

# **Administrative Procedures for the Teachers' Retirement Board's Compensation Policy – Section 6**

## **Purpose**

The purpose of this document is to provide the terms, conditions, and plan mechanics related to CalSTRS compensation program for eligible employees in designated executive management and investment staff positions. This administrative procedures document is guided by the Compensation Committee Charter and Teachers' Retirement Board (TRB) Policy Manual – Section 6 – Compensation Policy for Designated Executive Management and Investment Staff. The Charter, the Policy and the Administrative Procedures are meant to be read together in harmony and are not intended to be in conflict with each other.

## **Authority**

Education Code Section 22212.5 provides that the TRB shall determine the compensation of the Chief Executive Officer (CEO), Chief Operating Officer (COO), Chief Financial Officer (CFO), General Counsel, System Actuary, Chief Investment Officer (CIO), other investment officers and portfolio managers whose positions are designated as managerial. All positions, except the CEO, shall be filled through general civil service appointments and shall be subject to various civil service provisions of existing law, including the tenure provisions governing managerial employees.

## **Administration**

Subject to the provisions of Education Code Section 22212.5 (and all related amendments), the TRB reserves the right to modify, terminate, and/or rescind any and/or all of the compensation schedules, provisions, policies, and procedures contained in this and all supporting documents at any time. This document describes administrative procedures and does not provide a contract, guarantee of payment, or guarantee of employment between the TRB, CalSTRS, and the employees described in this document.

## **CalSTRS Compensation Principles**

The TRB has adopted, at the recommendation of the TRB Compensation Committee, a set of compensation principles developed by the Compensation Committee to support CalSTRS human resource and investment objectives. These Compensation Principles are as follows:

1. **Overall Pay Positioning/Staff Evaluation:** CalSTRS has high-quality executive management and investment staff, personnel critical to the System's ability to:
  - a. Generate investment returns that exceed CalSTRS benchmarks without taking unnecessary risk.
  - b. Serve its members and beneficiaries.

Given the high quality of the System's staff, the TRB desires to position staff compensation to stay in-line with the competitive market.

2. **Compensation Comparator Group:** As adopted by the TRB, in comparing its pay levels to the competitive market, the "competitive market" will be defined as follows:

For designated investment staff, the compensation comparator group includes a blend of large and complex institutional investors – including top U.S. and Canadian funds, corporate plan sponsors, and private sector asset management organizations.

For designated executive management staff, the compensation comparator group includes a blend of public and private sector asset management organizations.

- a. **Leading Public Funds** (*weighted 67%*): This group includes other large public funds and/or other public funds that internally manage a significant portion of their Systems' assets.
- b. **Private Sector Firms** (*weighted 33%*): This group includes a broad range of private sector firms (i.e., such that the pay practices of selected, very prominent firms are counter-balanced by other more conservative and risk-controlled organizations).

The comparator group and weightings will be reassessed and may be modified by the TRB, in consultation with its compensation consultant, prior to each compensation survey.

3. **Performance and Pay Expectations:** CalSTRS' executive management fosters a collaborative and attractive culture. This management approach is critical to CalSTRS' ability to retain staff and generate above-average investment returns. The TRB approves increased pay opportunities for executive management and investment staff in exchange for increased performance requirements for actively managed assets (within established risk parameters). This approach supports the System's on-going funding needs and involves:

- a. Modifying the incentive plan so that cash incentives are only earned when performance is above benchmark levels.
- b. Increasing incentive pay opportunities, particularly for performance that is well above expected levels.
- c. Stipulating that a qualitative component will only be awarded to staff for an average performance rating at or above "Maintain – Performance consistently meets expectations in most essential areas of responsibility." (an average score of 3 or more on a scale of 1-5) on their personal performance evaluation. This applies to each qualitative component for which an individual may be eligible.
- d. Stipulating that no cash incentives will be paid to staff who receive an average Personal Performance rating "Improve – Performance is consistently unsatisfactory in most essential areas of responsibility. Significant improvement is needed in one or more areas" (less than a score of 2 on a scale of 1-5) on their personal performance evaluation to, among other things, prevent poor performers from being "carried" by high performers.
- e. Ensuring that staff who do not meet performance expectations are reassigned or terminated within a reasonable period of time.

4. **Base Salary Levels:** The TRB wants to ensure that salaries are competitive with prevailing market levels. However, the TRB has stated that, to the extent possible, adjustments in cash compensation levels, if any, should be provided primarily through increased incentive opportunities (rather than through increases in base salary).

5. **Incentive Plan Performance Weightings:** Consistent with the move to intensify the focus on performance and increase incentive pay opportunities, the TRB has also stated that incentive payouts should primarily reflect:
  - a. Asset class (i.e., not Total Fund) performance, especially for Investment Directors, Portfolio Managers and Associate Portfolio Managers.
  - b. Quantitative performance. Note that, while the TRB wants to preserve the incentive plan's qualitative component, the TRB has stated that qualitative incentive opportunities should represent a smaller portion of total incentive opportunities.
6. **Chief Executive Officer Pay Level:** The TRB wants to ensure that the CEO's pay level is commensurate with his/her contribution and equitable relative to the pay of CalSTRS' CIO.

### **Compensation Program Market Position Goals**

Consistent with the Compensation Principles and Compensation Program Objectives, the program's market positioning goals are as follows:

- Pay comparisons will be targeted towards other employers with which CalSTRS competes for talented professionals with similar skills.
- For functions requiring skills and competencies unique to the investment management industry, competitive market comparisons will primarily focus on the investment management functions of leading institutional investors and private sector asset management organizations (i.e., the TRB-approved compensation comparator groups).
- Cash compensation opportunities will be targeted at the 50th percentile (median) of the TRB-approved comparator groups. By targeting pay opportunities to these comparator groups, CalSTRS should be able to attract and retain the high-caliber employees required to achieve the System's business and investment objectives.

To satisfy these market position goals for base salary and cash compensation (i.e., salary plus cash incentives), CalSTRS will assess:

- Relevant competitive market compensation survey data every two years or as otherwise determined by the TRB Compensation Committee. Such data will be secured from reputable, third party sources.
- Current market salary and cash compensation data from special compensation surveys and other reputable sources, when a position becomes vacant.

The CEO may initiate market pay studies consistent with TRB-approved compensation comparator groups and TRB-approved targeted market position. The CEO will communicate with the Compensation Committee Chairperson prior to initiating a pay study. The CEO will report market pay study activities to the Compensation Committee.

### **Base Salary Ranges**

The TRB has approved the practice of setting salary ranges, rather than a single rate of pay, for executive management and investment staff. The TRB will continue this practice for these and any future positions covered under Education Code Section 22212.5.

Base salary ranges for executive management and investment staff are typically reviewed every two years (i.e., through a comprehensive market pay analysis using data from third party sources). In intervening years, special market reviews and/or analyses may be conducted to validate existing salary ranges and/or to establish a new recruiting range when a position becomes vacant.

Base salary ranges, with specified minimums and maximums, will be established for executive management and investment staff using market data from the TRB-approved compensation comparator groups. In developing such ranges, consideration will be given to minimizing range overlap between positions. Base salary levels for each position will be targeted at the midpoint of the base salary range. As base salary ranges are adjusted over time, targeted salary levels will move in accordance with the annual base salary adjustment guidelines.

In the years between comprehensive market pay reviews, base salary ranges may be adjusted by an amount reflective of salary movement for executive and investment staff within organizations representative of the compensation comparator group. Generally, all base salary ranges will be adjusted by the same annual percentage amount unless market survey data or CalSTRS' recruiting and/or retention experience suggests otherwise.

The following chart shows the current base salary ranges approved by the TRB:

Position	Minimum (\$000s)	Midpoint (\$000s)	Maximum (000s)
CEO	386	475	564
COO	245	300	355
CFO	228	280	332
General Counsel	325	400	475
System Actuary	228	280	332
CIO	416	520	624
Deputy CIO	300	370	440
Senior Investment Directors	290	360	430
Investment Directors	284	355	425
Senior Portfolio Managers	220	280	340
Portfolio Managers	192	240	288
Assoc Portfolio Mgrs	140	175	210

## Base Salary Adjustments

Base salary adjustments for positions covered under Education Code 22212.5 are discretionary. Incumbents are not entitled to automatic salary adjustments. Salary adjustments are determined each year and are effective at the beginning (i.e., July 1<sup>st</sup>) of the new fiscal year.

### CEO and CIO Base Salary Adjustments

The TRB has the authority to adjust the CEO's and CIO's base salaries within the prescribed ranges by annual amounts generally not to exceed 10 percent. When determining salary adjustments, if any, the TRB will consider a number of factors, including, but not limited to: each incumbent's current salary, position in range and overall performance (as evaluated through CalSTRS performance appraisal process); internal equity relationships; retention issues; recruiting experience; and State environment.

The CEO's and CIO's performance appraisal and salary adjustment recommendation will be determined by the TRB annually, following the end of the plan year with supporting materials prepared by the CEO and CIO. The TRB will:

- Determine the CEO's base salary adjustment and incentive payout, if any.
- Determine the CIO's base salary adjustment and incentive payout, if any.

### **For All Other Investment and Executive Management Positions**

For incumbents in investment positions covered under Education Code Section 22212.5, the CIO recommends base salary adjustments, if any, to the CEO. The CEO will review the recommendations and make final approval of any such adjustments.

For incumbents in all other executive management positions covered under Education Code Section 22212.5, the CEO will approve any base salary adjustments. Base salary adjustments must be within the prescribed base salary ranges for each position.

Base salary adjustments may range generally 0-10 percent up to the midpoint of the salary range. The CEO has the discretion to grant an adjustment exceeding 10 percent. In determining the amount of a salary increase, if any, the CEO and CIO may consider a number of factors, including, but not limited to: each incumbent's current salary, position in range and overall performance (as evaluated through CalSTRS performance appraisal process); internal equity relationships; retention issues; recruiting experience; and State environment. The CEO may also grant a base salary adjustment above the midpoint of the range for factors including, but not limited to: overall performance, internal equity relationships, retention issues, recruiting experience, and higher-level duties. The CEO may also grant temporary salary increases in recognition of temporary acting assignments.

