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Pay Plans That Work

The Institutional Investor's Guide to Aligning Pay with Performance and Purpose

Executive Summary

Compensation is one of the largest controllable expenses in an investment office and can be one of the strongest signals of what your fund truly values. It can drive performance and retention, or it can fuel politics, distraction, and frustration.

Too often, pay plans are over-engineered, copied from peers without much thought, or calibrated to placate personalities rather than designed to align with performance and mission.

My aim for this paper is to provide a helpful guide to spark meaningful discussion on pay. The insights I express are distilled from 15+ years and 100+ engagements studying, debating, and designing compensation plans for leading investment organizations.

In the pages that follow, I'll touch on how to define and measure performance, calibrate pay opportunities, and reinforce trust and transparency in compensation design. While the best solution will vary by institution, the principles for how to achieve it are constant: transparency, alignment, fairness, and good governance.

Different Models, Common Challenges

We couldn't possibly cover every flavor of asset owner in depth, and some segment-specific considerations have been intentionally left out. Each fund operates within its own set of circumstances, shaped by distinct governance structures, stakeholder pressures, and talent dynamics.

ENDOWMENTS AND FOUNDATIONS

E&Fs must navigate the complexities of the non-profit landscape and today's politicized environment, balancing transparency, stakeholder expectations, and pay-related tax compliance.

U.S. PUBLIC FUNDS

Let's start with the elephant in the room—governance. Until boardrooms are free of politics and ego, compensation decisions will continue to be shaped more by election cycles and headlines than by mission alignment. The Canadian model proves that independent, professional boards make better long-term decisions. For those serious about reform, start there—and revisit the work of Peter Drucker and Keith Ambachtsheer on institutional governance. To be fair, some U.S. funds get this right. Decision-making is genuinely hard in a public setting where transparency is mandatory and politics are unavoidable. Still, other institutional investors benefit from stronger governance structures that consistently put mission above politics.

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Compensation is the clearest signal of what your fund truly values.

CORPORATE PENSIONS, HEALTHCARE, AND OTHER INTEGRATED INVESTMENT OFFICES

These organizations face different constraints. Internal equity and “parent company” pay policies—often tied to peer groups or corporate metrics unrelated to investment results—can distort alignment. The key is to gain an understanding of the parent organization's philosophy and then educate decision makers on how the investment labor market differs. In all cases, two principles apply: (1) align pay with performance and mission, and (2) align compensation with the market in which you compete for talent.

FAMILY OFFICES AND IMPACT INVESTORS

You often operate in the gray area between mission-driven institutions and commercial investment firms, and your pay programs should reflect that balance. While this paper doesn't address your structures directly, the underlying principles—clarity of purpose, disciplined governance, and market realism—apply just as strongly.

Introduction

> Copying peers is governance laziness—and it rarely works.

In reflecting on hundreds of conversations with boards of directors, human resources professionals, and investment staff about compensation, one truth is clear: **every plan is flawed.** Some succeed in attracting and keeping talent while driving performance. Many don't. Let's explore what separates the winners and losers.

Boards, staff, and fund beneficiaries all see compensation plans differently. The best plans anticipate these different perspectives. This paper cuts through the noise, politics, and copy-paste mindset to focus on what drives the most successful pay programs.

A relatively small team of professionals is responsible for day-to-day decisions of complex investment portfolios that support the fund's mission. Paying them fairly, competitively, and appropriately is mission-critical. That can be easier said than done. Public scrutiny, peer comparisons, internal equity concerns, and stakeholders with diverse priorities can make compensation decisions feel like a minefield. Pay levels that are modest by Wall Street standards can appear excessive to Main Street realities. Paying mechanisms like deferred compensation, intended to promote retention, are often resented. Performance benchmarks that seem precise on paper may reward luck, set the bar too low, or incent excessive risk.

Hard Truths of Pay Design

THERE IS NO PERFECT PLAN, ONLY TRADE-OFFS
Every design comes with compromises.

PAY BUYS TIME, NOT LOYALTY
In this industry, someone will always offer more money. Still, your fund's pay must be in the ballpark of peers to avoid a revolving door or, perhaps worse, a team of mediocre talent.

COPY-PASTE DOESN'T WORK: DESIGN PAY FOR THE MISSION AND NEEDS OF YOUR FUND.
What succeeds at one institution can fail spectacularly at another. I've seen it dozens of times. Copying peers is governance laziness, and it rarely works.

PERCEPTION IS REALITY
What staff think of the plan drives their behavior. What the board thinks sets the tone for every conversation about pay. And how external stakeholders view it can create support—or chaos.

The DNA of a Successful Compensation Plan

The most successful compensation plans share a few traits:

TRUST AND CLARITY
Employees, management, and the board have built a culture of trust and mutual respect. Roles and responsibilities are clearly defined, with governance standards documented, communicated, and understood.

AUTONOMY WITH ACCOUNTABILITY
Staff are trusted to do their job with independence, balanced by responsibility for the outcomes within their control.

BALANCED TIME HORIZONS
Plans emphasize multi-year performance (particularly 3–5 years). Short-term noise doesn't drive pay decisions.

PAY IS ALIGNED WITH PERFORMANCE
Compensation is driven by steady performance—hitting regular singles and doubles, to use a baseball analogy, rather than aiming for home runs. Consistent outperformance can and should generate meaningful pay for staff. Sustained underperformance, by contrast, is not just a pay problem but a staffing issue.

SMART METRICS
Performance is assessed using a balanced mix of quantitative and qualitative factors, avoiding overreliance on any single measure or time period.

