


**COMMONWEALTH OF PENNSYLVANIA
PUBLIC SCHOOL EMPLOYEES' RETIREMENT SYSTEM**
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DATE: July 20, 2007
SUBJECT: Policy Manual for Investment Office Professional Staff
TO: Personnel Committee
FROM: Jeffrey B. Clay, Executive Director 

At the last Personnel Committee on June 21, 2007, the Committee, and subsequently the Board, approved the following three critical recommendations derived from McLagan Partners' (McLagan) Investment Office Classification and Compensation Study for PSERS' Investment Professionals (Study).

1. Adoption of the new classification structure for the Investment Office Professional Staff.
2. Approval of a plan, effective July 1, 2007, to increase the base salaries of the Investment Office Professional Staff over a two-year period.
3. Approval of a new salary schedule for the Investment Office Professional Staff that accommodates the contemplated base salary increases.

The Committee and Board took no action with respect to McLagan's recommendations concerning PSERS' current Investment Office Incentive Compensation Guidelines, postponing the matter to a future meeting.

Each of the items approved by the Committee and Board are components of a proposed Policy Manual For Investment Office Professional Staff (Policy). Although an initial draft of the Policy was provided to the Committee for its last meeting, I noted that with the exception of the three action items that were approved, action on the remainder of the proposed Policy would occur at a future meeting. This would allow Staff additional time to finalize the Policy, taking into account the Committee and Board's discussion of the issues at their June meetings.

That future discussion is now scheduled for the Committee's meeting on August 3, 2007. As a consequence, attached for the Committee's review, discussion, and ultimate recommendation to the Board, is a draft of the Policy. The Policy generally follows the various recommendations made in McLagan's Study, with the exception of those pertaining to incentive compensation. In addition to the three items noted above, the proposed Policy also accomplishes the following, all of which were approved in principle by the Board at its May 4, 2007 meeting:

- Selects the Study's Public Funds Select Group as the peer comparator group for determining both the base salary and total maximum pay opportunity for PSERS' Investment Professionals.
- Targets the base salary and the total maximum pay opportunity for PSERS' Investment Professionals to the median of the 2006 Public Funds Select Group's maximum total pay opportunity.
- Delegates to Staff, subject to the guidelines established in the Policy, the authority to make the annual promotions among all investment professional job classes below the Chief Investment Officer (CIO) and the Managing Directors.
- Establishes the process for annual base salary adjustments, with the Board retaining authority for adjustments to the salaries of the CIO and Managing Directors; and the CIO and Executive Director, subject to the Policy guidelines, having responsibility for salary adjustments for all other Investment Professional job classifications.
- Grants Staff the discretion to award an individual an increase of up to 2.5% of annual base salary after successfully completing each of the three levels of the Chartered Financial Analyst (CFA) exam.
- Establishes the goal to collect competitive market compensation data every two to three years, or as necessary (e.g. if a key position becomes vacant).

The Policy will also reference the Board's proposed Investment Office Incentive Compensation Plan Policy for FY 2007-2008, which is also being considered by the Committee at its August 3rd meeting. This policy generally follows the Board's existing incentive compensation plan, but is being updated, *inter alia*, to reflect the new classification system adopted by the Board.

At the Committee's meeting, I will be prepared to review the Policy and answer any questions Committee members may have concerning the Policy. In the interim, if you have any questions concerning the above, please feel free to contact me.

***Policy Manual for
Investment Office Professional Staff***

of

***the Commonwealth of Pennsylvania
Public School Employees' Retirement Board***

As adopted by
the Board of Trustees
on August 3, 2007
Effective July 1, 2007

Date Last Reviewed by Chief Counsel: August 3, 2007

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INTRODUCTION

The Board (Board) of the Public School Employees' Retirement System (PSERS) is an independent administrative board of the Commonwealth of Pennsylvania. The members of the Board stand in a fiduciary relationship to the PSERS' members regarding the investments and disbursements of moneys of the Fund. The members of the Board, as trustees of the Fund, have exclusive control and management of the Fund and full power to invest the Fund, subject to observance of such standards of fiduciary conduct and such other terms, conditions, limitations and restrictions on the making of investments as may be provided by law. Pursuant to the Public School Employees' Retirement Code 24 PA.C.S §8502(a), the Board has full classification and compensation authority for all its investment professional positions (Investment Professionals).