The TRB and/or the CEO may approve off-cycle increases as necessary, taking into consideration the aforementioned factors listed above.

## **Incentive Pay Plan**

### **Plan Objectives**

As approved and adopted by the TRB, CalSTRS incentive plan is intended to:

- Reinforce the System's investment, governance and compensation philosophies and objectives.
- Help CalSTRS attract, motivate, and retain top-performing executives and investment staff.
- Align incentive payouts with overall System, functional area, and individual performance.
- Focus staff on key investment objectives/benchmarks that are measured on a long-term basis.

### **Eligibility**

Full-time employees covered under Education Code Section 22212.5 may be eligible to participate in the incentive plan. Actual incentive plan participation is determined based on each incumbent's employment status and the Compensation Committee's assessment of the position's impact on CalSTRS overall investment and business performance. Currently, the incentive plan

covers the CEO, COO, CFO, System Actuary, CIO, Deputy CIO, Senior Investment Directors, Investment Directors, Senior Portfolio Managers, Portfolio Managers, and Associate Portfolio Managers. The General Counsel is not eligible to participate in the incentive plan nor are part-time employees.

### **Plan Concept/Mechanics**

The incentive plan's terms and conditions are described in this document and the accompanying Appendices. A summary of the incentive plan's overall mechanics is as follows:

- Prior to or near the beginning of each plan year, participants will be assigned a maximum incentive opportunity that is expressed as a percentage of their July 1st annual base salary rate during the plan year. For the purposes of calculating the incentive award, the annual base salary is the sum of the values of each of their monthly base rates for the period of time they held an eligible position during the plan year. In the event the participant has held more than one eligible position during the plan year, or whose initial appointment was after July 1st, their annual base salary for each eligible position will be the sum of the values of each of their monthly base salary rates for the period of time they were appointed to each eligible position during the plan year.
- Maximum incentive opportunities will be weighted or allocated to both quantitative (numerically measured) and qualitative (subjectively measured) performance components. Performance weightings or allocations will vary by position based on each position's primary roles and accountabilities (e.g., the CEO will have a higher incentive weighting to the qualitative component, reflecting a higher importance of achieving his/her assigned individual and strategic goals. A Portfolio Manager will have a higher incentive weighting to quantitative or numeric measures, reflecting his or her responsibility for producing strong investment results).
- Soon after the end of each plan year, a performance multiplier will be determined for each of the relevant performance components.
- Performance multipliers will determine the portion of the maximum incentive opportunity (weighted to that performance component) that is actually earned.
  - At "maximum" performance, performance multipliers equal 1.00 (i.e., participants earn 100% of the portion of their maximum incentive opportunity that is weighted to that component).
  - At less than maximum performance, multipliers can equal between 0 and 1.00 (i.e., participants earn between 0% and 99% of that portion of their maximum incentive opportunity).
  - Actual awards will equal the sum of all multiplier-adjusted performance components.
  - Appendix 2 illustrates the incentive plan's mechanics for a Global Equity Portfolio Manager.

### **Maximum Incentive Opportunities**

The TRB determines maximum incentive opportunities for each eligible position. Maximum incentive opportunities reflect competitive cash compensation levels and the Compensation

Committee’s assessment of the optimal mix of base salary and incentive opportunity. The competitive market for salary and incentive purposes is the same (i.e., the TRB-approved compensation comparator group).

Maximum incentive opportunities will vary by position based on differing levels of accountability, responsibility, and competitive pay requirements. Maximum incentive opportunities are expressed as a percentage of base salary as follows:

Position	Incentive Opportunity Minimum	Incentive Opportunity Maximum
CEO	0%	150%
COO	0%	50%
CFO	0%	50%
System Actuary	0%	30%
CIO	0%	200%
Deputy CIO	0%	175%
Senior Investment Directors	0%	150%
Investment Directors	0%	125%
Senior Portfolio Managers	0%	125%
Portfolio Managers	0%	125%
Assoc Portfolio Manager	0%	50%

### Maximum Incentive Weightings

Each participant’s maximum incentive opportunity will be weighted or allocated to “stand-alone” Quantitative and Qualitative performance components that will vary by position:

1. The **Quantitative Component** links incentive payouts to the investment results of each asset class (e.g., equity, fixed income, etc.) and the Total Fund versus their respective external benchmarks.
2. The **Qualitative Component** links incentive payouts to the achievement of (1) individual or personal goals and objectives; and (2) other contributions not necessarily reflected in near-term investment results. In addition, for the CEO and CIO, a portion of their maximum incentives is weighted to the achievement of System-related strategic goals and objectives. For the CEO, the overall Qualitative Component has a relatively high weighting (i.e., 70%) to reinforce the achievement of strategic and business objectives.

For the CEO and CIO, maximum incentive weightings will be reviewed and confirmed by the TRB Compensation Committee prior to the beginning of each plan year. The CEO will review and confirm the maximum incentive weightings for all other eligible positions in consultation with the TRB’s compensation and/or investment consultants and CIO, where appropriate.

As described below, incentive weightings are as follows:

- The CEO’s emphasizes achievement of strategic goals and objectives, TRB approved CEO competency criteria, and the Total Fund’s investment performance.
- The COO’s and CFO’s emphasize achievement of executive leadership, strategic goals and objectives, and the Total Fund’s investment performance.

- The System Actuary's emphasizes achievement of leadership and strategic business objectives.
- The CIO's emphasizes the Total Fund's investment performance, asset class investment performance, and TRB approved CIO competency criteria.
- All other Investment Management emphasize Asset Class investment performance and Total Fund investment performance.



### Incentive Weightings

Position	Quantitative Total Fund	Quantitative Asset Class	Qualitative Personal Perf/ Key Success Factors	Qualitative LT Strategic Perf	Total
CEO	30%	-	30%	40%	100%
COO	15%	-	50%	35%	100%
CFO	20%	-	50%	30%	100%
System Actuary	-	-	100%	-	100%
CIO	50%	25%	25%	-	100%
Deputy CIO Senior Investment Dir	40%	40%	20%	-	100%
Investment Dir Senior PM PM APM	30%	50%	20%	-	100%
Investment Dir Senior PM PM APM (Total Fund Mgmt)	30%	30%	40%	-	100%
Investment Dir Senior PM PM APM (SISS)	30%	25%	45%	-	100%
Investment Dir Senior PM PM APM (Risk Mtg Strategies)	30%	20%	50%	-	100%
Senior PM PM APM (Collaborative Strategies - Innov)	30%	30%	40%		100%
Senior PM PM APM (Strategic Initiatives)	30%	30%	40%		100%
Senior PM PM APM (Diversity)	30%	30%	40%		100%

Position	Quantitative Total Fund	Quantitative Asset Class	Qualitative Personal Perf/ Key Success Factors	Qualitative LT Strategic Perf	Total
Investment Dir Senior PM PM APM (Investment Services)	30%	30%	40%		100%

**Quantitative Component Measures**

**Performance-Award Scales**

The incentive plan’s quantitative performance components focus on actual relative investment performance (net of fees<sup>1</sup>) at the Total Fund and Asset Class levels compared with external benchmarks.

For the incentive plan’s quantitative performance components, performance-award scales define the linkage between CalSTRS actual relative investment performance and a corresponding performance multiplier (that is used to translate the maximum award opportunity into an actual award). Asset Class and Total Fund performance standards (specified within the incentive plan’s performance-award scales) vary based on expected tracking error, risk, and return levels. For example, the Asset Class having the highest expected tracking error, risk and return levels, would also have a performance-award scale with the greatest number of basis points required to earn the maximum incentive multiplier.

The chart that follows illustrates, for Asset Class XYZ and the Total Fund, how performance-award scales create a linkage between performance and incentive multipliers. As this chart shows, under CalSTRS incentive plan:

- Incentive multipliers equal zero when performance is at or below benchmark. Plan participants need to add value, above assigned benchmarks, to receive incentive payouts.
- Incentive multipliers equal 1.00 at levels of performance that are considered above average, considering expected levels of risk and return. The incentive plan recognizes superior performance with maximum multipliers but does not promote excessive levels of risk.

Incentive multipliers gradually increase, from zero to 1.00, for performance that is between benchmark and the level considered above average. The gradual increase in incentive multipliers ensures that small changes in performance lead to small, not big, changes in pay.

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<sup>1</sup> Net of fees investment return is defined as gross investment results less investment manager fees. For private investments, the net activity is inclusive of the carried interest component. Net of fees investment results at the Asset Class and Total Fund levels are calculated by the System’s custodian, State Street Bank & Trust Company, and are reviewed by other third-party consultants.

Performance Scales – Intermediate points interpolated:

Asset Class XYZ (bps)	Total Fund (bps)	Performance Multiplier
60	40	1.0
:	:	:
30	20	.050
:	:	:
0	0	0.0

### Performance Year Weight

The incentive plan’s quantitative performance measures and the associated awards for incentive plan participants will be based on multi-year performance against relevant benchmarks, using an award schedule approved by the TRB. Asset Class and Total Fund performance are based on three-year average returns for all staff including newly hired and transferred staff. The TRB will establish quantitative performance measures for the Total Fund. The CEO will establish quantitative performance measures for each Asset Class in consultation with the TRB’s compensation and/or investment consultants and CIO, where appropriate. Performance evaluations under the incentive plan’s subjective or qualitative component will focus on the current year’s results, exclusively.

## Qualitative Component Measures

### Personal Performance Evaluation

The goal of the Personal Performance incentive measure is to align incentive payouts with a variety of contributions and behaviors that are not necessarily reflected in investment performance. Except for the CEO and CIO, incentive plan participants are evaluated in a variety of competency areas, and may vary by role, such as adaptability and change leadership, communication, negotiation, and relationship development, teamwork and team leadership, quality work standards and initiative, ethical decision making and risk management, strategic thinking and implementation, customer focus and program performance, knowledge and organizational awareness, investment focus and investment landscape awareness. The CIO reviews and assesses the Personal Performance evaluations of incentive eligible investment staff. The CIO may make adjustments to the raw score calculations for the purposes of calculating incentive awards, either positively or negatively. Any adjustment of the raw score calculation will include the justification for the change aligned to the performance evaluation. Except for the CIO, the CEO reviews and approves the Personal Performance evaluations for each incentive plan participant. The final score as approved by the CEO will be used to calculate the qualitative component value of the individual’s incentive plan award.

