

## Office of the President

### TO MEMBERS OF THE GOVERNANCE AND COMPENSATION COMMITTEE:

#### ACTION ITEM

*For Meeting of September 13, 2017*

#### **APPROVAL OF INCENTIVE COMPENSATION USING NON-STATE FUNDS FOR FISCAL YEAR 2016-17 FOR JAGDEEP SINGH BACHHER AS CHIEF INVESTMENT OFFICER AND VICE PRESIDENT – INVESTMENTS, OFFICE OF THE PRESIDENT AS DISCUSSED IN CLOSED SESSION**

#### **EXECUTIVE SUMMARY**

The President of the University requests approval of an incentive award for Jagdeep Singh Bachher, Chief Investment Officer (CIO) and Vice President – Investments. The award, consistent with the incentive plan provisions approved by the Regents, is directly tied to the three-year rolling average returns of the pension, endowment and other assets under management. This award falls under the Office of the Chief Investment Officer Annual Incentive Plan (AIP) and will be funded entirely through investment returns, using no State funds.

The AIP is a performance-based incentive plan that places a certain amount of pay at risk for each participant, and pays out only if certain investment and other performance standards are met or exceeded. Performance-based, at-risk incentives are a typical component of total cash compensation for investment professionals, including those at the California State Teachers' Retirement System (CalSTRS), the California Public Employees' Retirement System (CalPERS), and other large public pension funds and endowment funds. Awards are based on a rolling three-year assessment against performance benchmarks and a portion is deferred for payout in subsequent years to help retain staff and focus efforts on adding longer-term value. Plan participants are assigned award opportunity levels that serve to motivate individual, team, and total entity performance as part of a competitive total cash compensation package.

Assets under management by the Office of the Chief Investment Officer total \$109 billion for the Plan Year ending June 30, 2017. The University's investment results for the total entity for the one-year period ending June 30, 2017 were very strong, outperforming its benchmark by 135 basis points, which resulted in a net gain of \$1.36 billion. Performance for the two- and three-year periods ending June 2017 were ahead of the benchmarks by 26 basis points and 79 basis points, respectively (returns for periods greater than one year are annualized). This resulted in a net gain to the portfolios of approximately \$609 million for the two-year period and \$2.27 billion for the three-year period (over and above that which would have resulted in the absence of active management).

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The one-year net returns for the pension amounted to 14.4 percent, compared to 13.4 percent for the California State Teachers' Retirement System (CalSTRS) and 11.2 percent for the California Public Employees' Retirement System (CalPERS). Three-year returns amounted to 5.4 percent for UC, 6.3 percent for CalSTRS and 4.6 percent for CalPERS. The endowment's return for one year was 14.8 percent, compared to Princeton at 11.5 percent and the University of Michigan at 13.5 percent.

The proposed award for Mr. Bachher is based on individual performance and the three-year rolling average performance against benchmarks of the total investment portfolio, and will be paid in three annual installments. Consistent with the Plan, the proposed award of \$1,013,959 has been reviewed by the President of the University, the Chairs of the Regents' Governance and Compensation Committee and Investments Subcommittee, as well the Administrative Oversight Committee (AOC) established by the Board of Regents and consisting of the Executive Vice President and Chief Financial Officer, the Executive Vice President and Chief Operating Officer, the Vice President – Human Resources, and the Executive Director of Compensation Programs and Strategy. The calculations have been reviewed by the Office of Ethics, Compliance and Audit Services.

Consistent with the AIP Plan, awards are payable in three annual payments, with 50 percent paid in the current Plan Year (September 2017), 25 percent the next year (September 2018), and 25 percent the year after (September 2019). Deferred awards help increase retention of participants, since forfeiture would occur if a participant voluntarily resigns from UC prior to the normal schedule of payouts.

### **RECOMMENDATION**

The President of the University recommends that the Governance and Compensation Committee recommend to the Regents approval of an incentive award of \$1,013,959 for Plan Year 2016-17, under the Office of the Chief Investment Officer Annual Incentive Plan (AIP), for Jagdeep Singh Bachher as Chief Investment Officer and Vice President – Investments, Office of the President. The recommended incentive award represents 155 percent of Mr. Bachher's annual base salary of \$652,454.

#### **Recommended Compensation**

**Effective Date:** upon Regents' approval

**Base Salary:** \$652,454

**AIP Award:** \$1,013,959 (155 percent of base salary)

**Base Salary Plus Recommended AIP Award:** \$1,666,412

**Funding:** non-State-funded

#### **Prior Year Data (2015-16 Plan Year)**

**Base Salary:** \$632,380

**AIP Award:** \$841,096 (133 percent of base salary)

**Base Salary Plus Recommended AIP Award:** \$1,473,476

**Funding:** non-State-funded

**COMMITTEE**

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The incentive compensation described above shall constitute the University's total commitment regarding incentive compensation until modified by the Regents or the President, as applicable under Regents policy, and shall supersede all previous oral and written commitments.

Compensation recommendations and final actions will be released to the public as required in accordance with the standard procedures of the Board of Regents.

**Submitted by: President Napolitano**

**Reviewed by: Governance and Compensation Committee Chair Reiss**

**Investments Subcommittee Chair Sherman**

**Office of the President, Systemwide Human Resources**