In keeping with the Board's fiduciary duties, PSERS' compensation program for its Investment Professionals is designed to provide, *inter alia*, full transparency for PSERS' members, beneficiaries, and other related constituents. As such, PSERS' compensation program for its Investment Professionals is administered under the Board's full and rigorous oversight and with careful supporting review provided by PSERS' Internal Auditor.

This Policy Manual has been developed to document PSERS' policies and to ensure consistency in the application of the programs. The policies and procedures described in this document outline the base salary and incentive pay programs as well as the job classification, staff development, and performance management programs for PSERS' Investment Professionals. Subject to further action by the Board, for all other human resource programs and corresponding policies outside the scope of this Policy Manual, PSERS shall follow the standards established by the Executive Board of the Commonwealth of Pennsylvania, i.e., benefit programs and employment policies such as leave usage and earnings, substance abuse, supplementary employment, Equal Employment Opportunity, the Governor's Code of Conduct, etc.

EXECUTIVE SUMMARY

In carrying out its fiduciary responsibilities, the Board administers a classification and compensation program and corresponding policies that reflect careful consideration of the following:

- To achieve its business and investment objectives, PSERS must be able to attract, motivate, and retain highly qualified experienced investment professionals needed to continue to generate above-average investment returns, and create significant value-added for members and retirees. A reasonable and competitive pay program is critical to achieve these objectives.
- While PSERS is a public organization, private sector firms are a key labor market for PSERS' investment professionals.
- An increasing number of large public funds are benchmarking their investment staffs' pay levels to the private sector.

Recognizing the above and in response to both the independent Classification and Compensation Study for PSERS' Investment Professionals (Study) authorized by the Board and presented by McLagan Partners in May 2007, and the Board's approval of many of the recommendations resulting from the study, PSERS' classification and compensation program is re-structured, effective July 1, 2007, to *inter alia*:

- Select the Study's Public Funds Select Group as the peer comparator group for determining both the base salary and total cash compensation for PSERS' Investment Professionals.
- Provide pay opportunities that target base salaries and the total maximum pay opportunity to the median of the large Public Fund peer group identified by the Study.
- Redefine the job classifications for Investment Professionals to the six job classifications identified in 2.1 of this manual. These classifications are consistent with market practices of similar public and private sector investment organizations.
- Reference PSERS' annually-approved Investment Office Incentive Compensation Plan Policy for each fiscal year, subject to changes necessary to reflect the new job classifications for the Investment Professionals.
- Establish a new pay schedule that reflects market competitive base salary ranges for each job classification based on median salary levels in the Public Pension Funds Select Group.

- Establish a process and guidelines for annual base salary adjustments and the periodic review of competitive market compensation data to ensure that salaries for Investment Professionals remain competitive.
- Establish guidelines to allow for salary increases for successful completion of each of the three levels of the Chartered Financial Analyst (CFA) exam.

The policies contained in this document support and implement the initiatives addressed above.

1. SALARY ADMINISTRATION

1.1. MISCELLANEOUS

The Board continually strives to have a compensation plan for professional staff of the Investment Office that attracts and retains highly qualified individuals, establishes internal equity of positions, and maintains external competitiveness.

Compensation decisions shall not be influenced by race, color, religion, sex, sexual orientation, national origin, disability, age, or ancestry.

The Board retains salary-setting authority for the Chief Investment Officer and the Managing Director positions. The Board delegates, subject to this Policy Manual, salary setting authority for all other Investment Professional positions to the Chief Investment Officer and the Executive Director.

Pay increases shall be based on performance, expanded job duties, retention, internal pay equity relationships, periodic market comparison of peers, or other relevant issues. Annual salary reviews will be conducted to make adjustments to pay based upon merit and competitive levels as necessary, as more particularly provided herein.