The following figure shows the Personal Performance ratings and the associated performance multipliers that are used to calculate the actual Personal Performance component of the incentive awards, if any. As the figure shows, under CalSTRS incentive plan:

- Individuals receive Personal Performance ratings in eight competency areas that range from 1 to 5.

- The mathematical average of the eight competency ratings will be used to calculate the raw score.
- An eligible individual achieving an average rating equal to “Focus – Performance occasionally needs improvement in essential area of responsibility” (2.0 to 2.99 on a 5-point rating scale), will not earn the Personal Performance component.
- An eligible individual achieving an average rating that is less than “Focus – Performance occasionally needs improvement in essential area of responsibility” (0 to 1.99 on a 5-point rating scale), will not earn an incentive award.

Rating Scale

Personal Performance	Average Perf Rating	Raw Score Calculation	Application of Raw Score	Performance Multiplier
Mentor: Performance <i>consistently</i> exceeds expectations in all essential areas of responsibility.	5	$5 \div 5 = 100\%$	5.0 = 100% ↑ 4.5=90%	1.0 ↑ .9
Share: Performance <i>occasionally</i> exceeds expectations in most essential areas of responsibility.	4	$4 \div 5 = 80\%$	4.49 = 89% ↑ 4.0 = 80%	.89 ↑ .8
Maintain: Performance <i>consistently</i> meets expectations in most essential areas of responsibility.	3	$3 \div 5 = 60\%$	3.99 = 79% ↑ 3.0 = 60%	.79 ↑ .6
Focus: Performance <i>occasionally</i> needs improvement in essential area of responsibility.	2	This component of the incentive award will not be earned	Average rating of 2.0 to 2.99	0
Improve: Performance is <i>consistently unsatisfactory</i> in most essential areas of responsibility. Significant improvement is needed in one or more areas.	1	No incentive award will be earned.	Average rating of 1.99 or below	0

Except for the CEO and the CIO, the CEO may set or modify the personal performance evaluation measures and scale, including setting threshold personal performance criteria, used to evaluate qualitative performance.

### **Strategic/Business Performance Evaluation**

The CEO is evaluated in the areas of Leadership, Management, Communication, Policy Matters, and Staff Development.

The CEO's overall performance is also evaluated against the System's Strategic Plan. The specific strategic goals and objectives for the CEO are established by the TRB and incorporated into the Annual Business Plan at the beginning of each fiscal year. These goals and objectives and/or the prioritization of achieving them may change during the course of the fiscal year as executive management and the TRB deem necessary. The Strategic/Business Objective Qualitative score is determined by the TRB.

The CIO is evaluated in the areas of Leadership, Management, Communication, Policy Matters, Staff Development and is also evaluated in improving efficiencies and investment performance of the Investment Division and performance against the Strategic Plan.

In addition to the annual evaluation performed after the end of the fiscal year, the TRB Chair and Vice Chair will conduct a mid-year performance assessment of the CEO and the CIO and will review progress towards the performance objectives and the System's goals.

The COO's and CFO's overall performance is also evaluated against the System's Strategic Plan. The Strategic/Business Objective Qualitative score reflecting each position's responsibilities towards achieving specific strategic goals and objectives is determined by the CEO.

### **Administration of the Incentive Plan**

CalSTRS performance management system is an ongoing, interactive process that involves continual (e.g., monthly, quarterly, annual) review of the System's performance by the TRB. Plan administration procedures are described in Appendix 1. An independent consultant will review and verify in writing all quantitative incentive award calculations prior to the issuance of any incentive awards.

Incentive awards will be considered and approved by the TRB for the CEO and CIO, upon completion of the CEO and CIO annual performance review following the end of the previous fiscal year. The CEO will consider and approve incentive awards for all other incentive plan participants after the close of the fiscal year and upon disclosure of such awards to the Compensation Committee following the end of the previous fiscal year. The disclosure report will note incentive award payments made to incentive plan participants who have separated from service with CalSTRS, if any. Incentive awards are not considered creditable compensation for defined benefit pension (CalPERS) calculations.

### **Authority to Eliminate, Reduce or Defer Incentive Awards**

If a "qualifying trigger" occurs during the plan year, then the TRB has discretion to pay zero, reduce the amount of the incentive award, or defer all or part of a Participant's incentive award for that plan year. "Qualifying trigger" means any one of the following events has occurred during a plan year:

## **Investment Performance Triggers**

- The Total Fund one-year absolute return, net-of-fees, for a plan year for which the incentive award is calculated is less than zero percent (i.e., -0.01 percent, or worse).
- The Asset Class one-year absolute return, net-of-fees, for a plan year for which the incentive award is calculated is less than zero percent (i.e., -0.01 percent, or worse).
- The one-year underperformance of the relative return of an Asset Class by 100 percent or more. For example: If the level of performance necessary to attain 100 percent of the incentive opportunity assigned to the Total Fund or Asset Class is 40 basis points above the benchmark, net of fees, then the trigger would occur when the one-year relative investment performance is 40 basis points or more below the benchmark (negative 40 basis points).
- The one-year underperformance of the relative return of the Total Fund by 100 percent or more. For example: If the level of performance necessary to attain 100 percent of the incentive opportunity assigned to the Total Fund or Asset Class is 40 basis points above the benchmark, net of fees, then the trigger would occur when the one-year relative investment performance is 40 basis points or more below the benchmark (negative 40 basis points).

## **Ethics Violation Triggers**

Ethics Violation Triggers include but are not limited to the following:

- Discovery of substantial misconduct, unlawful conduct, misrepresentation, or fraud by an employee under the Compensation Plan.
- Discovery of significant non-compliance with the Investment Policy by an employee covered under the Compensation Plan.
- Significant non-compliance with regulations from the Securities and Exchange Commission, Internal Revenue Service, Fair Political Practices Commission, or other applicable regulators by an employee covered under the Compensation Plan.

## **Reputational Risks Triggers**

A Reputational Risk trigger includes an event or action that significantly discredits the reputation of CalSTRS in such a way as to cause a significant decline in member trust or satisfaction; the reduction of State's credit rating; or call into question the fiduciary performance of the trustees. Examples of events that could cause reputational risks would be:

- Receiving a qualified opinion on the external audit of the System's Year End Financial Statements.
- Imprudent use of fund assets.

While the Board maintains incentive payment discretion in the event of a "qualifying trigger", the application of that discretion will take into account the extent to which the employee's, group of employees' or team's action or performance are considered to have contributed to the occurrence of the trigger.

### **Deferral in the Case of One-Year Negative Total Fund or Asset Class Return**

If the Board elects to defer payment of all or a portion of an employee's performance award for the fiscal year to a later date due to a one-year negative absolute return of the Total Fund or of an Asset Class, payment to current employees and to voluntarily separated employees who were employed by the System and substantially performing their duties on the performance year end date will be made not more than 90 days beyond the end of the first later fiscal year in which the one-year absolute return on the Total Fund or the respective Asset Class net-of-fees equals or exceeds zero percent (i.e., 0.00%, or greater), or, as to an individual who has died or separates due to retirement, disability, or reduction in workforce (i.e., layoff), not more than 90 days after the end of the fiscal year in which the individual died or separated due to retirement, disability, or reduction in workforce.

### **Deferral in the Case of Significant Underperformance of the Relative Return of the Total Fund or of an Asset Class**

If the Board elects to defer payment of all or a portion of an employee's performance award for the fiscal year to a later date due to significant underperformance of the relative return of the Total Fund or of an Asset Class, payment to current employees and to voluntarily separated employees who were employed by the System and substantially performing their duties on the performance year end date will be made not more than 90 days beyond the end of the first later fiscal year in which the one-year relative investment performance net of fees for the Total Fund or Asset Class exceeds its corresponding benchmark (i.e., 01 basis points or greater), or, as to an individual who has died or separates due to retirement, disability, or reduction in workforce (i.e., layoff), not more than 90 days after the end of the fiscal year in which the individual died or separated due to retirement, disability, or reduction in workforce.

### **Deferral in the Case of Ethics Violations and Reputational Risk Triggers**

If the Board elects to defer payment of all or a portion of an employee's performance award for the fiscal year to a later date due to a trigger which falls into the category of Ethics Violations or Reputational Risk, payment will be made (subject to the section entitled "Elimination or Reduced Awards") to current employees and to voluntarily separated employees who were employed by the System and substantially performing their duties on the performance year end date not more than 90 days beyond when final resolution to the trigger occurs or as determined by the Board. Incentive awards deferred for Ethics and Reputation based triggers will not be subject to vesting or payment prior to final resolution of the trigger or a determination by the Board if the employee dies or separates as a result of retirement, disability, or a reduction in workforce. In these cases, the payment of any amount determined by the Board will be made not more than 90 days after final resolution of the trigger.

### **Vesting and Forfeiture of Deferred Incentives**

If a "qualifying trigger" occurs and the Board elects to defer payment of an employee's performance award, the employee's performance award for that fiscal year will not vest until actually paid or, if earlier, the date the employee dies or separates as a result of retirement, disability, voluntary separation from the system – provided the employee was employed by the System and substantially performing their duties on the performance year end-date or reduction in workforce, i.e., layoff, (except in the case of Ethics and Reputation based triggers – see above). If, before receiving the performance award, the employee terminates employment with CalSTRS for any reason other than death, retirement, disability, voluntary separation – as provided above



or reduction in workforce, i.e., layoff, then his or her right to the performance award will lapse and the performance award will not be paid.