MANAGED EXPECTATIONS
Plans are clearly documented and communicated. Standards are challenging but fair, and payouts reasonably predictable, with extremes rare. Staff know what is driving their pay. Neither board members nor staff are surprised by pay outcomes.

SIMPLICITY
Investing is complex, but compensation doesn't have to be. Plans should be relatively easy to explain and administer. If your plan takes more than five minutes to understand, it's too complicated.

CULTURE
Meaningful work, smart and hardworking colleagues, autonomy and flexibility combine to create an employer of choice.

Peers in Their Place: Performance, Pay, and Plan Design

Let's first address the use of peer data. Pensions, endowments, and foundations love to compare themselves to other funds. This can be helpful in the investment committee but often hurtful in compensation committees. Peer data are often used in three distinct—and often conflated—ways in pay design. Performance measurement, pay level benchmarking, and plan design—each serves a different purpose, requires different criteria, and carries different risks.

> **In my experience, compensation consultants like me get called in usually when there's already a perceived problem—pay levels are out of sync with the market, retention is faltering, or the incentive plan isn't delivering on performance. Rarely does an organization engage a consultant when performance is strong, recruitment is easy, and morale is high. That's why I make it a point to talk with CIOs and HR leaders who aren't my clients.**

The Role and Limits of Peer Performance

Peer comparisons can be informative, but they must be approached with care.

DEFINING THE RIGHT PEERS

Any performance peer group should reflect the fund's size, investment approach, asset allocation, risk posture, and complexity.

LONG-TERM FOCUS

Peer data is most meaningful over longer horizons (5–10+ years), where noise smooths out and true differences emerge. Performance attribution is essential: which results were driven by staff decisions versus the board or external consultants? In practice, asset allocation almost always explains the largest performance gaps.

INHERENT LIMITATIONS

Peer performance data is messy. Results are self-reported, cost treatments vary, private market lags distort timing, and opportunity sets differ. Comparing funds with fundamentally different mandates risks driving misaligned behaviors. And because peer data is backward-looking, staff often lack real-time visibility into outcomes.

CULTURAL IMPLICATIONS

Most mission-driven investors are willing to share and learn from each other. But when peer rankings become a competition, that spirit of collaboration erodes.

WHERE IT FITS

For organizations where staff materially influence asset allocation and policy, long-term peer comparisons can offer context. But they should never substitute for a direct assessment of whether pay is aligned with the institution's unique mission, goals, and investment strategy.

Pay Level Benchmarking

Compensation peer groups should reflect, to the extent possible, the actual labor market for talent, including the organizations from which you recruit and the ones to which you risk losing staff. For some funds, this means other institutional investors, while for others, this may include OCIOs, family offices, private equity, or traditional asset managers.

If your compensation peer group doesn't match your labor market, you risk paying too much or not enough. Misalignment here often leads to either churn of strong performers or complacency with mediocrity. Both are costly and detrimental to long-term fund performance. A good test is to check your peer group against reality. Where have your hires come from, how long did it take to recruit them, how many departures were regrettable, and what has been the quality of the talent you brought in?

Funds that use compensation data thoughtfully strike the right balance. They are competitive enough to attract talent without overpaying and disciplined enough to manage expenses without underpaying.

Plan Design Comparisons

This might be the least reliable use of peer data when context is missing. What works for one fund may fail when implemented at another. I've seen it time and time again. Plan designs that are carefully tailored to a fund's governance, culture, and mission are often stripped of critical nuance when summarized in surveys or shared informally across peers. You may know what a peer is doing, but you don't know why or how they got there.

Copy-paste plan design approaches that miss this critical context are bound to eventually fail. Copying peers is governance laziness, and it rarely works.

Best Practices for Peer Use

1

PHILOSOPHY FIRST
Anchor pay design in your mission and talent strategy.

2

KEEP PEER SETS DISTINCT
Performance peers and compensation peers serve different functions. Don't fall for false conclusions by comparing your fund to inappropriate peer sets.

3

TRIANGULATE
Use multiple sources and time periods to avoid reinforcing blind spots.

4

APPLY JUDGMENT
Peer data should be scrutinized to separate the signal from the noise. Focus on what staff can directly influence.

5

ADAPT, DON'T CLONE
Borrow ideas and learn from peers but tailor your plan to your governance, culture, and mission.

Good governance means asking: *What did the team deliver? How did they deliver it? How did it serve the mission?* Comparing peer returns can inform that discussion, but it can't answer it.

Establishing Credible Performance Standards

Setting performance standards is one of the most challenging and important parts of incentive plan design. Too often, they are too easy (inflating pay and eroding credibility) or too hard (creating low payouts that demoralize staff or, worse, incentivize excessive risk). The most successful funds strike a balance of rigor, realism, and mission alignment.

To get this right, funds must address these tough questions:

- Which metrics and time periods best capture staff's contributions versus those of the Board, outside consultants, or capital markets?
- What levels of performance justify threshold, target, and maximum payouts? Is 100bps above benchmark an appropriate "target," or should it be 50bps or 150bps?
- Should performance hurdles differ among one-, three- and five-year performances?
- How does total pay at different performance levels compare to that of compensation peers?
- What's the right "sharing rate" of alpha generation between the fund and staff that represents a "good deal" to stakeholders?
- How often should these standards be evaluated and recalibrated?
- How, if at all, do absolute returns impact pay?
- Which benchmark(s) should be used for relative returns?

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I've seen funds with a long history of near-maximum payouts despite lackluster performance—benchmarks misaligned and/or standards set too low. On paper, the plan looked credible. In practice, it eroded trust and wasted resources for years before anyone confronted the issue.

