

March 28, 2023

Dear Members of the Investment Advisory Council:

The Investment Advisory Council (IAC) Compensation Subcommittee met by video conference on Monday, February 13, 2023, at 11:30 am. I was joined on the call by fellow subcommittee members, Peter Collins, and Gary Wendt, and by IAC Member Vice Chair, John Goetz. Also in attendance were Lamar Taylor, SBA Staff, and Josh Wilson from Mercer.

The purpose of the meeting was to review Lamar Taylor's memo, dated December 1, 2022, to the IAC Compensation Subcommittee members. That letter was drafted as a follow up on a directive from the Subcommittee to Mr. Taylor in September 2022 to provide compensation recommendations to the Subcommittee.

Mr. Taylor briefly reviewed the letter and his recommendations, and the Subcommittee discussed each of the recommendations, ultimately recommending support, further modification or further study as follows:

Mr. Taylor had recommended increasing the SBA's base compensation target to the 75<sup>th</sup> percentile of the SBA's peer plans. This recommendation was made based on the fact that despite having targeted the 50<sup>th</sup> percentile of peer plans since 2008, the SBA's base compensation actually ranked only in the bottom quartile of peer plans, due to the lag in compensation data and the periodicity of the SBA's pay plan updates. Mr. Taylor also believed targeting the top quartile of peer plans was appropriate, given the SBA is 4<sup>th</sup> largest state pension plan by AUM and already ranks in the top quartile of peer plans on that basis.

On this point, the Compensation Subcommittee recommended the SBA maintain its base pay target at the 50<sup>th</sup> percentile but seek to annually adjust its pay plan through the budget process in an effort to better keep up with market compensation.

Mr. Taylor had also recommended increasing incentive compensation pay-outs as a percentage of salary, given SBA's payouts significantly lag peer plans. On this point, the Compensation Subcommittee suggested this recommendation be suspended pending additional information to be provided indicating support for recommended increases based on peer comparisons.

Mr. Taylor had also recommended expanding the participation in the Incentive Compensation Plan to the SBA's financial operations and legal teams. This recommendation was supported by the Compensation Subcommittee.

Finally, Mr. Taylor recommended amending the Incentive Compensation Plan applicable to SBA staff to (a) eliminate the deferral of award payments in years where the absolute return is below zero, and (b) permit more discretion to the Executive Director and CIO to waive certain provisions of the plan in cases where an award is clearly warranted, but the terms of the plan preclude it. Any discretion provided to the Executive Director and CIO in this regard would first have to be reviewed, discussed, and supported by the Investment Advisory Council.

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Based on the outcome of this meeting, I recommend the full IAC vote in support of the following:

1. Continue targeting SBA base compensation to the median (50<sup>th</sup> percentile) of SBA peer public pension plans, but annual adjust pay plans to better keep pace with market adjustments.
2. SBA staff working with Mercer, report back to the Compensation Subcommittee more information about how to determine and calibrate the amount of increase, if any, in SBA's incentive compensation payout rates.
3. SBA expand participation in the Incentive Compensation Plan to include the Financial Operations team and SBA attorneys reporting to the General Counsel.
4. SBA amend the Incentive Compensation Plans applicable to SBA staff to eliminate the deferral of award payments in years where absolute return is below zero and provide more discretion to waive provisions of the plan, after discussion before and support by the Investment Advisory Council.

If the full IAC ratifies the recommendations made by the Compensation Subcommittee, then the next step will be for the SBA to incorporate these recommendations into their budget proposal for review and approval by the Trustees.

Sincerely,

A handwritten signature in black ink, appearing to read "Vinny Olmstead", written over a light blue horizontal line.

Vinny Olmstead  
Chair, IAC Compensation Subcommittee