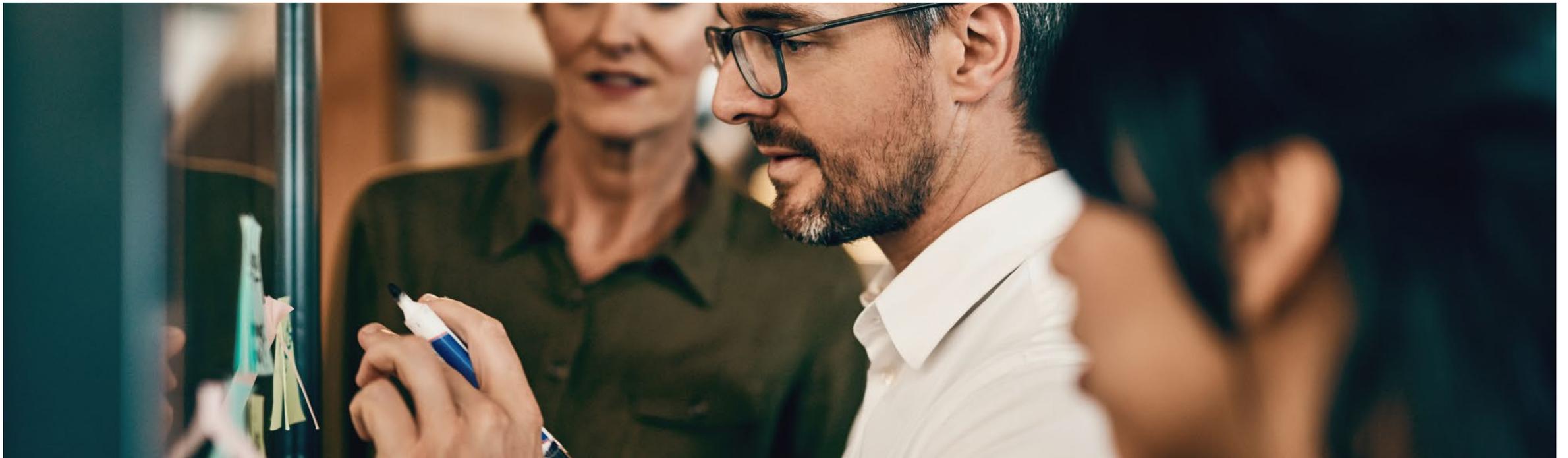


# North Carolina Investment Authority

Incentive Plan Design

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# Agenda

- 1 Interview Themes
- 2 Incentive Plan Design & Recommendations
- 3 Incentive Plan Cost Model
- 4 Next Steps