While there is no single right answer to any of these questions, there are plenty of wrong ones. So how do boards avoid the wrong ones? Here, I'll veer outside my lane as a compensation consultant, as these calibrations are often best handled by an investment consultant. But let's be honest: What do they know about pay? Maybe this paper can help bridge the gap between compensation strategy and investment strategy.

Too often, I get called in after the damage has already been done. I've seen funds with a long history of near-maximum payouts despite lackluster performance—benchmarks misaligned and/or standards set too low. On paper, the plan looked credible. In practice, it eroded trust and wasted resources for years before anyone confronted the issue.

Relative Performance (Peers)

If your plan ties pay to relative peer performance, my quick and candid recommendation (aside from “don’t”) is to create a linear payout between the 25th (low) and 75th (high) percentiles. Nothing is earned below the 25th percentile, target is earned at the median, and maximum is earned at the 75th. It’s easy to understand, straightforward to administer, and simple to explain, with clear linkages between pay and performance. In this case, establishing an appropriate performance peer group is the difficult—if not impossible—part to get right.

Relative Performance (Benchmarks)

Setting appropriate basis points of value-add versus policy benchmark can be approached two ways: bottom-up or top-down. A bottom-up approach looks asset class by asset class, benchmark by benchmark—examining historical net-of-fee manager performance, layering in your fund’s specific risk profile, and then rolling that into a composite view. A top-down approach compares results against a simplified policy benchmark such as 70/30 or 60/40 – or compares performance peers to your custom benchmark.

Some investment consultants have developed rigid formulaic approaches to establishing alpha required over benchmark built on tracking error, market assumptions, historical manager performance, and forward-looking risk models. This may be the best method for establishing a credible starting point but is, of course, sensitive to the underlying assumptions in the model.

Another method is to look at how performance peers have historically done versus your benchmark. For example, over the past 10 rolling three-year cycles, what level of alpha was needed to hit median or top quartile? This has all the peer group flaws described above and requires an attribution analysis to determine the impact of capital markets, asset allocation, manager/security selection, etc., but it can provide a secondary reference point if there isn't too much noise between peers. Of course, past performance doesn't dictate future performance. Top quartile returns may have required 200bps in the last cycle but could be 50bps or 400 bps in the next.

Measuring results against the policy benchmark is common—and often considered best practice—but it creates an inherent bias toward active management. Twenty years ago, many funds had strong conviction in active strategies, and staff were measured almost entirely on alpha over passive benchmarks. Today that conviction is weaker. If staff believe parts of the portfolio should be managed passively, an incentive plan that rewards only alpha risks creating a conflict of interest—pushing active management even when it's not in the fund's best interest. And when staff help select benchmarks, boards must guard against standards being chosen for ease of outperformance. **Incentive compensation should follow investment strategy, not dictate it.**

Incentive compensation should follow investment strategy, not dictate it.

ABSOLUTE RETURNS

Quite simply, don't include absolute returns in any significant way. A modifier +/- based on total fund return may help pay outcomes scale with economic realities (and the broader investment industry), but it can lead to woefully mismatched alignment. For example, public funds may be tempted to link pay to their actuarial assumed rate of return—the very long-term returns needed to meet pension obligations. It may sound reasonable to a layperson, but staff have no control over employer contributions, mortality table assumptions, or capital markets, leading to scenarios that may incentivize excessive risk or costly risk avoidance. What works well in hedge funds and private equity firms can be disastrous to institutional investors.

Back-testing pay formulas against past cycles and stress-testing them against future scenarios can help funds see where their plan may fall short of reasonable expectations. But constant recalibration can create its own problems, eroding trust and limiting effectiveness. In practice, no matter how careful or scientific your performance standards are set, formulaic pay can be a crap shoot. It may look well-calibrated over the long run, but in any given pay cycle, formulaic pay is vulnerable to shorter-term noise. For these reasons and more, I can't emphasize enough that discretion—with proper governance—is key to effective pay design.

Principles for Sound Standards

TRANSPARENT

Document and communicate performance expectations in advance, not retrofitted after results are known.

ALIGNED

Hold staff accountable only for what they can influence.

CHALLENGING BUT FAIR

Standards should stretch staff to deliver skill and discipline but remain achievable with reasonable levels of risk. Consistently low payouts kill morale. Consistently high payouts kill credibility.

BALANCED OVER TIME

One-year results are misaligned with institutional investors' long-term investment horizon. Time periods beyond five years blur accountability. For most funds, three-year rolling standards anchored by a five-year view strike the right balance. Funds with internal/direct portfolio management may have use for evaluating public market portfolios on one-year periods if that is part of their investment strategy.

RISK-AWARE

Reward value created with appropriate levels of risk. Outperformance driven by excessive risk-taking, or underperformance from avoiding necessary risk, shouldn't be incentivized.

CONSISTENT

Don't overhaul standards at every market cycle or consultant pitch. Stability builds trust.

DISCIPLINED

Apply your pay-for-performance philosophy with equal rigor in challenging years and strong ones. Pay should move directionally with performance—up and down—in proportion to value created and risk taken.

SIMPLE

Don't make things unnecessarily complex, as this leads to false precision and compensation structures that only the team calculating the payouts understands.

The Deferral Dilemma

Many large endowments, and some other institutional investors, mandate deferrals of two to three years, during which period a portion of earned incentives is held back, “earning interest” at the fund’s absolute return. On paper, this ties staff to long-term performance and creates skin in the game. It mirrors the logic applied often to external managers, where personal co-investment is encouraged (and often required). Deferrals can also provide staff with exposure to investment opportunities unavailable to individual investors.

But there are problems.