#### **Internal Revenue Code Section 409A**

- **Compliance.** It is the intention of the System that the benefits payable under the Incentive Pay Plan comply, to the extent applicable, with Section 409A of the Internal Revenue Code (“Code”) and the underlying regulations of that Section (“Regulations”). Very generally, Section 409A includes in taxable income deferred compensation that fails to meet certain distribution and election requirements, unless the employee’s rights to the deferred compensation are conditioned upon future performance of services. The Board feels the Plan does condition employee rights such that Section 409A is not currently applicable but reserves the following flexibility to the extent any benefits may or are deemed subject to the Section by applicable taxing authorities.<sup>2</sup>
- **Acceleration or Delay in Payments.** At the sole discretion of the Board, deferred benefits may be accelerated as allowed under Section 409A and the Regulations including, but not necessarily limited to, payments necessary to comply with a qualified domestic relations order, payments intended to pay employment taxes relating to Section 409A, or payments due to an unforeseeable emergency. Further, at the discretion of the Board, payments that would violate any law or any contractual requirement of the System may be delayed, provided that the payment shall be made at the earliest date that the Board determines will not cause such violation or such violation has been appropriately waived.
- **Good Faith Compliance.** To the extent any benefits are or become subject to Section 409A and the Board believes, at any time, that such benefits do not comply with one or more requirements under Section 409A, it will promptly advise the potentially affected employees and, in good faith, amend the terms of the Plan such that it so complies (with the most limited possible economic effect on the affected employees, and with the intent to preserve payment of a meaningful portion of the incentive benefits).

#### **Elimination or Reduced Awards**

If a “qualifying trigger” occurs the Board may elect to eliminate all or a portion of an employee’s performance award for the plan year. If a portion of the performance award is eliminated, the reduced remainder of the performance award will either be paid in accordance with distribution criteria outlined in this document or deferred in accordance with the deferral conditions outlined in this document.

#### **Earnings on Deferred Awards**

Awards deferred for Investment Performance based triggers will be credited annually (up or down) at the one-year absolute return net-of-fees of the Total Fund, but not to exceed (+ or -) 15 percent in any one-year period.

Awards deferred for Ethics or Reputation based triggers that are subsequently disbursed will be credited with the Surplus Money Investment Fund return for the period of deferral.

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<sup>2</sup> Subject to change and should not be considered legal or tax advice.

## **Payout of Performance Awards upon First Appointment**

The following applies to the incentive awards for eligible employees who are not in their positions and performing their related duties for a full plan year:

Following an Appointment:

- An individual appointed during the first half of a fiscal year (July to December) would be eligible to receive a performance award based on their annual base salary (as pro-rated to reflect their mid-year appointment), subject to the Incentive Pay Plan Concept and Mechanics as described in this document.
- A partial year award shall not be granted to an individual who has served fewer than six months. Except as stated below, an employee with a start date between January and June shall not receive an incentive for the performance measures covering the second half of the fiscal year.
- An individual who is appointed from an incentive eligible CalSTRS Career Executive Assignment (CEA) position to an eligible position during the second half of the fiscal year would be eligible to receive a performance award based on their annual base salary (as pro-rated to reflect their mid-year appointment), subject to the Incentive Pay Plan Concept and Mechanics as described in this document. A partial year award shall not be granted to an individual who has served less than a combined six months in both positions during the fiscal year.
- An individual who is promoted from the Investment Officer III, CalSTRS classification to a Managerial classification (Associate Portfolio Manager, Portfolio Manager, Investment Director, or other eligible investment position classified as Managerial) within the same asset class during the second half of the fiscal year would be eligible to receive a performance award based on their annual base salary (as pro-rated to reflect their mid-year appointment), subject to the Incentive Pay Plan Concept and Mechanics as described in this document. A partial year award shall not be granted to an individual who has served less than a combined six months in both positions during the fiscal year.
- Except as stated above regarding promotions within an asset class, an individual who does not remain in their position, substantially performing their duties, within six-months of appointment shall not receive an incentive award.

## **Payout of Performance Awards upon Separation**

1. Action Upon Separation (except as stated in Item 2 below):
  - Incentive plan participants shall be eligible to receive an incentive payment if they are employed by the System and substantially performing their duties on the performance year end-date.
2. Action Upon Separation due to Death, Disability or Retirement:
  - If an individual terminates employment due to death the individual will be eligible to receive a time-weighted portion of their incentive award for the current performance year (in the event that the termination occurs during the performance year).

- If an individual terminates employment due to permanent disability or retirement (as those terms are defined in Government Code sections 20026 and 20060), or reduction in workforce (i.e., layoff) the individual will be eligible to receive a time-weighted portion of their incentive award for the current performance year (in the event that the termination occurs during the performance year). The termination date for determining whether they receive a full or time-weighted incentive award and the time-weighted portion of their incentive award for the current performance year will be the date the individual substantially relinquishes their primary duties, prior to the exhaustion of leave credits.

## **Resolving Questions and Ambiguities**

Should any question or ambiguity arise regarding the meaning of this incentive plan's terms or conditions, all such questions and ambiguities shall be resolved by the CEO in their sole discretion or, in the case of any awards affecting the CEO, by the TRB.

## **Educational Incentive**

CalSTRS employees working in the investment managerial classes as defined under California Education Code Section 22212.5 will be eligible for a 5% base pay differential upon the successful completion of certification for the Chartered Financial Analyst (CFA), Certified Commercial Investment Member (CCIM), Financial Risk Manager (FRM), Certified Investment Management Analyst (CIMA) or Chartered Alternative Investment Analyst (CAIA). Employees are eligible for only one 5% base pay differential regardless of the number of certifications achieved. The Educational Incentive Pay Differential is not considered creditable compensation for defined benefit pension (CalPERS) calculation.

Reimbursement for related expenses associated with participating in these certifications will be provided while participating in their training.

The CEO may approve the certification programs eligible for the educational incentive pay differential.

## **Recruitment Pay Differential**

A recruitment differential of up to 60% of the first year's annual base salary is available for executive management and investment positions under the TRB's salary setting authority as defined under California Education Code Section 22212.5. This is a recruitment differential for purposes of attracting and retaining high level executive management and investment staff. It is a one-time, up-front payment made upon appointment to an eligible classification. It is available only to those hired outside State service or for those state employees who are incentive eligible. The Recruitment Pay Differential is not considered creditable compensation for defined benefit pension (CalPERS) calculation. The amount of the differential in each case would be specific to the individual executive's personal circumstances.

For Chief Investment Officer and other executive managerial classes, the Chief Executive Officer may approve the differential based on the individual's personal circumstances, not to exceed 60 percent of the new hire's first year's base salary.

Upon consultation with the Chief Executive Officer, the Chief Investment Officer may approve the differential for investment managerial classes based on the individual's personal circumstances, not to exceed 60 percent of the new hire's first year base salary.

For all classifications, repayment of part or all of the differential would be required in the event the executive does not continue employment with CalSTRS for two years, based upon the following prorated schedule.

- 0 - less than 12 months requires a 100 percent payback
- 12 - 24 months requires a 50 percent payback

Any exception to the repayment schedule requires approval of the Chief Executive Officer and/or other approving authority as listed above by classification.

## **Relocation**

It is the Teachers' Retirement Board intent that individuals from outside State of California service who are newly appointed to exempt and managerial civil service positions under the TRB's compensation setting authority, and who are required by CalSTRS to change their place of residence to accept employment be fairly compensated for relocation expenses. Upon their job start date with CalSTRS, relocating employees are required to be available to work at their office worksite during regularly scheduled business hours and comply with CalSTRS' Telework Policy. Relocation activities may continue after the job start date while the move is underway. Claims for expense reimbursement shall follow the submission deadlines consistent with State rules and regulations for current State employees excluded from collective bargaining.

CalSTRS provides the following:

1. Reimbursement for the sale of a residence or lease settlement, consistent with State rules and regulations for current State employees excluded from collective bargaining.
2. Reimbursement for relocation and moving expenses consistent with State rules and regulations for current State employees excluded from collective bargaining.
3. Up to \$15,000 for reasonable out of pocket expenses in connection with:
  - Travel and per diem expenses for the new employee and legal spouse/registered domestic partner and legally domiciled children to complete house hunting.
  - Actual travel expenses for moving impacted employee family members (includes employee, legal spouse/registered domestic partner, and legally domiciled dependents), and usual domestic pets to the new residence.
  - Costs for transporting up to two motor vehicles to the new residence.
  - Temporary living allowance at the level paid for current State employees excluded from collective bargaining.
  - Miscellaneous relocation related expenses as authorized by the Chief Executive Officer or Compensation Committee Chairperson, such as registering out-of-state vehicles in California.

The Chief Executive Officer or the Compensation Committee Chairperson shall be responsible for approving all requests for reimbursement under this provision. Requests for reimbursement must be itemized, accompanied by a receipt, and cite the appropriate policy provision. Receipts, invoices, and proof of payments must be in the name of the employee or legal spouse/registered domestic partner or impacted family member, as defined above. Appropriate receipts must be in a form acceptable to CalSTRS. Actual expenses exceeding the limits set forth above may be reimbursed with the approval of the Chief Executive Officer or the Compensation Committee Chairperson. Such reimbursement request must clearly describe and document and justify the additional need. Any reimbursement applicable to the Chief Executive Officer must be approved by the Board Chair and the Compensation Committee Chairperson.

An employee whose relocation expenses have been so paid and does not continue their employment with CalSTRS for a period of two years shall repay CalSTRS. The employee shall repay the following percentage of the amount received as reimbursement for relocation expenses:

- 100 percent if employed less than 6 full months.
- 75 percent if employed more than 6 months but less than 12 full months
- 50 percent if employed more than 12 months but less than 18 full months
- 25 percent if employed more than 18 months but less than 24 full months

An employee whose relocation expenses have been so paid and does not continue their employment because of death, prolonged illness, disability, unacceptability of the employee to CalSTRS, or similar eventualities beyond the control of the employee as determined by the appointing power will not be required to repay.

Reimbursements for relocation expenses may be taxable to the employee and CalSTRS complies with applicable tax laws regarding these reimbursements.