1.2. PEER COMPARATOR GROUP

The Board selects the following Public Funds Select Group as the peer comparator group for determining both the base salary and total maximum pay opportunities for PSERS' Investment Professionals:

- California Public Employees' Retirement System
- California State Teachers' Retirement System
- Florida State Board of Administration
- Division of Investment Services, State of Georgia
- Michigan State Retirement Systems
- New Jersey Division of Investment
- New York State Common Retirement Fund
- North Carolina Retirement Systems
- Ohio Public Employees' Retirement System
- State Teachers Retirement System of Ohio
- Pennsylvania State Employees Retirement System
- Teachers Retirement System of Texas
- Virginia Retirement System
- Washington State Investment Board
- State of Wisconsin Investment Board

1.3. PAY SCHEDULE

The Board adopts the following Pay Schedule for each of the six pay groups identified in Section 2.1 of this Policy Manual, effective July 2007.

Investment Pay Schedule

	⇒ Pay Group	1	2	3	4	5	6
↓ Pay Level							
1	Hourly	20.45	32.72	44.99	57.26	71.58	102.25
	Biweekly	1,533.75	2,454.00	3,374.25	4,294.50	5,368.50	7,668.75
	Annually	40,000	64,000	88,000	112,001	140,010	200,001
<i>Midpoint</i>	<i>Hourly</i>	<i>30.67</i>	<i>40.90</i>	<i>56.24</i>	<i>71.57</i>	<i>89.47</i>	<i>127.81</i>
	<i>Biweekly</i>	<i>2,300.25</i>	<i>3,067.50</i>	<i>4,218.00</i>	<i>5,367.75</i>	<i>6,710.25</i>	<i>9,585.75</i>
	<i>Annually</i>	<i>59,991</i>	<i>80,000</i>	<i>110,005</i>	<i>139,991</i>	<i>175,003</i>	<i>249,996</i>
20	Hourly	36.81	49.08	67.49	85.89	107.37	153.38
	Biweekly	2,760.75	3,681.00	5,061.75	6,441.75	8,052.75	11,503.50
	Annually	72,000	96,000	132,010	168,001	210,016	300,011

Note: The midpoint is shown as a reference point only.

Salary ranges shall be determined based on competitive market data and will be collected periodically, every two to three years, or as necessary (e.g., when a key position becomes vacant).

The Pay Schedule identifies a minimum and maximum salary for each of the six pay groups identified in Section 2.1 of this Policy Manual, based upon the results of the most recent market study and the median of the Public Pension Funds Select Group.

Salaries (base compensation) and maximum pay opportunities (base salaries plus incentive compensation) for each incumbent shall be targeted to the median of the Public Pension Funds Select Group.

1.4. ANNUAL SALARY ADJUSTMENTS

In accordance with the chart below, the Chief Investment Officer, with the concurrence of the Executive Director, will determine movement within the salary range (lateral) for each individual in Pay Groups 1-4 based on an individual's overall annual performance evaluation (both quantitative and qualitative contributions) and an individual's position in the range at the time of the annual

review. The Board shall determine movement within the salary range (lateral) for each individual for individuals in Pay Groups 5-6. Annual salary adjustments are to be implemented separate from and prior to any fiscal year promotion action.

Performance Rating	Position in Salary Range Before Adjustment				
	1 st Quartile	2 nd Quartile	Midpoint	3 rd Quartile	4 th Quartile
Outstanding	10.0%	8.0%	7.0%	6.0%	4.0%
Exceeds Expectations	8.0%	6.0%	5.0%	4.0%	2.0%
Meets Expectations	6.0%	4.0%	3.0%	2.0%	0.0%
Below Expectations	0.0%	0.0%	0.0%	0.0%	0.0%

1.5. PROMOTIONS

Upon promotion (a move from one pay group to a higher pay group) an employee will receive a 9% pay increase per pay group/range or be placed at the minimum of the pay group/range, whichever is greater. Promotions to non-supervisory level jobs (Intermediate Investment Professional, Senior Investment Professional, and Portfolio Manager) will be determined for the beginning of each fiscal year by the Chief Investment Officer, with the concurrence of the Executive Director. Said promotions will become effective in July of that fiscal year. Promotions to these levels are not necessarily reflective of a change in position, but rather recognition of an individual's overall impact and contribution to the investment process.