First, deferrals rarely keep stars. Investment firms treat buying out deferrals as a normal cost of recruiting top talent. Mediocre performers, however, often linger, knowing they will still get paid if eventually terminated under “good leaver” provisions (described below). Sure, you’ve created retention, but probably not the kind you wanted.

Second, the fund’s investment strategy is not staff’s personal investment strategy: Institutional portfolios are designed with multi-decade horizons and risk calibrated to meet the fund’s mission. What looks like alignment for the institution can easily become misalignment for staff, who are concentrating their personal financial futures in market exposure they may not voluntarily choose.

Most deferral designs include “good leaver” and “bad leaver” rules: retirement, death, disability, and termination without cause preserve deferred payouts, while voluntary resignations and for-cause termination trigger forfeiture. Here’s the irony: High performers who are loyal and provide advanced notice when they accept a position your fund simply can’t offer (e.g., to become a CIO elsewhere) forfeit their deferrals, while underperformers who are eventually terminated walk away with theirs. That creates the wrong incentives—waiting to be pushed out is often rewarded more than leaving on strong terms. A simpler approach may be to forfeit all deferrals except for retirement, death, and disability.

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Deferrals retain mediocrity, not stars.

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Pay buys time, not loyalty.

If your goal is simply to mirror what your large-endowment peers are doing, this type of deferral checks that box. I'd suggest limiting deferrals to only senior staff and either using a tax-table deferral schedule (common at asset managers) or pay award amounts equal to target or less in cash and deferring all amounts earned over target. However, if your goal is really to retain top performers, you may need a different approach.

Public funds in the U.S. generally don't use mandatory deferrals. When they do, it's often a holdover from knee-jerk reaction policies implemented after the great financial crisis. In such cases, earned incentives are deferred if absolute returns are negative in the current year.

While politically defensible, this approach introduces its own risks:

- It can push staff to take excessive risk just to avoid a zero-bonus year;
- It can create headline risk later when two years' payouts stack into one; and
- Staff leave if they're not compensated for performance within their control—perhaps at the exact time when you need them most to navigate choppy waters.

If the real objective is retention and alignment, boards should look beyond current cash deferral methods to true long-term incentives (LTIs). Unlike cash deferrals, LTIs are forward-looking. They can be structured to vest over time, to vest based on performance, or a combination of both. Properly designed, LTIs send a clear message: Outstanding future results will be recognized with outstanding future rewards.

Canadian funds, and a handful of U.S. institutions, already employ LTI structures that give staff a meaningful stake in future long-term outcomes. These often provide opportunities for top performers to earn upper-quartile or better compensation while maintaining a direct line to the fund's mission and risk posture.

The bottom line is that deferrals may align optics with absolute returns, but they're a poor instrument for retention. If retention of your best people is the goal, deferrals alone won't get you there.

The Psychology of Pay — Perception Is Reality

Nobody knocks on HR's or the CIO's door to complain about being overpaid. In over 15 years of interviewing hundreds of investment professionals, I've met only one person who believed her pay was especially generous—a portfolio assistant who started in the mailroom and was grateful for the chance to prove herself. Ironically, she was also the most underpaid relative to market.

Perception matters. What staff think about your plan determines how it shapes their behavior. Do participants truly understand the plan's purpose and mechanics? Do they see it as fair, aligned with their responsibilities, and consistent with the fund's mission? How do their views compare to those of the board? If you asked every participant to explain how the plan works, how many different answers would you get—and how many simply wouldn't know?

> **Fairness isn't what the plan is. It's what staff believe it is.**

But the perception challenge isn't limited to staff. Boards, senior management, and external stakeholders—each group brings its own worldview and bias, shaped by their experience, accountability, and exposure to headlines. A pay plan viewed as fair by staff may appear excessive to the public or insufficient to peers. Understanding these lenses is essential to building trust and reinforcing alignment with mission.

Every audience views compensation through its own lens:

- Staff compare to private-sector peers.
- Boards focus on internal equity and headline risk.
- Beneficiaries, donors, and taxpayers judge through perceptions based on their own experiences and views.

That's why transparency is everything. Clear communication about why pay decisions are made—and what the organization gains from them—is the foundation of trust.

I often tell clients: we may think we're optimizing compensation plans, but more often, we're reducing friction—eliminating the small annoyances that quietly erode trust and buy-in.

Even the most well-designed pay programs fail without trust and clarity. Staff must understand what drives their pay—and those drivers must align behavior with mission. Management needs to understand the plan deeply enough to champion it, both internally and externally. The board must not only understand the mechanics but believe in them—and be able to explain and defend the plan to key stakeholders. Stakeholders don't need every detail, but they must see clear evidence that the compensation plan supports the fund's mission.

Different Lenses: How Pay Perceptions Diverge Across Stakeholders

Fund Type	Participants (Investment Staff)	Senior Management / CIO	Boards	External Stakeholders (Beneficiaries, Donors, Taxpayers)
Public Pension Fund	Often view pay as modest compared to the private sector. Frustration grows when strong performance isn't rewarded due to optics or politics.	Torn between motivating talent and surviving headlines. Must balance public scrutiny with internal fairness.	Politically influenced; perspectives often shaped by short-term returns or election cycles. Understanding of multi-year pay structures can be limited.	Media and public tend to equate any "bonus" with excess. Transparency and justification matter most.
Corporate Pension / Insurance Fund	Expect pay consistent with other large asset owners. Sensitive to internal equity with finance or actuarial teams.	Must operate within corporate frameworks not built for investment teams.	Often defer to HR norms that don't fully capture investment complexity.	Expect risk management discipline and accountability rather than high upside.
Endowment & Foundation	See pay as below Wall Street but value stability, flexibility, and mission.	Balance optics with talent retention. Hiring top talent is essential to maximizing returns in service of the mission.	Mix of academics, alumni, and finance professionals—each with distinct views on "market pay."	Donors value stewardship; bonuses tied to mission outcomes resonate most.
Family Office	Expect meaningful upside tied to wealth creation.	Pay directly reflects results and relationships.	Governance often informal; alignment built on trust.	External optics generally irrelevant, but family politics can rival public scrutiny.
Health Care / Nonprofit Fund	Staff value mission but expect competitive pay. Frustration rises when optics cap performance pay.	Balance fiduciary discipline with institutional politics. Often prefer peer groups that mirror corporate executives, even if investment mandates differ.	Risk-averse; discussions focus on fairness over competitiveness. Often lack investment governance expertise.	Patients and donors expect pay restraint; optics often outweigh economics.