# Interview Themes

01

# Interview Themes

## Stakeholders & Topics

Interviews were conducted with 8 stakeholders selected by the core project team

Interviewees were asked questions covering the topics below



**Incentive Plan Eligibility**



**Incentive Plan Design**



**Incentive Plan Administration**

# Interview Themes

## Observations from Interviews

Design Principles	Observations from Interviews
<b>Eligibility</b>	<ul style="list-style-type: none"> <li>• Most interview participants supported the inclusion of all roles that will be a part of the NCIA, including non-investment roles. Broad-based inclusion of will promote team alignment and help ensure all employees benefit from the organization’s success.</li> <li>• Shared resources that remain part of the State Treasurer’s office should be excluded from the incentive plan.</li> </ul>
<b>Target Award Levels</b>	<ul style="list-style-type: none"> <li>• Incentive target award levels should be aligned with the market median (50<sup>th</sup> percentile)</li> <li>• CIO should have a 100% incentive target</li> <li>• Non-investment roles should have lower targets than the direct investment roles</li> </ul>
<b>Metrics &amp; Weighting</b>	<ul style="list-style-type: none"> <li>• There is a strong preference for total-fund performance as the primary metric, measured against the actuarial rate of return and appropriate benchmarks</li> <li>• Asset class-focused roles should have asset-class benchmarks included in either their financial or individual performance metrics</li> <li>• A scaled qualitative (individual) metric should be included (higher for lower-level and some managerial/team factors) to ensure a balanced score card approach</li> </ul>
<b>Measurement Period</b>	<ul style="list-style-type: none"> <li>• The use of a a rolling 3-year measurement period as the primary standard is preferred, with optional 5-year checks for some asset classes</li> <li>• It was also recommended that the organization use a scaling approach for the first two years (2025 and 2026) at 2/3<sup>rds</sup> of target until a full 3-year dataset is available.</li> <li>• The consensus is to use a calendar year measurement period rather than a fiscal year measurement period.</li> <li>• New hires will be phased into the plan rather than providing guaranteed first-year awards to eliminate potential friction</li> </ul>
<b>Leverage and Caps</b>	<ul style="list-style-type: none"> <li>• Preference is to use a modest, market-consistent cut-in (around ~2 bps of active outperformance), scale payouts up to a cap (market references 150%–200% of target), and ensure bands are wide enough to allow meaningful active performance</li> </ul>
<b>Payout Timing &amp; Deferral</b>	<ul style="list-style-type: none"> <li>• Pay on a calendar-year schedule with a multi-year deferral component invested with the fund if legally and administratively feasible; limit deferral lengths to a few years and consider employee choices but keep the design simple.</li> </ul>
<b>Administration</b>	<ul style="list-style-type: none"> <li>• Set clear, simple rules for termination/retirement payout scenarios, allow limited board discretion (with guardrails), and define down-market payout logic (e.g., relative outperformance can still pay). Engage legal counsel to finalize terms.</li> </ul>

# Incentive Plan Design & Recommendations

02

# Incentive Plan Design & Recommendations

## Eligibility, Target Award Levels, & Payout Caps (1 of 2)

- Based on the feedback provided by the interview participants, Mercer recommends the **inclusion all NCIA employees in the incentive plan**. The direct investment roles and non-investment roles will be differentiated by their target award levels.
- Incentive targets are aligned with the 50<sup>th</sup> percentile (median) of the market**. The incentive plan payout will be **capped at 150% percent** of target award.

NCIA Positions' Eligibility, Target Award Levels, & Payout Caps – Front Office		
Core Job Title	Incentive Target (as a percent of base salary)	Incentive Payout Cap (1.5x Incentive Target)
Chief Investment Officer	100%	150%
Director of I.G. Fixed Income	75%	113%
Chief Risk and Operating Officer	75%	113%
Investment Director	60%	90%
Assistant Investment Director	60%	90%
Assistant Investment Director - Ops & Risk	50%	75%
Senior Portfolio Manager	50%	75%
Portfolio Manager	50%	75%
Associate Portfolio Manager	30%	45%
Investment Analyst	25%	38%
Junior Investment Analyst	20%	30%

# Incentive Plan Design & Recommendations

## Eligibility, Target Award Levels, & Payout Caps (2 of 2)

- Based on the feedback provided by the interview participants, Mercer recommends the **inclusion all NCIA employees in the incentive plan**. The direct investment roles and non-investment roles will be differentiated by their target award levels.
- **Incentive targets are aligned with the 50<sup>th</sup> percentile (median) of the market**. The incentive plan payout will be **capped at 150% percent** of target award.

NCIA Positions' Eligibility, Target Award Levels, & Payout Caps – Middle & Back Office		
Core Job Title	Incentive Target (as a percent of base salary)	Incentive Payout Cap (1.5x Incentive Target)
General Counsel	40%	60%
Deputy General Counsel	20%	30%
Assistant General Counsel	15%	22.5%
Manager, Operations and Administration	15%	22.5%
Business Systems Analyst Manager	10%	15%
HR Director	10%	15%
Investment Accounting Supervisor	10%	15%
Data Analyst	10%	15%
Risk Analyst	10%	15%
Operations Analyst	10%	15%
Compliance Analyst	10%	15%
Investment Accountant	5%	7.5%
Executive Assistant	5%	7.5%
Paralegal	5%	7.5%
Administrative Assistant	5%	7.5%