1.6. SALARY INCREASE FOR COMPLETION OF CHARTERED FINANCIAL ANALYST (CFA) EXAM

The Chief Investment Officer, with the concurrence of the Executive Director, shall have the discretion, subject to an individual's position in the pay group/range and the overall performance evaluation (both quantitative and qualitative contributions), to award an individual an increase of up to 2.5% of annual base salary for having successfully completed a level of the three levels that make up the Chartered Financial Analyst (CFA) certification examination process. Said increase shall be effective prospectively from the date of the award. The maximum amount that can be awarded to an individual hereunder is 7.5% (2.5% x 3 levels = 7.5%).

2. JOB CLASSIFICATIONS

2.1. JOB CLASS STRUCTURE

Consistent with the market practices of similar public and private sector investment organizations, effective July 1, 2007, the Board adopts the following job classifications for all Investment Professional positions in the Investment Office for which the Board has exclusive classification and pay authority:

Job Title (Pay Group)	General Definition of Work	Minimum Experience and Training Requirements
Junior Investment Professional (PG 1)	This is entry-level professional investment work. An incumbent in this position will generally be new to the organization, require a significant amount of supervision, have minimal investment experience, and have job duties that are generally task oriented.	<ul style="list-style-type: none"> • Bachelor's Degree
Intermediate Investment Professional (PG 2)	This is professional investment work. An incumbent in this position will have some investment experience and a full understanding of their role within the PSERS organization. An incumbent for this position will perform more complex tasks and analysis and will require less direction in completing their assigned responsibilities.	<ul style="list-style-type: none"> • Bachelor's degree; and • Two years or more of relevant work experience in the investment industry; or • Master's degree in Business Administration or Investment-related field; or • Two years or more as a Junior Investment Professional with PSERS.
Senior Investment Professional (PG 3)	This is journey level professional investment work. An incumbent in this position will have extensive investment experience and fully understand PSERS organization. An incumbent in this position will be accountable for one or more specific functions within PSERS Investment Office. Incumbents are expected to generate ideas, perform complex tasks and analysis, and work independently.	<ul style="list-style-type: none"> • Bachelor's degree; and • Five years or more of relevant work experience in the investment industry; or • Three years or more of relevant work experience in the investment industry and successful completion of the Chartered Financial Analyst Certification program; or • Three years or more of relevant work experience in the investment industry and successful completion of an advanced certification/education program specified in the individual position description; or • Two years or more as an Intermediate Investment Professional with PSERS.

<p>Portfolio Manager (PG 4)</p>	<p>This is journey level professional investment work involving direct responsibility for one or more passive or active public market equity or fixed income investment portfolios or direct responsibility over a group of external investment managers (i.e. portfolio manager of managers). An incumbent in this position will be expected to make portfolio management decisions. In the case of the passive or active public market equity or fixed income portfolio manager, the incumbent will make buy and sell decisions based on the investment objectives and guidelines of portfolio(s) assigned to them. In the case of Portfolio Manager of managers, decisions will center around building a portfolio of managers to meet the investment objectives of PSERS. In both cases, incumbents in these positions will be accountable for generating returns within the prescribed guidelines.</p>	<ul style="list-style-type: none"> • Bachelor's degree; and • Six years or more of relevant work experience in the investment industry; or • Four years or more of relevant work experience in the investment industry and successful completion of the Chartered Financial Analyst Certification program; or • Four years or more of relevant work experience in the investment industry and successful completion of an advanced certification/education program specified in the individual position description; or • Two years or more as a Senior Investment Professional with PSERS.
<p>Managing Director (PG 5)</p>	<p>This is a senior management position within PSERS' Investment Office. An incumbent in this position has responsibility for one or more asset classes or functions, and is a part of PSERS' management team with direct oversight over the System's investment functions along with the Chief Investment Officer. The positions report directly to the Chief Investment Officer and are required to make presentations to the Finance Committee of PSERS as needed. Managing Directors, along with the CIO, are expected to work as a team in meeting the goals and objectives established by the Board. Managing Directors will be evaluated not only on their individual performance but also on the relative investment performance of the Fund. The Board must ratify all candidates for an investment director position.</p>	<ul style="list-style-type: none"> • Bachelor's degree; and • Seven years or more of relevant work experience in the investment industry; or • Five years or more of relevant work experience in the investment industry and successful completion of the Chartered Financial Analyst Certification program; or • Five years or more of relevant work experience in the investment industry and successful completion of an advanced certification/education program specified in the individual position description; or • Four years or more as a Portfolio Manager with PSERS.
<p>Chief Investment Officer (CIO) (PG 6)</p>	<p>This is a senior management position with oversight responsibility over the entire Investment Office. The CIO reports to the Finance Committee for all investment related matters and to the Executive Director for all administrative</p>	<ul style="list-style-type: none"> • Master's degree (or Bachelor's degree and CFA certification) and seven years of experience in the field of investments, five of which must have been in a