## **Policy Modification History**

Initial Adoption: October 30, 2006

Amendment 1.0 – August 2, 2007

- Updated investment incentive measurements
- Added Head of Investment Operations position
- Developed new language for educational incentive
- Incorporated previously adopted policy for recruitment differential with minor modifications
- Incorporated previously adopted policy for relocation expense reimbursement
- Removed historical date references and corrected statutory references
- Updated salary ranges for each job class

Amendment 1.1 – December 6, 2007

- Added incentive criteria for newly created Head of Investment Operations position (effective 1/1/08)
- Added the General Counsel to the eligible positions subject to these provisions and adopted a new salary range and incentive reflecting the recommendations of the compensation consultant (effective 1/1/08)

Amendment 1.2 – June 4, 2008

- Adjusted the time period for a new hire's first partial year under the incentive plan
- Revised the benchmark for the Alternative Investment Director and Alternative Investment Portfolio Manager (effective for FY07-08)

Amendment 1.3 – April 1, 2009

- Revised incentive criteria for Investment directors of Private Equity, Global Equity, Internal Equity; and Portfolio Managers for Private Equity, Global Equity Management (External, Internal), and Internal Equity.

Amendment 1.4 – June 4, 2009

- Increased salary range for Head of Investment Operations
- Adopted incentive criteria for Investment Directors of Innovation & Risk and Corporate Governance; and Portfolio Managers of Corporate Governance.

Amendment 1.5 – February 3, 2010

- Removed General Counsel from Incentive Pay Eligibility
- Revised Compensation Program Objectives, Principles, and Market Position Goals

Amendment 1.6 – June 2, 2010

- Adopted graded-in incentive concept for newly hired Investment Directors and Portfolio Managers
- Adopted triggers that would permit the Board to reduce, eliminate, or defer incentive compensation
- Revised the thresholds required of personal evaluations in the qualitative component
- Revised the Plan Concept/Mechanics policy language
- Revised the Pro-Rata Performance Awards policy language
- Adopted incentive criteria for the Director of Investment Management, Deputy Chief Investment Officer position

Amendment 1.7 – July 8, 2010

- Adopted incentive criteria for the Infrastructure and Innovation and Risk Portfolio Manager positions

Amendment 1.8 – November 3, 2010

- Amended the Investment Director and Portfolio Manager Private Equity incentive criteria to include the specific index code in order to ensure that the index code picks up our historical benchmark.

Amendment 1.9 – April 11, 2012

- Revised the Pro-Rata Performance Awards policy language to permit pro-rata awards to individuals who promote from an Investment Officer III on or after January 1 of the plan year (effective 07/01/2011)

Amendment 2.0 – April 11, 2012

- Revised Qualitative Component policy language to permit the CIO to make adjustments to the raw score calculations for the purposes of calculating incentive awards (effective 07/01/2012)

Amendment 2.1 – June 5, 2012

- Revised Personal Performance Evaluation policy language to update performance rating descriptors and eliminate 5-point rating scale. (effective 7/1/2012)
- Amended incentive criteria for Portfolio Managers for Global Equity -Internal Management (effective 7/1/2012)

Amendment 2.2 – July 12, 2012

- Adopted temporary pay mechanism to compensate an internal candidate for taking on Deputy CIO position in an interim capacity (effective 7/1/12)
- Amended Incentive Performance Measures for CEO (effective 7/1/12)
- Incorporated a mid-year performance assessment for the CEO and CIO

Amendment 2.3 – August 1, 2013

- Adopted new pay comparator group of institutional investors and private sector asset management organizations for the purposes of benchmarking salaries for investment managerial staff
- Adopted new salary ranges for the CEO and Investment Staff (effective 7/1/2013)
- Adopted salary range, incentive opportunity and incentive criteria for the new position of Deputy CIO (effective for FY 13-14)
- Amended Recruitment Differential Policy to clarify the eligible positions
- Amended Annual Base Salary Adjustment language to clarify effective date of annual base pay increases

Amendment 2.4 – November 6, 2013

- Adopted new salary range for the System Actuary (effective 7/1/2013)

Amendment 2.5 – April 2, 2014

- Amended to reorganize the ethical and fiduciary section of 600

Amendment 2.6 – June 5, 2014

- Adopted salary range for new Associate Portfolio Manager Classification
- Revised incentive criteria and performance benchmarks for Portfolio Managers of Infrastructure and for Directors and Portfolio Managers of Innovation and Risk (effective 7/1/2014)
- Revised incentive performance benchmarks for Directors and Portfolio Managers of Corporate Governance (effective 7/1/2014)
- Revised Benchmark (Index) Definitions for Non US Equity Passive and Non US Equity Active (effective 7/1/2014)
- Added Benchmark (Index) Definitions for the Corporate Governance, Infrastructure and Innovation indices (effective 7/1/2014)

Amendment 2.7 – September 4, 2014

- Adopted incentive criteria for the new position of Chief Operating Investment Officer (COIO)
- Adopted incentive criteria and corresponding Benchmark (Index) Definition for the new position of Director of Inflation Sensitive
- Revised incentive performance benchmark for Private Equity and updated corresponding Benchmark (Index) Definition. (effective 7/1/2014)

Amendment 2.8 – June 10, 2015

- Administrative Procedures separated from Section 700 of the Board's Compensation Policy
- Revised performance scales for Total Fund, Global Equity and Corporate Governance, and associated incentive criteria appendices. (Effective 7/1/2015)



- Revised quantitative and qualitative weightings for Corporate Governance and Innovation and Risk (Effective 7/1/2015)
- Technical housekeeping revisions to benchmark definitions and glossary, criteria for base salary adjustments, and clarification of incentive payment at voluntary separation
- Revised language to make Recruitment Differential available to state employees who are currently incentive eligible at time of hire.
- Eliminated temporary/interim compensation component for the DCIO
- Revised “Net of Fees” definition
- Added procedure language to define how the COIO Project Management/Customer Service Qualitative Weighting will be measured
- Added incentive opportunity and graded-in concept for the Associate Portfolio Manager
- Amended the maximum incentive opportunity for the Director of Investment Operations and included graded-in concept.

#### Amendment 2.9 – November 5, 2015

- Amended the maximum of the salary range for the General Counsel
- Adopted incentive criteria for the Portfolio Manager Engagement
- Adopted incentive criteria for the Associate Portfolio Manager Compliance
- Amended appendix to consolidate matrices to delineate incentive criteria for all classification levels within Asset Class/Portfolio for ease of administration.

#### Amendment 3.0 – April 6, 2016

- Revised the performance scale for Real Estate and excluded non-controlled legacy investments made prior to July 1, 2008 from performance criteria. (Effective July 1, 2016)
- Eliminated the graduated incentive formula for incentive eligible new hires and those newly promoted to incentive eligible positions. (Effective July 1, 2016)

#### Amendment 3.1 – June 9, 2016

- Broadened delegated authority to the CEO for the administration of the compensation program in the areas of relocation expense reimbursement, education incentive, personal performance criteria and the initiation of labor market pay studies.
- Revised performance criteria for Innovation, Risk, Global Equity, Private Equity and associated incentive criteria appendices and benchmark definitions. Adopted performance criteria for new Risk Mitigating Strategies asset class (Effective 7/1/2016)
- Included the System Actuary as an incentive eligible position and adopted a new salary range (Effective 7/1/2016)

#### Amendment 3.2 – April 6, 2017

- Included the COO and CFO as incentive eligible positions and established salary ranges. (Effective 7/1/2017)

- Adopted a new salary range for the General Counsel (Effective 7/1/2017)
- Adopted a new salary range for the Portfolio Manager. (Effective 7/1/2017)

Amendment 3.3 – June 7, 2017

- Adopted incentive criteria for the COO and CFO. (Effective 7/1/2017)
- Technical housekeeping revisions to update custom index codes and benchmark definitions.

Amendment 3.4 – July 13, 2017

- Amended the Asset Class portion of the incentive criteria for the CIO and DCIO to include the seven (7) major strategies. (Effective 7/1/2017)
- Revised performance criteria and/or benchmark definitions for Private Equity, Innovative Strategies and Inflation Sensitive (Effective 7/1/2017)

Amendment 3.5 – November 2, 2017

- Technical housekeeping revision to update benchmark definition for Global Equity.

Amendment 3.6 – May 9, 2018

- Technical housekeeping revision to update benchmark definition for Inflation Sensitive and Innovative Strategies

Amendment 3.7 – July 18, 2018

- Established incentive criteria for Investment Director Strategy & Risk

Amendment 3.8 – November 7, 2018

- Broadened delegated authority to the CEO for the administration of the compensation program in the areas of setting or adjusting performance weightings and setting or adjusting performance award scales and benchmarks for asset class levels

Amendment 3.9 – May 9, 2019

- Adopted new salary ranges for the positions of General Counsel and Associate Portfolio Manager (Effective 7/1/2019)
- Adopted new maximum incentive opportunities for the CEO, COO, CFO, System Actuary and Investment Staff (Effective 7/1/2019)

Amendment 4.0 – June 18, 2019, per CEO Delegation

- Revised performance criteria for the CIO, DCIO, Director Strategy & Risk (Effective 7/1/2019)
- Deleted performance criteria for Infrastructure, and Director of RMS & Innovation (Effective 7/1/2019)
- Technical housekeeping revisions to update benchmark definitions and eliminate obsolete benchmark definitions, and to include the Investment Performance unit to the Operations & Compliance criteria (Effective 7/1/2019)

Amendment 4.1 – November 5, 2019, per CEO Delegation

- Included the positions of Portfolio Manager and Associate Portfolio Manager in the incentive criteria for Strategy & Risk

Amendment 4.1- June 9, 2020, per CEO Delegation

- Technical housekeeping to update benchmark definitions for Global Equity and Innovative Strategies. (Effective 7/1/2020)
- Technical housekeeping to update the incremental maximum incentive opportunity levels for FY 2020-21 as adopted by the board at its May 9, 2019 meeting.
- Deleted performance criteria for Chief Operating Investment Officer (COIO), Engagement, and Total Fund Risk Management. (Effective 7/1/2020)
- Established performance criteria for Diversity (Effective 7/1/2020)
- Revised performance criteria for Strategy & Risk, Sustainable Investment & Stewardship Strategies (formerly titled Corporate Governance), Investment Services (formerly titled Investment Operations and Investment Performance & Compliance). (Effective 7/1/2020)
- Revised the section on personal performance evaluation and rating scale. (Effective 7/1/2020)

Amendment 4.2 – August 6, 2020, per CEO Delegation

- Revised performance criteria and benchmark definitions for Sustainable Investment & Stewardship Strategies (Effective 7/1/2020)

Amendment 4.3 – July 1, 2021, per CEO Delegation

- Technical housekeeping to update benchmark definitions for Risk Mitigating Strategies and Innovative Strategies (Effective 7/1/2021)
- Technical housekeeping to update salary ranges for the Deputy Chief Investment Officer and General Counsel as adopted by the board at its June 9, 2021 meeting. (Effective 7/1/2021)
- Technical housekeeping to include base salary ranges and incentive opportunities for the new positions of Senior Investment Director and Senior Portfolio Manager as adopted by the board at its June 9, 2021 meeting. (Effective 7/1/2021)
- Revise the performance criteria for Investment Services to include the position of Portfolio Manager (Effective 7/1/2021).
- Revise the performance criteria for SISS (Effective 7/1/2021)
- Technical housekeeping to revisions the section on personal performance evaluation.
- Technical housekeeping to relocation reimbursement provisions.