# Incentive Plan Design & Recommendations

## Metrics & Weighting

- The recommended metrics for evaluating performance are the following:
  - Financial Metrics (60-80%)**
    - Total fund against Actuarial Rate of Return (60% of financial weighting)
    - Total fund against Reference Policy Benchmark (40% of financial weighting)
  - Individual Qualitative Metrics (20-40%)**
    - Individual performance
    - Asset class performance (applicable roles only) will be included

NCIA Positions' Metrics & Weighting – Front Office		
Core Job Title	Financial Metric Weight	Individual Metric Weight
Chief Investment Officer	80%	20%
Director of I.G. Fixed Income	75%	25%
Chief Risk and Operating Officer	75%	25%
Investment Director	75%	25%
Assistant Investment Director	70%	30%
Assistant Investment Director - Ops & Risk	70%	30%
Senior Portfolio Manager	70%	30%
Portfolio Manager	70%	30%
Associate Portfolio Manager	70%	30%
Investment Analyst	60%	40%
Junior Investment Analyst	60%	40%

NCIA Positions' Metrics & Weighting – Middle & Back Office		
Core Job Title	Financial Metric Weight	Individual Metric Weight
General Counsel	60%	40%
Deputy General Counsel	60%	40%
Assistant General Counsel	60%	40%
Manager, Operations and Administration	60%	40%
Business Systems Analyst Manager	60%	40%
HR Director	60%	40%
Investment Accounting Supervisor	60%	40%
Data Analyst	60%	40%
Risk Analyst	60%	40%
Operations Analyst	60%	40%
Compliance Analyst	60%	40%
Investment Accountant	60%	40%
Executive Assistant	60%	40%
Paralegal	60%	40%
Administrative Assistant	60%	40%

# Incentive Plan Design & Recommendations

## Leverage, Measurement Period, Payout Timing & Deferral

- The recommended plan leverage includes a market-consistent cut-in (around ~2 bps of active outperformance). Outperformance targets will be need to be established.
- **Mercer recommends a rolling 5-year measurement period for Actuarial Rate of Return, and a rolling 3-year measurement period for the Reference Policy Benchmark.** The initial measurement period will include a phase-in of 2-year performance (2025 and 2026), along with a 2/3<sup>rd</sup>s target until 2027. In 2027, the measurement period will be three years. In 2028, the ARR measurement period will be four years and in 2029, the ARR will be measured on a 5-year rolling basis
- The tables below illustrate the outperformance goals for both Actuarial Rate of Return and the Reference Policy Benchmark

Level	Payout as a % of Target Payout	Actuarial Rate of Return	Reference Policy Benchmark Outperformance
Threshold	0%	6.52%	2 Basis Points
Target	100%	8.50%	35 Basis Points
Superior	125%	9.00%	43 Basis Points
Maximum	150%	9.50%	52 Basis Points

*Results between Threshold and Maximum will be calculated on a straight-line interpolation basis*

# Incentive Plan Design & Recommendations

## Leverage, Measurement Period, Payout Timing & Deferral

- The recommended **deferral period is 2 years** with the following payout schedule:
  - 50% payout** of earned awards **at end of plan period**
  - 25% payout** of earned awards **one year later** (earned award is credited with the absolute performance of the fund (positive or negative) during the one-year deferral period)
  - 25% payout** of earned awards **two years later** (earned award is credited with the absolute performance of the fund (positive or negative) during the two-year deferral period)
- Below is an example of the payout timing with a deferral if performance measures over the 3-year plan period result in a target payout. The example below is for illustrative purposes:

Payout Timing & Deferral					
Base Salary	Incentive Target	Incentive Target \$ Amount	End of 3-Year Plan Period	1 year after the 3-year plan period	2 year after the 3-year plan period
\$100,000	20%	\$20,000	\$10,000	\$5,000 (subject to fund performance)	\$5,000 (subject to fund performance)
			50%	25%	25%

# Incentive Plan Design & Recommendations

## Plan Administration Details

- The table below highlights some of the common administrative issues around the incentive plan:

