



Regular Meeting

Item Number 11f – Open Session

Subject: Approval of Annual Incentive for the Chief Investment Officer

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: November 2, 2022 – 0 minutes

Attachment(s): Attachment 1 – Resolution

PowerPoint(s): None

Item Purpose

The purpose of this item is to obtain approval of the annual incentive award for the Chief Investment Officer (CIO) for the 2021-22 performance year.

Recommendation

Approve the CIO's 2021-22 incentive award in the amount of \$1,170,439

Executive Summary

The board's Compensation Policy and its Administrative Procedures are designed to provide full transparency for members, their beneficiaries, and other related constituents. The policy is intended to reinforce CalSTRS investment, governance and compensation philosophies and objectives, allow CalSTRS to attract, motivate and retain top-performing executives and investment staff, align incentive payouts with overall System, functional area, and individual performance, and focus staff on key investment objectives/benchmarks that are measured on a long-term basis.

At its October 2022 meeting, the board conducted its annual performance appraisal of the CIO for the 2021-22 performance year and determined the amount of the CIO's annual incentive award. The specific evaluation criteria and weightings used to determine the incentive award for the CIO are: Average of Asset Class Performance (25 percent), Total Investment Portfolio Performance (50 percent) and Personal Performance (25 percent). The maximum incentive opportunity for the CIO is 200 percent of the base salary earned during the 2021-22 fiscal year.

The incentive metric for Total Investment Portfolio Performance (3-year returns) generated an incentive award of \$612,000. The portion of the incentive weighted towards the Average of Asset Class Performance generated an award amount of \$262,639. Both quantitative components have been calculated and audited by Global Governance Advisors. Based on the board's assessment of the CIO's personal performance, the CIO's 2021-22 total incentive award is calculated to be \$1,170,439. This represents an award of 191.25 percent of the base salary of \$612,000 for the 2021-22 fiscal year.

Per board policy, the actual compensation awards are calibrated to represent a very small portion of the above-benchmark value that staff could create. As of the fiscal year ended June 30, 2022, the 3-year returns for Fixed Income, Global Equity, Inflation Sensitive, Innovative Strategies, Private Equity, Real Estate, Risk Mitigating Strategies, and Sustainable Investments and Stewardship Strategies outperformed their benchmark and contributed to the overall alpha of the Total Fund. The 3-year return of the Total Funds' outperformance equates to approximately \$7.9 billion in income for CalSTRS based upon specific staff decisions (net of fees). Including the proposed awards for the Chief Executive Officer and the Chief Investment Officer, the incentive payments for all plan participants for this fiscal year, totaling \$18.5 million, represent 0.23 percent of the value added from those specific investment decisions.

Incentive awards are not considered creditable compensation for defined benefit pension (CalPERS) calculations.

Strategic Plan Linkage: Goal 1: Trusted Stewards with Objective A: Achieve full funding of the Defined Benefit Program by June 30, 2046.

Board Policy Linkage: The Teachers' Retirement Board's Governance Manual, [Section 6, Compensation Policy](#) for Designated Executive Management and Investment Staff and its [Administrative Procedures](#).