progress made to-date and next steps in the Investment Office Classification and Organization Redesign Study. This item is a follow-up item for formal approval to submit the classification proposal and related documents to CalHR and the State Personnel Board.

Phase I (Assessment) was completed in January of 2012. Phase II (Development of proposals and submission to CalHR and the State Personnel Board) will be completed with the Committee's approval of the recommendations above. Phase III (Implementation) will begin once approval is received from CalHR and the State Personnel Board.

ANALYSIS

Over the past several years, the Investment Office portfolio construction and complexity evolved to the point that without commensurate changes to its classification and organizational structures, the organization is at risk in its efforts to recruit and retain the full complement of skills and functions necessary to effectively manage the portfolio.

Hierarchical/Classification Structure

A primary goal of the project was to strengthen the organizational structure by aligning the civil service classifications with reporting structures and functional duties. This included determining the number of organizational levels needed, the asset classes and/or programs associated with each classification, identification of working titles, clearer distinctions of responsibilities among classification levels, documented position allocation guidelines, and documented desirable qualifications for each classification.

This proposed revision to INVO's hierarchical/classification structure (summary chart included as Attachment 2) was supported by input from McLagan, who provided CalPERS with analysis related to investment management functional groupings, key job level distinctions, supervisory responsibilities, and typical education and experience. This information, combined with INVO management's vision of optimizing investment management performance, provided the guidance for the proposed hierarchical/classification structure.

Revised Series Classification Specification

The current Senior Investment Officer/Portfolio Manager series classification specification is in need of updating to achieve CalPERS strategic goals to recruit and

retain individuals with the skills and capabilities needed to: meet investment performance and financial management objectives; effectively manage operational and investment risk; and manage investment accounting and financial reporting functions. Attachment 1 documents the draft revisions to the class titles, series definition, factors affecting position allocation, definition of classification levels, minimum qualifications, knowledge and abilities, and the additional desirable qualifications. The proposed changes will help meet the leadership needs of both INVO and the Financial Office.

In addition to modifications to the existing classification specification, a bridging classification of Associate Investment Manager is being proposed to provide staff at the Investment Officer III level the necessary experience to better prepare them for the responsibilities of the Portfolio Manager level. Broadening the classification series to include the Associate Investment Manager will enhance the skill and capability of the investment staff and is an integral part of upward mobility. Further, the concept of broadening the class series is consistent with State efforts to identify the general knowledge, skills, abilities, and personal characteristics required for successful job performance in a specific occupational group.

Associate Investment Manager Salary Range

The recommended salary range for the Associate Investment Manager classification was determined through careful analysis of existing salary ranges of other investment management classifications and review of McLagan salary data. The chart below provides the proposed annual salary range for the proposed classification along with a comparison to the existing Investment Officer III and the proposed class titles of Investment Manager, Investment Director, and Managing Investment Director.

Class Title (Proposed new titles)	Annual Minimum Salary (\$)	Annual Maximum Salary (\$)	Percentage Diff. Between Classes	Percentage of Range Width
Investment Officer III	93,528	108,276		15.8
			41.3	
Associate Investment Manager	102,000	153,000		50.0
			24.2	
Investment Manager	126,000	190,000		50.8
			41.1	
Investment Director	179,000	268,000		49.7
			46.3	
Managing Investment Director	262,000	392,000		49.6

The recommended base salary range for the proposed Associate Investment Manager classification provides for a \$5,023 (6.2%) overlap with the lower-level Investment Officer III salary range (comparing the top step of the Investment Officer III with the bottom step of the Associate Investment Manager). It also provides for a 41.3% difference at the top salary steps, between the Investment Officer III and the Associate Investment Manager classifications. This salary difference recognizes the

substantial increase in responsibilities between the two classifications (full journey level to managerial). In addition, the recommended salary range for the Associate Investment Manager classification provides for a 50% range width, consistent with the CalPERS salary setting policy for investment management classifications.

Incentive Compensation Schedule Revision

The current CalPERS Performance Award Schedule (see Attachment 3) is designed strictly by classification level, with specified incentive compensation award ranges broadly described for all incumbents in an investment management classification. Given the proposed new hierarchical/classification structure for INVO, and to provide more specificity to incentive compensation awards based on functional roles, the following chart describes the proposed revisions to the incentive compensation schedule for the INVO classifications which are the subject of this project.

	Managing Investment Director ¹	Investment Director	Investment Manager	Associate Investment Manager
Internal Investment Management & Trading	0 – 75%	0 – 75%	0 -75%	0 – 60%
External Investment Management	0 – 75%	0 – 60%	0 - 60%	0 – 45%
Asset Allocation, Research, and Risk	0 – 75%	0 – 60%	0 – 60%	0 – 45%
DC and Affiliate Fund Administration	N/A	0 – 45%	0 – 45%	0 – 25%
Investment Servicing	0 – 60%	0 – 45%	0 – 45%	0 – 25%
Corporate Governance & Targeted Investment Programs	0 – 60%	0 – 45%	0 – 45%	0 – 25%

The above chart displays the proposed incentive compensation schedule ranges with no change to the CalPERS Board of Administration’s currently approved maximum of 75%. The proposed ranges are intentionally broad to provide CalPERS with the discretion to approve varying levels of incentive compensation within each classification and functional grouping. This structure recognizes that there are several functional specialty areas within each functional grouping that warrant

¹ Chief Operating Investment Officer is equivalent to Managing Investment Director

differing levels of incentive compensation reflecting their roles and relevant market compensation for the functional job roles.

BENEFITS/RISKS

As noted in staff's presentation in April 2013, this study was intended to help mitigate some of the high-risk areas identified in the INVO Risk Heat Map (Attachment 4) and enable delivery of INVO's Target Operating Model (TOM), including recruitment and retention of investment managers with the skills and capabilities necessary to meet investment performance objectives and effectively manage operational and investment risk.

Revisions to the classification specification and the addition of the Associate Investment Manager classification will support INVO's ability to recruit and retain quality investment management staff. The current specification focuses too narrowly on portfolio management and does not accurately reflect the broad range of functions, skills, and responsibilities of the investment management or financial accounting functions. With an up-to-date specification, recruitment efforts should result in a better qualified applicant pool.

Given the proposed new hierarchical/classification structure for INVO, and to provide more specificity to incentive compensation awards based on functional roles, the recommended revisions to the performance award schedules will help to simplify and provide clarity around the incentive targets and ranges. The proposed incentive compensation ranges are intentionally broad to provide CalPERS with the discretion to approve varying levels of incentive compensation within each classification and functional grouping. This structure recognizes that there are several functional specialty areas within each functional grouping that warrant differing levels of incentive compensation based upon their roles and relevant market compensation for those functions.

ATTACHMENTS

- Attachment 1 – California State Personnel Board specification revision for Senior Investment Officer/Portfolio Manager, CalPERS series
- Attachment 2 – Investment Office Hierarchical/Classification Structure describing the proposed new functional groupings by classification
- Attachment 3 – Current and Proposed CalPERS Performance Award Schedule for comparison revised incentive compensation structure
- Attachment 4 – 2012 INVO Risk Assessment-Rankings identifying Investment Office risks and prioritization for mitigation

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