Situation	Resolution
<p><b>New Hires</b></p>	<p>Anyone hired before September 30 of any given year is eligible for a pro-rated Incentive payment based on company financials and their own individual performance. The time frame for performance will not be tailored to new participants</p>
<i>Termination Scenarios</i>	Resolution
<p><b>Retirement</b></p>	<p>For example, a rule of 65 (and age of at least 55), then deferred amounts will be paid when the person retires with whatever fund credit/discount is applicable</p>
<p><b>Resignation or Termination</b></p>	<p>An individual that is not an employee on the date awards are paid, due to resignation or termination, will not receive an ICP payment.</p>
<p><b>Death and Disability</b></p>	<p>Deferred portions are paid immediately, with same conditions as retirement (disability must meet the TSERS requirements (i.e., retirement plan definitions and certifications))</p>

# Incentive Plan Cost Model

03

# Incentive Plan Cost Model

## Target Total Cash (TTC) by Role

Job Title	Office Assignment	Salary Grade Midpoint	Incentive % at Target	Incentive % at Maximum	TTC at Target	TTC at Maximum
Chief Investment Officer	Front Office	\$786,000	100.0%	150.0%	\$1,572,000	\$1,965,000
Director of I.G. Fixed Income	Front Office	\$478,000	75.0%	112.5%	\$836,500	\$1,015,750
Chief Risk and Operating Officer	Front Office	\$478,000	75.0%	112.5%	\$836,500	\$1,015,750
Investment Director	Front Office	\$405,000	60.0%	90.0%	\$648,000	\$769,500
Assistant Investment Director	Front Office	\$343,000	60.0%	90.0%	\$548,800	\$651,700
Assistant Investment Director - Ops & Risk	Front Office	\$291,000	50.0%	75.0%	\$436,500	\$509,250
Senior Portfolio Manager	Front Office	\$291,000	50.0%	75.0%	\$436,500	\$509,250
Portfolio Manager	Front Office	\$253,000	50.0%	75.0%	\$379,500	\$442,750
Associate Portfolio Manager	Front Office	\$191,000	30.0%	45.0%	\$248,300	\$276,950
Investment Analyst	Front Office	\$125,000	25.0%	37.5%	\$156,250	\$171,875
Junior Investment Analyst	Front Office	\$95,000	20.0%	30.0%	\$114,000	\$123,500
General Counsel	Middle Office	\$343,000	40.0%	60.0%	\$480,200	\$548,800
Deputy General Counsel	Middle Office	\$253,000	20.0%	30.0%	\$303,600	\$328,900
Assistant General Counsel	Middle Office	\$191,000	15.0%	22.5%	\$219,650	\$233,975
Manager, Operations and Administration	Middle Office	\$166,000	15.0%	22.5%	\$190,900	\$203,350
Business Systems Analyst Manager	Middle Office	\$144,000	10.0%	15.0%	\$158,400	\$165,600
Investment Accounting Supervisor	Middle Office	\$125,000	10.0%	15.0%	\$137,500	\$143,750
Data Analyst	Middle Office	\$125,000	10.0%	15.0%	\$137,500	\$143,750
Risk Analyst	Middle Office	\$125,000	10.0%	15.0%	\$137,500	\$143,750
Operations Analyst	Middle Office	\$109,000	10.0%	15.0%	\$119,900	\$125,350
Compliance Analyst	Middle Office	\$109,000	10.0%	15.0%	\$119,900	\$125,350
Investment Accountant	Middle Office	\$95,000	5.0%	7.5%	\$99,750	\$102,125
HR Director	Back Office	\$144,000	10.0%	15.0%	\$158,400	\$165,600
Executive Assistant	Back Office	\$83,000	5.0%	7.5%	\$87,150	\$89,225
Paralegal	Back Office	\$72,000	5.0%	7.5%	\$75,600	\$77,400
Administrative Assistant	Back Office	\$55,000	5.0%	7.5%	\$57,750	\$59,125

# Incentive Plan Cost Model

## Incentive Cost Estimates for Target and Maximum Performance at Current Staffing Levels– Front Office

- The majority of the incentive cost for the whole of NCIA will be driven by the Front Office (direct investment roles) given the higher employee population and increased incentive opportunity
- The Junior Investment Analyst has a salary grade midpoint of \$95,000, so the incentive opportunity would be \$19,000 at target and \$28,500 at maximum per incumbent