Amendment 4.4 – July 29, 2021, per CEO Delegation

- Technical housekeeping to update the benchmark definition for Global Equity (Effective FY 2021-22 with a July 1, 2021 implementation date)

Amendment 4.5 – September 27, 2021, per CEO Delegation

- Revise the performance criteria and benchmark definitions for Fixed Income and SISS (Effective FY 2021-22 with an October 1, 2021 implementation date )
- Technical housekeeping revisions to benchmark definitions for Innovative Strategies, Inflation Sensitive, and RMS (Effective FY 2021-22)

Amendment 4.6 – June 15, 2022, per CEO Delegation

- Revises incentive performance criteria for the DCIO (Effective 7/1/2022)
- Establishes incentive criteria for Senior Investment Director, Public Markets and Senior Investment Director, Private Markets (Effective 7/1/2022)
- Removes the Director of Investment Operations due to the classification being abolished
- Revises the incentive performance criteria for Investment Strategy & Risk to articulate a three-year transition of the performance criteria for Innovative Strategies staff to that of Investment Strategy & Risk (Effective 7/1/2022)

Amendment 4.7 – March 14, 2023, per CEO Delegation

- Technical housekeeping to update the asset class/function performance criteria appendices to include the previously approved Senior Portfolio Manager classification (Effective 7/1/2022)

Amendment 4.8 – June 1, 2023, per CEO Delegation

- Revises the benchmark definition for Global Equity (Effective 7/1/2023)
- Revises the performance criteria and benchmark definition for SISS (Effective 7/1/2023)
- Technical housekeeping revision to update benchmark definition for Innovative Strategies

Amendment 4.9 – March 22, 2024, per CEO Delegation

- Establishes incentive criteria for Senior Investment Director, Total Fund Management and Portfolio Manager, Strategic Initiatives (Effective FY 2023-24)

Amendment 5.0 – June 6, 2024, per CEO Delegation

- Technical housekeeping to update Executive Management and Investment base salary ranges as adopted by the board at its May 2, 2024 meeting. (Effective 7/1/2024)
- Deletes base salary increase restrictions specific to the Chief Operating Officer and the Chief Financial Officer.
- Deletes base salary increase restrictions specific to the General Counsel as adopted by board at its May 2, 2024 meeting.
- Amends the Relocation section to articulate required compliance with CalSTRS Telework Policy upon job start date with CalSTRS.
- Establishes incentive criteria for Total Fund Management and Collaborative Strategies. (Effective FY 2024-25)
- Eliminates incentive criteria for Investment Strategy & Risk due to new Total Fund Management structure.

- Technical housekeeping to benchmark definitions for Inflation Sensitive and Collaborative Strategies, and to eliminate obsolete content.

## Appendix 1

### Administration of the Compensation Program

Time Period	Activity
Annually	TRB meets with CEO and CIO to establish performance objectives for the coming fiscal year.
Quarterly Semi-Annually	CEO meets with CIO to review and discuss progress towards performance objectives.
Semi-Annually	TRB Chair and Vice Chair perform mid-year assessment of CEO and CIO and will review progress towards performance objectives and System's goals.
Annually (following the end of plan year)	<p>TRB evaluates CEO's performance based on personal assessment, strategic plan accomplishments and quantitative investment measures and approves:</p> <ul style="list-style-type: none"> <li>* Incentive amount, if any, based on criteria for prior year.</li> <li>* Salary movement.</li> </ul> <p>TRB evaluates CIO's performance based on personal assessment and quantitative investment measures and approves:</p> <ul style="list-style-type: none"> <li>* Incentive amount, if any, based on criteria for prior year.</li> <li>* Salary movement.</li> </ul> <p>CIO evaluates performance of each eligible investment employee and makes recommendations to the CEO to approve:</p> <ul style="list-style-type: none"> <li>* Incentive amount, if any, based on criteria for prior year.</li> <li>* Salary movement.</li> </ul> <p>CEO evaluates performance of the COO, CFO, General Counsel and System Actuary and approves salary movement. The CEO approves incentive amount, if any, based on criteria for prior year for the COO, CFO, and System Actuary.</p> <p>CEO provides the Compensation Committee a summary of total compensation to be granted to incentive plan participants.</p>
Periodically	TRB obtains salary survey information to review and revise base salary ranges and maximum incentive percentages as appropriate.

## Appendix 2

### Sample Incentive Award Calculation for a Global Equity Portfolio Manager

#### Near the Beginning of Each Year:

1. Calculate maximum incentive opportunity:
  - Base Salary multiplied by Maximum Incentive Percentage
  - For example: \$100,000 dollars multiplied by 125% = \$125,000
2. Confirm incentive weightings by plan component:

Plan Components	Incentive Weighting	Weighted Portion Of Max Incentive (\$000s)
Asset Class	50%	\$62.5
Total Fund	30%	\$37.5
Qualitative	20%	\$25.0
Total	100%	\$125.0

3. Confirm performance-Award Scales:

Asset Class and Total Fund - Performance Scales – Intermediate points interpolated

Asset Class XYZ (bps)	Total Fund (bps)	Performance Multiplier
30	40	1.0
:	:	:
15	20	.050
:	:	:
0	0	0.0

4. Establish qualitative objectives: - Individual Qualitative Criteria (developmental, projects, etc.

**After the End of Each Year**

1. Determine payouts under each weighted plan component:

Plan Components	Performance (Illustrative)	Performance Multiplier
Asset Class	+28 bps	.94
Total Fund	+37 bps	.92
Qualitative	“Mentor”	1.00

2. Determine incentive amount and payout award:

Plan Components	Weighted Portion of Max Incentive	X	Performance (Multiplier)	=	Earned Award (\$000s)
Asset Class	\$62.5	X	0.94	=	\$58.8
Total Fund	\$37.5	X	0.92	=	\$34.5
Qualitative	\$25.0	X	1.00	=	\$25.0
Total	\$125.0	X	.95	=	\$118.3

All amounts are illustrative and have been rounded for ease of presentation.



**Chief Executive Officer**  
Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021  
Incentive Range 0-150%

<b>Criteria</b>	<b>Weight</b>	<b>Performance Measures</b>	<b>Scale</b>
<b>Long-Range Strategic Performance</b>	40%	Board Evaluation	TBD
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal yearend:  Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	30%	Board Evaluation	TBD

Amended July 12, 2012, June 10, 2015, May 9, 2019, June 9, 2020

**Chief Operating Officer**  
Incentive Compensation Evaluation Format

Effective for FY 2020-2021  
Incentive Range: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Long-Range Strategic Performance</b>	35%	CEO Evaluation	TBD
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	15%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	50%	Comprehensive annual review of personal performance factors, including leadership and strategic results.	Assign a factor rating of zero to 1.

Adopted June 7, 2017, Amended May 9, 2019, June 9, 2020

**Chief Financial Officer**  
Incentive Compensation Evaluation Format

Effective for FY 2020-2021  
Incentive Range: 0% - 50%

<b>Criteria</b>	<b>Weight</b>	<b>Performance Measures</b>	<b>Scale</b>
<b>Long-Range Strategic Performance</b>	30%	CEO Evaluation	TBD
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	20%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	50%	Comprehensive annual review of personal performance factors, including leadership and strategic results.	Assign a factor rating of zero to 1.

Adopted June 7, 2017, Amended May 9, 2019, June 9, 2020

**System Actuary**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

Incentive Range: 0% - 30%

Criteria	Weight	Performance Measures	Scale
<p><b>Qualitative</b> Personal Performance</p>	<p>100%</p>	<p>Comprehensive annual review of personal performance factors, including leadership and strategic results.</p>	<p>Assign a factor rating of zero to 1.</p>

Adopted June 9, 2016, Amended May 9, 2019, June 9, 2020

**Chief Investment Officer**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

Incentive Range: 0% - 200%

<b>Criteria</b>	<b>Weight</b>	<b>Performance Measures</b>	<b>Scale</b>
<p><b>Asset Class/Portfolio Value Added</b> Average of the 7 Director criteria scores (net of fees)</p>	25%	The arithmetic average of the seven Director criteria scores from Global Equity, SISS, Fixed Income, Private Equity, Real Estate, Inflation Sensitive, and Risk Mitigating Strategies	Average score from Zero to 100%
<p><b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)</p>	50%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<p><b>Qualitative</b> Personal Performance</p>	25%	Board Evaluation	TBD

See each Asset Class/Portfolio/Director appendix for the applicable funds and index codes.

Amended June 10, 2015, July 13, 2017, May 9, 2019, June 18, 2019, June 9, 2020

**Deputy Chief Investment Officer**  
Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23  
Incentive Range: 0% –175%

<b>Criteria</b>	<b>Weight</b>	<b>Performance Measures</b>	<b>Scale</b>
<p><b>Asset Class/Portfolio</b> <b>Value Added</b> Average of the 7 Director criteria scores (net of fees)</p>	40%	The arithmetic average of the seven Director criteria scores of Global Equity, SISS, Fixed Income, Private Equity, Real Estate, Inflation Sensitive and Risk Mitigating Strategies	Average score from Zero to 100%
<p><b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)</p>	40%	<p>Total portfolio return, less the Total Fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:</p> <p>Fund: Total Fund: <u>TC00A1CP</u> Index: Total Fund Index: <u>STRT01</u></p>	Zero basis points to a maximum of 40 basis points
<p><b>Qualitative</b> Personal Performance</p>	20%	Comprehensive review of personal performance factors.	Assign a factor rating of zero to 1.