When Formulas Fall Short: The Case for Scorecards

Nobody has ever asked me what I would do if I won the lottery, but I have frequently said that if I won the lottery and set up my own family office or foundation, I would design a scorecard-based incentive program (without formulas). Why? Because even with the best intentions, formulas can take you only so far. Every metric is messy, and every time frame has its flaws.

Why formulas can fail:

BENCHMARKS

In theory, comparing returns to board-approved benchmarks measures the value-add provided by staff in manager/security selection and fee negotiation. In practice, staff often have significant influence over benchmark selection, thereby helping to set their own performance standards. As briefly illustrated earlier, establishing fair, appropriate, and challenging performance standards (e.g., alpha vs benchmark) is as much art as it is science.

REFERENCE PORTFOLIOS

A 70/30 or 60/40 portfolio looks useful particularly when staff have significant influence on asset allocation. However, it often takes 7–10+ years—far longer than most pay plans allow—to separate luck from true value-add.

PEER RETURNS MISLEAD

Peer returns don't account for your fund's investment approach, liquidity needs, or mission. Peer rankings may be informative with very long-term assessments when proper performance attribution can be distinguished among asset allocation decisions, manager/security selection, capital markets and luck, but best avoided in the relatively short time horizons in which pay decisions are made.

ABSOLUTE RETURNS EMBED MARKETS INTO PAY

Bull markets make weak allocators look strong, while downturns punish even skilled investors. Embedding this noise into pay isn't motivating or fair and can lead to excessive risk-taking (or avoidance).

Why scorecards help:

A balanced scorecard enables boards to evaluate performance with a holistic lens, including relative and absolute returns, risk, innovation, and stewardship, without getting boxed into rigid formulas. In some cases, these scorecards are purely discretionary, while in others, they can be semi-formulaic with final discretionary overlays. Done well, scorecards allow staff to focus on the core mission and not just a few imperfect metrics. The fact is that, while imperfect, all the performance criteria discussed in this paper are important. Absolute returns pay the bills and reflect current economic conditions. Returns relative to benchmark measure value-add through manager/security selection. Relative peer ranking can measure asset allocation and risk impact. However, scorecard-based pay plans demand a culture of trust and rigorous performance management free of political noise. *Public funds: This isn't for you.* Properly structured scorecards can force the right conversations and holistic discussions on performance and attribution. Scorecards can thrive, but only where governance capacity, board discipline, and stakeholder tolerance exist. The best plan is the one your board can govern.

The New Hire Transition Plan

Many funds try to be "fair" by phasing new hires into incentive plans: year one based on one-year results, year two on two-year results, year three on three-year results, and so on. This approach is well-intentioned, but counterproductive:

- **It anchors to short-term results.** Tying year-one payouts to one-year performance creates misalignment with the fund's long-term mandate.
- **It creates false precision.** It overstates how much a new hire can impact performance in their first year or two, especially on a total fund basis or for private market portfolios. Moreover, when should performance measurement begin—the day an employee starts? Mid-year?

A simpler model: Place new hires in the same plan as the rest of the team from day one but provide a temporary "floor":

- **Years 1–2:** Employees participate in the standard plan but with a minimum guaranteed payout (e.g., no less than 50% of maximum or 100% of target).
- **Year 3 onward:** Employees transition fully into the plan with no floor.

Internal Moves

Similar principles apply when staff shift between portfolios, asset classes, or roles. Pay design should encourage mobility and ensure staff are in positions where they can add the most value. Incentives that overly weight tenure in a single seat, or reset performance clocks with every move, risk discouraging development and limit organizational agility. Of course, a healthy weight to total fund performance can help here as well.

How Most Funds Use Discretion

Discretion can be an incredibly powerful tool for aligning pay with performance and purpose. The more discretion a plan allows, the stronger the foundation of trust and the more rigorous the performance management must be behind it.

Most commonly, discretion appears as a stand-alone component alongside formulaic pay, primarily to capture individual contributions and achievements. Managed well, it signals to staff what matters most to the mission beyond formulaic metrics. Examples include advancing strategic initiatives, leading special projects, contributing to culture, managing staff, and reinforcing organizational values. Managed poorly, it's nothing more than deferred salary, where everyone ends up a "5 out of 5."

Discretion on its own isn't good or bad. But in the right hands, it's one of the most powerful tools in the compensation toolkit.

In other plans, discretion means modest adjustments (e.g., ±20%) to an otherwise formulaic outcome. Boards might use this to consider not just what the team achieved, but how they achieved it—and whether outside factors distorted the formulaic result. This is most common when incentives are funded as a pool with discretionary allocations (another use of discretion) rather than when funding and allocations are participant-specific.

In the most flexible designs, discretion is built into balanced scorecards, as described earlier. This offers the greatest flexibility, but it demands the greatest discipline. Scorecards require trust, rigor, and consistency. They should never become a tool to back into a pay outcome the board already wants.