Job Title	EE Count	Target Incentive %	Maximum Incentive %	Incentive Cost at Target	Incentive Cost at Maximum	TTC Costing at Target	TTC Costing at Maximum
Chief Investment Officer	1	100.0%	150.0%	\$786,000	\$1,179,000	\$1,572,000	\$1,965,000
Director of I.G. Fixed Income	1	75.0%	112.5%	\$358,500	\$537,750	\$836,500	\$1,015,750
Chief Risk and Operating Officer	1	75.0%	112.5%	\$358,500	\$537,750	\$836,500	\$1,015,750
Investment Director	5	60.0%	90.0%	\$1,215,000	\$1,822,500	\$3,240,000	\$3,847,500
Assistant Investment Director	1	60.0%	90.0%	\$205,800	\$308,700	\$548,800	\$651,700
Assistant Investment Director - Ops & Risk	1	50.0%	75.0%	\$145,500	\$218,250	\$436,500	\$509,250
Senior Portfolio Manager	2	50.0%	75.0%	\$291,000	\$436,500	\$873,000	\$1,018,500
Portfolio Manager	9	50.0%	75.0%	\$1,138,500	\$1,707,750	\$3,415,500	\$3,984,750
Associate Portfolio Manager	2	30.0%	45.0%	\$114,600	\$171,900	\$496,600	\$553,900
Investment Analyst	3	25.0%	37.5%	\$93,750	\$140,625	\$468,750	\$515,625
Junior Investment Analyst	0	20.0%	30.0%	\$0	\$0	\$0	\$0
<b>Total</b>	<b>26</b>	<b>--</b>	<b>--</b>	<b>\$4,707,150</b>	<b>\$7,060,725</b>	<b>\$12,724,150</b>	<b>\$15,077,725</b>
<b>bps</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>0.314</b>	<b>0.471</b>	<b>0.848</b>	<b>1.005</b>

\* Cost assumes bringing all employees to their salary grade midpoint and only includes current incumbents

# Incentive Plan Cost Model

## Incentive Cost Estimates for Target and Maximum Performance at Current Staffing Levels – Middle & Back Office

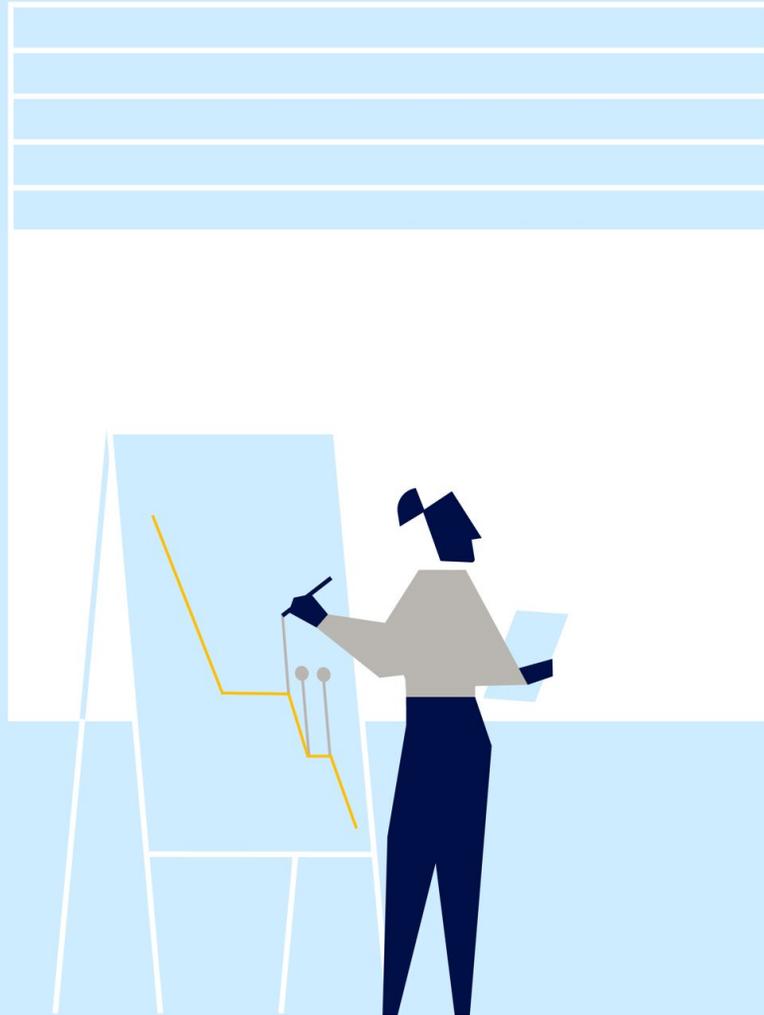
- The incentive plan cost for Middle and Back Office roles would make up less than 7% of the total incentive plan cost for NCIA
- The incremental incentive plan cost of filling all currently empty positions with at least one incumbent would be \$48,800 at target and \$73,200 at maximum