See each Asset Class/Portfolio appendix for the applicable funds and index codes

Adopted August 1, 2013,  
Amended June 10, 2015, July 13, 2017, May 9, 2019, June 18, 2019, June 9, 2020, June 15, 2022

Senior Investment Director – Public Markets

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: 0% –150%

Criteria	Weight	Performance Measures	Scale
<p><b>Public Asset Class/Portfolio Value Added</b></p> <p>Average of the 3 Public Asset Class Director criteria scores (net of fees)</p>	40%	The arithmetic average of the three Director criteria scores of Global Equity, Fixed Income, and Risk Mitigating Strategies	Average score from Zero to 100%
<p><b>Total Fund</b></p> <p>Total CalSTRS Portfolio Return (net of fees)</p>	40%	<p>Total portfolio return, less the Total Fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:</p> <p>Fund: Total Fund: <u>TC00A1CP</u>                      Index: Total Fund Index: <u>STRT01</u></p>	Zero basis points to a maximum of 40 basis points
<p><b>Qualitative</b></p> <p>Personal Performance</p>	20%	Comprehensive review of personal performance factors.	Assign a factor rating of zero to 1.

See each Asset Class/Portfolio appendix for the applicable funds and index codes

Adopted June 15, 2022

**Senior Investment Director – Private Markets**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: 0% –150%

<b>Criteria</b>	<b>Weight</b>	<b>Performance Measures</b>	<b>Scale</b>
<p><b>Private Asset Class/Portfolio Value Added</b> Average of the 3 Private Asset Class Director criteria scores (net of fees)</p>	40%	The arithmetic average of the three Director criteria scores of Inflation Sensitive, Private Equity and Real Estate	Average score from Zero to 100%
<p><b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)</p>	40%	Total portfolio return, less the Total Fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund: <u>TC00A1CP</u> Index: Total Fund Index: <u>STRT01</u>	Zero basis points to a maximum of 40 basis points
<p><b>Qualitative</b> Personal Performance</p>	20%	Comprehensive review of personal performance factors.	Assign a factor rating of zero to 1.

See each Asset Class/Portfolio appendix for the applicable funds and index codes

Adopted June 15, 2022



**Senior Investment Director – Total Fund Management**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2023-24

Incentive Range: 0% –150%

Criteria	Weight	Performance Measures	Scale
<p><b>Asset Class/Portfolio Value Added</b> Average of the 7 Director criteria scores (net of fees)</p>	40%	The arithmetic average of the seven Director criteria scores of Global Equity, SISS, Fixed Income, Private Equity, Real Estate, Inflation Sensitive and Risk Mitigating Strategies	Average score from Zero to 100%
<p><b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)</p>	40%	Total portfolio return, less the Total Fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund: <u>TC00A1CP</u> Index: Total Fund Index: <u>STRT01</u>	Zero basis points to a maximum of 40 basis points
<p><b>Qualitative</b> Personal Performance</p>	20%	Comprehensive review of personal performance factors.	Assign a factor rating of zero to 1.

See each Asset Class/Portfolio appendix for the applicable funds and index codes

Adopted March 22, 2024

**Total Fund Management**

Incentive Compensation Evaluation Format  
(Excluding Senior Investment Director)

Effective for Fiscal Year 2024-25

Incentive Range: Investment Director: 0% - 125%  
 Senior Portfolio Manager: 0-125%  
 Portfolio Manager: 0% -125%  
 Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Asset Class/Portfolio Value Added</b> Average of the 7 Director criteria scores (net of fees)	30%	The arithmetic average of the seven Director criteria scores of Global Equity, SISS, Fixed Income, Private Equity, Real Estate, Inflation Sensitive and Risk Mitigating Strategies	Average score from Zero to 100%
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return, less the Total Fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund: <u>TC00A1CP</u> Index: Total Fund Index: <u>STRT01</u>	Zero basis points to a maximum of 40 basis points
<b>Qualitative</b> Personal Performance	40%	50% Comprehensive review of personal performance factors.  50% Annual review of Total Fund Management key success factors	Assign a factor rating of zero to 1.

See each Asset Class/Portfolio appendix for the applicable funds and index codes

Adopted June 6, 2024

## Fixed Income

## Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: Investment Director: 0% - 125%  
 Senior Portfolio Manager: 0-125%  
 Portfolio Manager: 0% -125%  
 Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Asset Class</b> Fixed Income portfolio alpha (net of fees)	50%	Return of the Debt-Core/Opp portfolio less the policy index at fiscal year-end:  Fund: <u>TC00A25</u> ; Index: <u>STRT91</u>	Zero basis points to a maximum of 15 basis points.
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end: Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	20%	Comprehensive annual review of personal performance factors.	Assign a factor rating of zero to 1.

Approved February 5, 2003, Amended November 3, 2006, June 10, 2015

Amended to consolidate matrices and delineate all classification levels by Asset Class/Portfolio/Function November 5, 2015, March 14, 2023

Amended May 9, 2019, June 9, 2020, September 27, 2021

**Private Equity**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: Investment Director: 0% - 125%  
 Senior Portfolio Manager: 0-125%  
 Portfolio Manager: 0% –125%  
 Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Asset Class</b> Private Equity portfolio alpha (net of fees)	50%	Return of the total Private Equity portfolio less the policy index lagged one quarter. Fund: <u>TC00A67</u> Index: <u>STRSPEC</u>	Zero basis points to a maximum of 70 basis points.
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end: Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	20%	Comprehensive annual review of personal performance factors.	Assign a factor rating of zero to 1.

Amended November 3, 2010, September 4, 2014, June 10, 2015,  
 Amended to consolidate matrices and delineate all classification levels by Asset Class/Portfolio/Function November 5, 2015, March 14, 2023  
 Amended June 9, 2016, July 13, 2017, May 9, 2019, June 9, 2020

### Sustainable Investment & Stewardship Strategies (SISS)

#### Incentive Compensation Evaluation Format

Effective for Fiscal Year 2023-24

Incentive Range: Investment Director: 0% - 125%  
 Senior Portfolio Manager: 0% - 125%  
 Portfolio Manager: 0% - 125%  
 Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Portfolio Level</b> SISS portfolio alpha (net of fees)	25%	Return of the Total SISS Public Equity portfolio, less the Policy Index at fiscal year-end.  Fund: TC00A123 Index: STRT41	Zero basis points to a maximum of 70 basis points.
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	45%	50% Comprehensive annual review of personal performance factors.  50% Annual review of SISS key success factors	Assign a factor rating of zero to 1.

See Glossary in Appendix 21 for description of SISS program as it relates to Corporate Governance responsibilities.

Adopted June 4, 2009, Amended June 5, 2014, June 10, 2015,

Amended to consolidate matrices and delineate all classification levels by Asset Class/Portfolio/Function November 5, 2015, March 14, 2023

Amended May 9, 2019, June 9, 2020, August 6, 2020, July 1, 2021, September 27, 2021, June 1, 2023

**Global Equity**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: Investment Director: 0% - 125%  
 Senior Portfolio Manager: 0% - 125%  
 Portfolio Manager: 0% - 125%  
 Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Asset Class</b> Global Equity Portfolio alpha (net of fees)	50%	Return of the Global Equity portfolio less the Policy Index at fiscal year-end.  Fund: TCTEA1 Index: STRT03	Zero basis points to a maximum of 30 bps.
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, STRT01	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	20%	Comprehensive annual review of personal performance factors.	Assign a factor rating of zero to 1.

Amended April 1, 2009, June 10, 2015

Amended to consolidate matrices and delineate all classification levels by Asset Class/Portfolio/Function November 5, 2015, March 14, 2023

Amended June 9, 2016, May 9, 2019, June 9, 2020

**Real Estate**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: Investment Director: 0% - 125%  
 Senior Portfolio Manager: 0% - 125%  
 Portfolio Manager: 0% - 125%  
 Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Asset Class</b> Real Estate portfolio alpha (net of fees)	50%	Return of the total Real Estate portfolio less the policy index (lagged one quarter):  Fund: <u>TC0A68CP</u>  Index: <u>XWE</u>	Zero basis points to a maximum of 70 basis points.
Total Fund Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	20%	Comprehensive annual review of personal performance factors.	Assign a factor rating of zero to 1.

Effective FY 2016-17, the Real Estate portfolio calculation excludes non-controlled legacy investments made prior to July 1, 2008.

Amended June 10, 2015

Amended to consolidate matrices and delineate all classification levels by Asset Class/Portfolio/Function November 5, 2015, March 14, 2023

Amended April 6, 2016, May 9, 2019, June 9, 2020

**Investment Services**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: Investment Director: 0% - 125%  
 Senior Portfolio Manager: 0% - 125%  
 Portfolio Manager: 0% - 125%  
 Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measure	Scale
<b>Asset Class/Portfolio Value Added</b> Average of the 7 Director criteria scores (net of fees)	30%	The arithmetic average of the seven Director criteria scores of Global Equity, SISS, Fixed Income, Private Equity, Real Estate, Inflation Sensitive and Risk Mitigating Strategies	Average score from Zero to 100%
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund, <u>TC00A1CP</u>  Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	40%	50% Comprehensive annual review of personal performance factors.  50% Annual review of Investment Services key success factors.	Assign a factor rating of zero to 1.