Almost all plans allow one-off adjustments in extraordinary cases. Used sparingly, that's fine. Used too often, it erodes trust in the entire plan.

In short, discretion on its own isn't good or bad. But in the right hands, it's one of the most powerful tools in the compensation toolkit. Implemented with rigor and free of politics and ego, it strengthens alignment with performance and purpose. Handled poorly, it undermines both.

Beyond Today: Navigating the Future of Pay

The investment world is entering a period of rapid change. Global markets are evolving, new generations are reshaping the workforce, and stakeholders are holding institutions to higher standards of transparency and accountability. At the same time, technology and innovation are redefining how capital is managed and where talent comes from. For boards and leadership teams, this means compensation can no longer be treated as a static tool. A future-proof pay strategy must anticipate external pressures, reflect shifting talent dynamics, and balance the expectations of multiple stakeholders—all while staying true to the institution's mission.

The forces shaping tomorrow's talent market are already visible today:

Transparency Pressure: Public scrutiny of institutional pay is not going away. Compensation packages must be designed to be not just effective but also defensible. Boards and leadership need to be able to explain to key stakeholders why the compensation package is "a good deal." Plans that are simple to explain and strong enough to defend will be the most resilient. If you can't explain it, you can't defend it. Boards need defensibility, staff need predictability, and beneficiaries need trust.

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> **Consistently low payouts kill morale. Consistently high payouts kill credibility.**

The Next-Gen Talent Equation: A new generation of talent is entering the workforce with a different set of priorities and values. While compensation will always be critical, culture is an increasingly important retention factor. This next generation of employees wants meaningful work, flexibility, and frequent feedback. Boards must therefore design pay to reinforce culture as much as cash.

Global Talent Competition: The labor market for top talent is both national and, increasingly, global. The best talent may not be down the street or a few states away, but across an ocean. And your competition may no longer be another asset owner but a private equity fund or family office. A successful pay plan doesn't have to pay more than its peers do, but it must be calibrated to these market realities to attract the right people.

Innovation: Whether it's public funds discussing total portfolio approaches—where staff have wide discretion on allocation and implementation—or boards debating whether the endowment model will remain the top performer, traditional investment approaches are being questioned. If you expect staff to innovate, you need a compensation plan that doesn't box you into outdated thinking. Pay design needs to encourage innovation for funds truly seeking superior performance. Boards must incentivize long-term strategic thinking, staff need assurance they won't be punished for market cycles, and key stakeholders need to see clearly that pay reflects value-add, not luck.

Conclusion: Simple, Defensible, Aligned

Great compensation plans don't chase perfection. They focus on alignment among what staff can control, how value is created, and the culture the organization wants to build. The best plans are simple enough to explain, strong enough to defend, and credible enough to sustain trust.

The ultimate test of a pay plan isn't how it stacks up to peers. It's whether it attracts the right people, rewards the right outcomes, and makes board conversations easier, not harder—all while contributing to the fund's mission.

The conversation about compensation isn't just about numbers; it's also about values. By moving beyond politics, peer comparisons, and the limitations of rigid formulas, you can design a plan that delivers sustained long-term performance. A great compensation plan is authentic to your mission and a true signal of what you value. If your plan isn't building alignment and trust in your mission, it's time to rethink it.

Typical Incentive Plan Frameworks

The following pages illustrate the incentive plan frameworks leading institutional investors typically use. Importantly, the devil is in the details, and while the plan components, weightings, and payout scales are in the realm of typical, they should not be construed as a recommendation or a “best practice” your plan should copy. These are overly simplified illustrations to help guide conversations.

Public Funds (US)

Near the beginning of each year, the Compensation Committee establishes or reconfirms each participant’s incentive opportunity. At most public funds, this is described in maximum incentive terms as a percentage of base salary. For example, assume a portfolio manager with a base salary of $200,000 and a 25% incentive maximum ($50,000):

Plan Metric	Weighting	Implied Dollars
1 Total Fund vs Benchmark (3-Year)	20%	$10,000
2 Total Fund vs Benchmark (1-Year)	10%	5,000
3 Portfolio vs Benchmark (3-Year)	40%	20,000
4 Portfolio vs Benchmark (1-Year)	10%	5,000
5 Individual Performance Rating	20%	10,000
Total Maximum Incentive	**100%**	**$50,000**

The Compensation Committee—often in collaboration with the Investment Committee—then establishes the performance payout scales for each plan metric. Performance versus total fund, asset class, and/or individual portfolios is set for each period, and the weightings of these periods are also established. In funds without internal/direct investment management capabilities, performance is generally measured only on a total fund basis. Investment consultants are often relied on to help establish these performance criteria. Reach out if you need a referral to someone who can help (it’s not a job for a compensation consultant!).

Performance Payout Scales — 3-Year vs Benchmark (75%)

Total Fund	Public Equities	Fixed Income	Private Equity	Incentive Multiplier
60 bps	70 bps	20 bps	100 bps	1.00x
30 bps	35 bps	10 bps	50 bps	0.50x
0 bps	0 bps	0 bps	0 bps	0.00x

Performance Payout Scales — 1-Year vs Benchmark (25%)

Total Fund	Public Equities	Fixed Income	Private Equity	Incentive Multiplier
90 bps	105 bps	20 bps	150 bps	1.00x
45 bps	53 bps	10 bps	75 bps	0.50x
0 bps	0 bps	0 bps	0 bps	0.00x

Qualitative/individual performance, if included, is typically tied to annual performance rating process. For simplicity, we have assumed a 1-5 rating scale.