Job Title	Office Assignment	Target Incentive %	Maximum Incentive %	EE Count	Incentive Cost at Target	Incentive Cost at Maximum	TTC Costing at Target	TTC Costing at Maximum
General Counsel	Middle Office	40.0%	60.0%	1	\$137,200	\$205,800	\$480,200	\$548,800
Deputy General Counsel	Middle Office	20.0%	30.0%	1	\$50,600	\$75,900	\$303,600	\$328,900
Assistant General Counsel	Middle Office	15.0%	22.5%	2	\$57,300	\$85,950	\$439,300	\$467,950
Manager, Operations and Administration	Middle Office	15.0%	22.5%	1	\$24,900	\$37,350	\$190,900	\$203,350
Business Systems Analyst Manager	Middle Office	10.0%	15.0%	0	\$0	\$0	\$0	\$0
Investment Accounting Supervisor	Middle Office	10.0%	15.0%	0	\$0	\$0	\$0	\$0
Data Analyst	Middle Office	10.0%	15.0%	1	\$12,500	\$18,750	\$137,500	\$143,750
Risk Analyst	Middle Office	10.0%	15.0%	1	\$12,500	\$18,750	\$137,500	\$143,750
Operations Analyst	Middle Office	10.0%	15.0%	3	\$32,700	\$49,050	\$359,700	\$376,050
Compliance Analyst	Middle Office	10.0%	15.0%	1	\$10,900	\$16,350	\$119,900	\$125,350
Investment Accountant	Middle Office	5.0%	7.5%	0	\$0	\$0	\$0	\$0
HR Director	Back Office	10.0%	15.0%	0	\$0	\$0	\$0	\$0
Executive Assistant	Back Office	5.0%	7.5%	1	\$4,150	\$6,225	\$87,150	\$89,225
Paralegal	Back Office	5.0%	7.5%	1	\$3,600	\$5,400	\$75,600	\$77,400
Administrative Assistant	Back Office	5.0%	7.5%	0	\$0	\$0	\$0	\$0
<b>Total</b>	--	--	--	<b>13</b>	<b>\$346,350</b>	<b>\$519,525</b>	<b>\$2,331,350</b>	<b>\$2,504,525</b>
<b>bps</b>	--	--	--	--	<b>0.023</b>	<b>0.035</b>	<b>0.155</b>	<b>0.167</b>

\* Cost assumes bringing all employees to their salary grade midpoint and only includes current incumbents

# Incentive Plan Cost Model

## Total Incentive Cost Estimate Summary



**Total Incentive Cost  
at Target**



**Total Incentive Cost  
at Maximum**



**Total Incentive bps  
at Target  
(assumes \$150B fund)**



**Total Incentive bps  
at Maximum  
(assumes \$150B fund)**

# Next Steps

04

# Next Steps

- 1 Approve Annual Incentive Plan for 2026
- 2 Communicate to participants



We are leaders in risk, strategy and people. One company, with four global businesses, united by a shared purpose to build the confidence to thrive through the power of perspective.