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# Long-Term Incentive Plan Eligibility, Performance Period & Cost Savings Update

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Prepared for:

**CALSTRS**<sup>®</sup>  
HOW WILL YOU SPEND YOUR FUTURE?

# CalSTRS Board Approved Compensation Philosophy

## Compensation Principles:

Internally Equitable, Externally Competitive, Incentive-Based

## Peer Groups:

- Investment Staff: Blend of large and complex institutional investors
- Executive Management Staff: Blend of public and private sector organizations  
Leading Public Funds (weighted 67%), Private Sector Firms (weighted 33%)

## Market Positioning:

- Target towards employers CalSTRS competes for talented professionals against with similar skills.
- Investment functions, primarily focus on leading institutional investors and asset management orgs.
- Fixed and Annual Incentive compensation targeted at 50th percentile (median) of peer group.

# Rationale for 5-Year Performance Period

**Reflects a longer time period for measuring investment performance results.**

**1, 3, 5 and 10-year performance is already tracked by CalSTRS on a regular basis, so will not involve any additional administration from what is tracked currently.**

**While on longer end of the spectrum, length of performance period is in-line with market.**

**Length of LTIP performance period should be familiar to many CalSTRS trustees.**

# LTIP Eligibility in Peer Group

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Position	LTIP Eligible in Board Approved Peer Group?	LTIP Eligible at CalPERS?
CEO	√	√
COO	Mixed	Not Eligible
CFO	Mixed	Not Eligible
System Actuary	Mixed	Not Eligible
General Counsel	Mixed	Not Eligible
CIO	√	√
Deputy CIO	√	√
Sr. Investment Directors	√	√
Investment Director – Front Office	√	√
Investment Director – Inv. Services	Mixed	√
Sr. Portfolio Managers	√	√
Portfolio Manager – Front Office	√	√
Portfolio Manager – Inv. Services	Mixed	√
Associate PM – Front Office	√	√
Associate PM – Inv. Services	Typically not eligible	√

## Within Board Approved Peer Group:

LTIP is in place at:

- CalPERS
- Canadian pension peers
- Private sector peers

LTIP is generally not in place yet at:

- U.S. pension peers (outside of CalPERS)

Note: Talent pool with skills necessary for success of Collaborative Model and direct investments will likely not come from other pension systems, so need to offer a compensation design that is competitive with the private sector.

# Rationale for Broader LTIP Eligibility

**More reflective of the Board-approved compensation philosophy at CalSTRS.**

**Aligns with labor market analysis presented to the Board in June 2021.**

**Eligibility tied to “one team” that is critical to success of Collaborative Model.**

**Recognizes the need to attract and retain high-performing Executive Management and Investment Services talent in addition to Investment staff to be successful long-term.**

**Allows for minimal changes to eligibility in future years, providing more consistency.**

# Rationale for Narrower LTIP Eligibility

**Would keep potential LTIP costs lower at the start of the LTIP program.**

**Recognizes that at some organizations when LTIP is first introduced, LTIP eligibility is only provided to the CEO and Investment staff and not always to other Executive Management and Investment Services staff.**

# Potential LTIP Eligibility at CalSTRS (Broader)

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Position	Eligible
CEO	√
COO	√
CFO	√
System Actuary	√
General Counsel	
CIO	√
Deputy CIO	√
Sr. Investment Directors	√
Investment Director – Front Office	√
Investment Director – Inv. Services	√
Sr. Portfolio Managers	√
Portfolio Manager – Front Office	√
Portfolio Manager – Inv. Services	√
Associate PM – Front Office	√
Associate PM – Inv. Services	

# Potential LTIP Eligibility at CalSTRS (Narrower)

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Position	Eligible
CEO	√
COO	
CFO	
System Actuary	
General Counsel	
CIO	√
Deputy CIO	√
Sr. Investment Directors	√
Investment Director – Front Office	√
Investment Director – Inv. Services	
Sr. Portfolio Managers	√
Portfolio Manager – Front Office	√
Portfolio Manager – Inv. Services	
Associate PM – Front Office	√
Associate PM – Inv. Services	



# GGA Recommendation on Eligibility – Broader

**More reflective of the Board-approved compensation philosophy at CalSTRS to attract high-quality Executive Management and Investment staff.**

**Aligns with labor market analysis presented to the Board in June 2021.**

**Promotes concept of “one team” that is critical to success of Collaborative Model.**

### Cost Savings from the Collaborative Model

- In November, Staff will present an estimate of the historical cost savings from the collaborative model. The definition of “collaborative” will be broad and include:
  - Private investments where CalSTRS has collaborated with external industry partners
    - Co-investments, Sep. Accounts, Joint Ventures, etc.
  - Internal management where CalSTRS has brought specific strategies in house
    - Global Equity, Fixed Income, Currency
  - Relationship rebate agreements where CalSTRS has negotiated rebates based on multiple pieces of business across the CalSTRS plan
- An important goal of the collaborative model is to increase the cost savings from these activities meaningfully over time, improving net-of-fee returns to CalSTRS.
- One of the metrics that would need to be achieved to earn the LTIP would be targeted increases in this cost savings measure.
  - We plan to provide specific details on this metric in November.



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