Individual Performance Rating

Rating	Incentive Multiplier
Far Exceeds (5/5)	1.00x
Exceeds (4/5)	0.80x
Meets (3/5)	0.60x
Meets Most (2/5)	0.40x
Unsatisfactory (1/5)	0.00x

During the performance year, staff can monitor their performance relative to the included metrics and performance criteria. After the performance year, actual performance results are compared to the performance payout scales.

Compare Actual Results to Payout Scales

Plan Metric	Result	Multiplier
Total Fund (3-Year)	80 bps	1.00x
Total Fund (1-Year)	-20 bps	0.00x
Public Equity Portfolio (3-Year)	55 bps	0.79x
Public Equity Portfolio (1-Year)	25 bps	0.24x
Individual Performance Rating	Exceeds (4/5)	0.80x

Multipliers for each plan component are then applied to the participant's incentive opportunity.

Apply Multipliers to Incentive Opportunity

Plan Metric	Multiplier		Opportunity		Payout
Total Fund (3-Year)	1.00x	x	$10,000	=	$10,000
Total Fund (1-Year)	0.00x	x	5,000	=	0
Public Equity Portfolio (3-Year)	0.79x	x	20,000	=	15,714
Public Equity Portfolio (1-Year)	0.24x	x	5,000	=	1,190
Individual Performance Rating	0.80x	x	10,000	=	8,000
Total Earned Incentive	**0.70x**				**$34,905**

Endowments & Foundations

Near the beginning of each year, the Compensation Committee establishes or reconfirms each participant's incentive opportunity. At most endowments and foundations, this is described in target incentive terms as a percentage of base salary with the opportunity to earn up to 2x target for superior performance. At many large endowments, relative peer ranking is also included. I have omitted peers as a standalone component, but these may be considered in the qualitative factor for senior staff.

Plan Metric	Weighting	Implied Dollars
1 Total Fund vs Custom Benchmark	50%	$125,000
2 Total Fund vs 70/30	20%	50,000
3 Individual Performance Rating	30%	75,000
Total Target Incentive	**100%**	**$250,000**

The Compensation Committee—often in collaboration with the Investment Committee—then establishes the performance payout scales for each plan metric. Performance is measured only on a total fund basis. Qualitative/individual performance can be tied to annual performance rating process or, in many cases, is purely subjective. For simplicity, we have assumed a 1-5 rating scale.

Performance Payout Scales — 3-Year vs Benchmark

Total Fund	Incentive Multiplier
200 bps	2.00x
100 bps	1.00x
0 bps	0.00x

Performance Payout Scales — 5-Year vs 70/30

Total Fund	Incentive Multiplier
200 bps	2.00x
100 bps	1.00x
0 bps	0.00x

Individual Performance Rating

Rating	Incentive Multiplier
Far Exceeds (5/5)	2.00x
Exceeds (4/5)	1.50x
Meets (3/5)	1.00x
Meets Most (2/5)	0.50x
Unsatisfactory (1/5)	0.00x

During the performance year, staff can monitor their performance relative to the included metrics and performance criteria (unless peers are included). After the performance year, actual performance results are compared to the performance payout scales.

Compare Actual Results to Payout Scales

Plan Metric	Result	Multiplier
Total Fund vs Custom Benchmark	175 bps	1.75x
Total Fund vs 70/30	100 bps	1.00x
Individual Performance Rating	Exceeds (4/5)	1.50x

Multipliers for each plan component are then applied to the participant's incentive opportunity.

Apply Multipliers to Incentive Opportunity

Plan Metric	Multiplier		Opportunity		Payout
Total Fund vs Custom Benchmark	1.75x	x	$125,000	=	$218,750
Total Fund vs 70/30	1.00x	x	50,000	=	50,000
Individual Performance Rating	1.50x	x	75,000	=	112,500
Total Earned Incentive	**1.53x**				**$381,250**

Lastly, the Compensation Committee calculates how much incentive is deferred, if any.

Most common approach: Pay out all incentives within 90 days of fiscal year end.

Large endowment approach: Defer 50% (e.g., $190,625) of total incentives, with ½ paid after 1 year and the remainder after 2 years. Deferred amounts earn interest up and down based on total fund returns.

Alternative approach: Pay amounts up to target (e.g., $250,000) in cash and defer the remainder (e.g., $131,250). Deferred amounts earn interest up and down based on total fund returns.

Scorecard-Based Incentives

Though not as commonly used, below is my personal preference, if governance allows, for a scorecard based incentive plan. This is a great framework for both new teams and established teams going through a substantial change that makes formulaic incentives more difficult to calibrate.

There are many ways a scorecard can be calibrated to align pay with performance and mission, depending on the needs and governance model of the fund. For example, quantitative metrics can be included. My preferred approaches include:

- Assessing performance on a holistic set of metrics and periods. This provides the most flexibility but also requires the most trust and adherence to rigorous performance management to avoid complacency with consistently earning maximum/target payouts.
- Determining payouts on an initial basis with a formula (as shown in the prior examples) with the board having discretion to increase or decrease (e.g., formula +/- 25%).
- Determining payouts with a mix of the above (e.g., benchmark is semi-formulaic but relative peer returns are assessed on a purely discretionary basis. (This mixed approach is used in the example below.)

Scorecard components may carry explicit weightings (as shown below) or be fully discretionary, allowing evaluators to focus on what matters most in a given performance period. The example that follows is intentionally simplified; in practice, results would be accompanied by a detailed memorandum from the CIO and a robust discussion with the board.