	<p>matters. The CIO is responsible and accountable for the results of the System's assets. The CIO is responsible for policy development, consultation, and coordination of investments for PSERS. The Board must ratify all candidates for the CIO position.</p>	<p>senior management or consultative position managing diverse asset classes of a billion dollars or more; or</p> <ul style="list-style-type: none"> • Four years or more as a Managing Director at PSERS; or • Any equivalent combination of experience and training.
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2.2. ASSIGNMENT TO JOB CLASS

All positions in the Investment Office for which the Board has exclusive classification and pay authority shall be assigned by the Chief Investment Officer, with the concurrence of the Executive Director, to one of six general job classifications identified in Section 2.1 of this Policy Manual and, as a consequence, to one of six corresponding pay groups/ranges on the PSERS' Investment Pay Schedule set forth in Section 1.3 of this Policy Manual. Each position shall be assigned to a pay group/range based upon:

- Level of responsibility
- Knowledge, skills, education, and experience required
- Comparable positions at other Public Pension Funds

The job classifications adopted by the Board represent the high-level job characteristics applicable to each position. More detailed responsibilities and job requirements are documented in the specific position descriptions for each class. The position descriptions may identify additional requirements for the specific Investment Office position. The primary differences from the Junior level (PG 1) through the Senior level (PG 3) are the years of experience, which lead to the incumbent working more autonomously and having a more direct contribution to the investment results of PSERS.

2.3. BOARD DISCRETION

The Board may at its discretion and at any time add, revise, or delete job classifications to remain competitive with the job market.

- 3. Performance Management (Reserved)**
- 4. Personal Trading (Reserved)**

5. Incentive Compensation

5.1. INCENTIVE COMPENSATION GUIDELINES

The Board adopts and incorporates policy for incentive compensation for the Investment Professionals as set forth in its Investment Office Incentive Compensation Plan Policy.

6. MISCELLANEOUS PROVISIONS

6.1. RECRUITMENT AND PLACEMENT

The filling of vacancies for Managing Directors and the Chief Investment Officer positions will be authorized by the Board and may involve active recruitment utilizing the services of an executive search firm.

The filling of vacancies for non-supervisory Investment Professional positions will be at the discretion of the Chief Investment Officer, with the concurrence of the Executive Director, and may involve internal promotions or active recruitment.

The filling of all Investment Professional vacancies will comply with the Commonwealth policies for filling senior level non-civil service positions. In addition to the employment reference checks required by Commonwealth policy, background checks utilizing the services of a national background search firm will be conducted for all Investment Professional positions that are filled. At a minimum these will include criminal history checks.

Consistent with Commonwealth policies and directives, recruitment shall not be influenced by race, color, religion, sex, sexual orientation, national origin, disability, age, or ancestry.

6.2. AT WILL EMPLOYMENT

The Public School Employees' Retirement Board reserves the right to terminate the employment of an Investment Professional at any time for any reason or no reason, except as prohibited by law.

6.3. SUCCESSION PLANNING

The Chief Investment Officer and Managing Directors are responsible for workforce and succession planning in their respective areas to ensure effective business continuity. Areas to address for this purpose should include knowledge management, staff development, career progression, and staffing projections.

6.4. EXCEPTIONS

The Board reserves the right to revise or make exceptions to this Policy Manual at anytime.