Boards should be deliberate in how they evaluate performance. Not every contribution fits neatly into a formula, and the most effective scorecards make room for judgment where it matters. Assessing qualitative factors transparently and in writing reinforces accountability and allows non-investment teams to participate in the same performance framework. How an organization upholds its values, collaborates, and exercises discipline is as critical to long-term results as what it delivers through quantitative metrics.

	Performance Metrics	Weighting	Objectives	Result	Score
1	**3-Year Benchmark**	30%	Linear payout with 1bps = 0.1x payout (e.g. 0-200bps, 0-2x multiplier)	150bps	1.50x
2	**5-Year Benchmark**	20%	Linear payout with 1bps = 0.1x payout (e.g. 0-200bps, 0-2x multiplier)	350bps	2.00x
3	**Relative Peer Returns**	10%	Achieve above median performance relative to similarly situated funds	Between median and 75th for 3-, 5-, and 10-year periods	1.50x
4	**Special Projects**	10%	Implement new risk monitoring system with XYZ Partner	Project delayed due to re-focus on tax implications and liquidity needs of the University.	0.75x
5	**Leadership, Teamwork, and Collaboration**	20%	Foster a collaborative culture by effectively leading teams, mentoring staff, and building constructive relationships with colleagues, board members, and external partners.	Effectively led team; received positive feedback from staff and board on collaboration and communication. Mentored junior staff.	1.50x
6	**Individual Achievements**	10%	Deliver meaningful individual contributions beyond core responsibilities, such as thought leadership, process improvements, or initiatives that advance the fund's mission and organizational effectiveness.	Published thought leadership piece on sustainable investing; implemented AI agents that reduced diligence timing by 25%; streamlined reporting process.	2.00x
	Total	**100%**			**1.58x**

Incentive Compensation Diagnostic | Questions to Facilitate Meaningful Discussion

This diagnostic aims to help boards and leadership teams assess whether their incentive plan truly aligns with mission, performance, and governance. Use it to identify strengths, blind spots, and trade-offs that require conscious decisions. Assign a rating to each item on a scale of:

1 = Not in place/misaligned | 2 = Partially in place | 3 = Strongly in place/well aligned

I hope this helps spark meaningful conversations about where the plan works, where it doesn't, and what trade-offs are intentional.

1. HARD TRUTHS CHECK

- We have explicitly acknowledged the trade-offs in our plan.
- Our best people stay because of mission and culture, not just pay.
- Our plan is not copied from peers, but designed for our unique context.
- Our deferral plan (if applicable) is meeting its intended purpose.

2. PLAN DNA & FUND CULTURE

- Staff, management, and the board trust each other to act within clear boundaries.
- Staff feel both empowered and accountable for results.
- Staff and the board believe the plan is fair and consistent with the fund's values.
- The plan can be explained in under five minutes.

3. PERFORMANCE STANDARDS & MEASUREMENT

- Standards are challenging but attainable.
- Metrics are aligned with what staff can influence.
- Performance expectations are transparent, consistent, and communicated to staff.
- We stress-test standards against different market cycles to check alignment.
- The plan avoids false precision and over-engineering while not overly relying on any single metric.

4. GOVERNANCE & DISCRETION

- The board can explain why payouts occurred in simple, defensible terms.
- Discretion is used with discipline and rigor and avoids politics.
- Governance practices ensure consistency across market cycles and leadership changes.

5. RETENTION & MARKET ALIGNMENT

- Pay opportunities are competitive with our true labor market.
- Our plan is perceived by staff as motivating and fair, not opaque or arbitrary.
- Taken together, pay and culture make our fund an employer of choice for top talent.


275
318

About Michael Oak Advisors

Michael Oak Advisors is an independent compensation consulting firm serving the mission-driven investment management community. We partner with leading institutional investors, including endowments, foundations, and pension funds, to design pay strategies that align people, purpose, and performance.

We combine institutional-grade rigor with the high-touch service of a boutique firm. Our advice is independent, unconflicted, and rooted in data and deep industry experience.

Leading investors rely on us for more than technical solutions. They turn to us for strategic insight and candid counsel that strengthens governance, elevates talent, and builds enduring investment organizations.

At Michael Oak Advisors, we are passionate about designing pay strategies that align people, purpose, and performance. We believe human capital is your greatest asset, and that your organization is fueled by the drive, focus, and dedication of your team. We understand the complexities of leading high-impact teams at pension funds, endowments, foundations, and other mission-driven institutions.

Mike has advised dozens of leading institutional investors on how to align human capital with mission and performance, helping his clients become employers of choice in a highly competitive talent market.

Mike Oak, Founder and Managing Director, is a nationally recognized expert in compensation strategy for institutional investors. Over his 20-year career, he has advised hundreds of investment organizations on how to align human capital with mission and performance, helping his clients become employers of choice in a highly competitive talent market.

Mike's expertise reflects a rare combination of statistical rigor and deep understanding of human capital strategy. He previously led the Institutional Investor Rewards Data and Advisory business at McLagan | Aon, where he spent 15 years advising endowments, foundations, pensions, sovereign funds, family offices, and OCIOs. Earlier in his career, he held roles as an executive compensation consultant at Pearl Meyer & Partners and as a statistician at the U.S. Department of Agriculture.

Mike's clients include leading institutional investors across endowments, foundations, pension funds, health care, sovereign wealth funds, family offices, and OCIOs. He holds a B.S. in Biometry & Statistics and an M.S. in Applied Statistics from Cornell University.

Outside of work, Mike serves on the Board of the Cornell University CALS Alumni Association serving on the Recognition, Grants, and Graduate Alumni committees, is a certified Master Naturalist, and volunteers as a paramedic with his local fire company—reflecting his commitment to service, education, and community.

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