Adopted December 6, 2007, Amended June 10, 2015

Amended to consolidate matrices and delineate all classification levels by Asset Class/Portfolio/Function November 5, 2015, March 14, 2023

Amended May 9, 2019, June 18, 2019, June 9, 2020, July 1, 2021, June 15, 2022



**Inflation Sensitive**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: Investment Director: 0% - 125%  
 Senior Portfolio Manager: 0% - 125%  
 Portfolio Manager: 0 – 125%  
 Associate Portfolio Manager: 0 – 50%

Criteria	Weight	Performance Measures	Scale
<b>Asset Class</b> Inflation Sensitive portfolio alpha (net of fees)	50%	Return of the Inflation Sensitive portfolio less the policy index.  Fund: <u>TC00A15</u>  Index: <u>STRT13</u>	Zero basis points to a maximum of 50 basis points.
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end:  Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	20%	Comprehensive annual review of personal performance factors.	Assign a factor rating of zero to 1.

Adopted September 4, 2014, Amended June 10, 2015

Amended to consolidate matrices and delineate all classification levels by Asset Class/Portfolio/Function November 5, 2015, March 14, 2023

Amended May 9, 2019, June 18, 2019, June 9, 2020

**Risk Mitigating Strategies**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: Investment Director: 0% – 125%  
 Senior Portfolio Manager: 0% - 125%  
 Portfolio Manager: 0% - 125%  
 Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Asset Class</b> RMS Portfolio alpha (net of fees)	20%	Return of the Risk Mitigating Strategies (RMS) portfolio, less the respective policy index: Fund: <u>TC00A107</u> Index: <u>STRT19</u>	Zero basis points to a maximum of 20 basis points.
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end: Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	50%	40% Comprehensive annual review of personal performance factors. 60% Annual review of RMS key success factors	Assign a factor rating of zero to 1.

Adopted June 9, 2016, Amended May 9, 2019, June 18, 2019, June 9, 2020

Amended to delineate all classification levels by Asset Class/Portfolio/Function March 14, 2023

**Collaborative Strategies - Innovation**  
Incentive Compensation Evaluation Format

Effective for Fiscal Year 2024-25

Incentive Range: Senior Portfolio Manager: 0% - 125%  
Portfolio Manager: 0% – 125%  
Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<b>Portfolio Level</b> Innovation Portfolio alpha (net of fees))	30%	Return of the Innovation portfolio, less the respective dynamic index: Fund: TC00A9 Index: STRT16	Zero basis points to a maximum of 40 basis points.
<b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end: Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<b>Qualitative</b> Personal Performance	40%	50% Comprehensive annual review of personal performance factors. 50% Annual review of Collaborative Strategies key success factors	Assign a factor rating of zero to 1.

Established June 6, 2024

**Strategic Initiatives**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2023-24

Incentive Range: Senior Portfolio Manager: 0% - 125%

Portfolio Manager: 0% – 125%

Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<p><b>Asset Class/Portfolio</b></p> <p><b>Value Added</b></p> <p>Average of the 7 Director criteria scores (net of fees)</p>	30%	The arithmetic average of the seven Director criteria scores of Global Equity, SISS, Fixed Income, Private Equity, Real Estate, Inflation Sensitive and Risk Mitigating Strategies	Average score from Zero to 100%
<p><b>Total Fund</b></p> <p>Total CalSTRS Portfolio Return (net of fees)</p>	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end: Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<p><b>Qualitative</b></p> <p>Personal Performance</p>	40%	50% Comprehensive annual review of personal performance factors. 50% Annual review of Strategic Initiatives and DEI key success factors, weighted equally	Assign a factor rating of zero to 1.

See each Asset Class/Portfolio/Director appendix for the applicable funds and index codes.

Established March 22, 2024

**Diversity**

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2022-23

Incentive Range: Senior Portfolio Manager: 0% - 125%

Portfolio Manager: 0% – 125%

Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<p><b>Asset Class/Portfolio Value Added</b> Average of the 7 Director criteria scores (net of fees)</p>	30%	The arithmetic average of the seven Director criteria scores of Global Equity, SISS, Fixed Income, Private Equity, Real Estate, Inflation Sensitive and Risk Mitigating Strategies	Average score from Zero to 100%
<p><b>Total Fund</b> Total CalSTRS Portfolio Return (net of fees)</p>	30%	Total portfolio return less the total fund benchmark return, weighted at the target asset allocation, recalculated at fiscal year-end: Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
<p><b>Qualitative</b> Personal Performance</p>	40%	50% Comprehensive annual review of personal performance factors. 50% Annual review of Diversity key success factors,	Assign a factor rating of zero to 1.

See each Asset Class/Portfolio/Director appendix for the applicable funds and index codes.

Established June 9, 2020

Amended to delineate all classification levels by Asset Class/Portfolio/Function March 14, 2023

### Benchmark (Index) Definitions

**TOTAL FUND CUSTOM INDEX, STRT01:** Also known as the CalSTRS Policy Index, it is the measuring stick for the total portfolio; it is comprised of all asset class custom benchmarks at the asset class policy weights as approved by the Teachers' Retirement Board and reflected in the Investment Policy Statement. The index reflects the current targets and historical policy changes to the asset class custom benchmarks and weights.

**US DEBT INVESTMENT GRADE CUSTOM INDEX<sup>3</sup>, STRD16:** Represents a custom Bloomberg MSCI U.S. Aggregate Climate Custom index, a measure of the U.S. investment grade fixed rate bond universe.

**US DEBT CUSTOM INDEX<sup>3</sup>, STRD01:** Represents 95% Bloomberg MSCI U.S. Aggregate Climate Custom and 5% Bloomberg MSCI U.S. High Yield 2% Cash Pay Climate Custom indices. This represents a measure of both the U.S. investment grade and non-investment grade universes.

**DEBT-CORE/OPPORTUNISTIC CUSTOM INDEX<sup>3</sup>, STRT91:** Represents a weighted blend of the Bloomberg MSCI U.S. Aggregate Climate Custom and Bloomberg MSCI U.S. High Yield 2% Cash Pay Climate Custom indices, effective October 2021.

**PRIVATE EQUITY CUSTOM INDEX CP<sup>3,4</sup>, STRSPEC:** Represents a weighted blend of the underlying Traditional sub-asset allocation targets customized to reflect the vintage year of commitments using a scaled cash flow methodology as defined by the Private Equity policy, and a weighted blend of the underlying Non-Traditional sub-asset allocation targets; the buyout portion of the State Street GXPEI multiplied by 90%, custom tactical index (comprised of a 60%/40% blend of the Debt Related and Buyout portions of the State Street GXPEI), and the buyout portion of the State Street GXPEI minus 200 basis points.

**REAL ESTATE CUSTOM INDEX, XWE:** Represents the National Council of Real Estate Investment Fiduciaries (NCREIF) Open-end Diversified Core Equity (ODCE) Value Weighted index Net of fees lagged by one quarter. This index is the accepted index created to provide an instrument to gauge the investment performance of the commercial real estate market.

**GLOBAL EQUITY CUSTOM INDEX<sup>3</sup>, STRT03:** Index represents a weighted blend of the custom MSCI All Country World Investable Market Index (MSCI ACWI IMI) and custom MSCI All Country World (MSCI ACWI) Low Carbon Target Index. From August 2021 to June 2023, represented a custom MSCI All Country World Investable Market Index (MSCI ACWI IMI).

**SUSTAINABLE INVESTMENT & STEWARDSHIP STRATEGIES (SISS) CUSTOM INDEX<sup>3</sup>, STRT41:** Represents a dynamically weighted index of the underlying strategies managed by the SISS staff. As of July 2023, the indices are: custom Russell 1000 index, custom Russell 2000 index, custom MSCI All Country All World Investable Market Index (MSCI ACWI IMI), custom MSCI World index, custom MSCI EAFE + CAN index, and custom MSCI EM index. From July

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3 Custom index returns are updated quarterly in accordance with the CalSTRS restricted securities list since July 2015.

4 As new strategies are added, the dynamic benchmark shall be a blended performance benchmark comprised of the weightings for each of the underlying strategies within the portfolio, multiplied by their respective benchmark.

2020 to June 2023, represented a custom MSCI All Country World Investable Market Index (MSCI ACWI IMI).

**COLLABORATIVE STRATEGIES-INNOVATION CUSTOM INDEX, STRT16<sup>6</sup>:**

Represents a dynamically weighted index of the underlying strategies managed by the Innovation staff. As of July 2024, the indices are: 3-month TBILL quarter lagged, daily zero return index, custom S&P/LSTA Leverage Loan quarter lagged Index+300 bps, Morningstar Leveraged Loan index quarter lagged+225bps, State Street GXPEI Buyout\*90%, Morningstar Leveraged Loan index quarter lagged+125bps and Morningstar Leveraged Loan index quarter lagged+175bps.

**INFLATION SENSITIVE CUSTOM INDEX<sup>4</sup>, STRT13:** Represents a dynamically weighted blend of the underlying aggregate components, currently Bloomberg U.S. Treasury Inflation Linked Bond-Index (Series L), Bloomberg Commodity Index, and the CPI + 4% lagged by one quarter, +CPI+3% lagged by one quarter (Sep 2017), +NCREIF Timberland Fund index lagged by one quarter (Nov 2017), Bloomberg MSCI U.S. High Yield 2% Cash Pay Climate Custom Index (April 2023-Jun 2024), Morningstar LSTA US Leveraged Loan (April 2023-June 2024), 3-month TBILL quarter lagged (Jul 2024)..

**RISK MITIGATION STRATEGIES CUSTOM INDEX<sup>4</sup>,STRT19:** Represents a weighted blend of the underlying strategy benchmarks per policy: Bloomberg U.S. Treasury 20+year Total Return Index, SG Trend Index, HFRI Macro: Discretionary Thematic Index, and Societe Generale Multi-Alternative Risk Premia Index. Prior to July 1, 2021, it was a weighted blend of the underlying strategy benchmarks per policy: Bloomberg U.S. Treasury 20+year Total Return Index, SG Trend Index, HFRI Macro: Discretionary Thematic Index, and EurekaHedge Multi-Factor Risk Premia Index.

## Glossary

**AVERAGE:** The arithmetic mean and is calculated by adding the score of the Asset Class criteria of the number of Directors and then dividing by the count.

**BENCHMARK / INDEX:** A standard against which the performance of a security, mutual fund, portfolio or investment manager can be measured. Generally, broad market and market-segment stock and bond indexes are used for this purpose.

It is a statistical measure of change in a securities market. In the case of financial markets, an index is an imaginary portfolio of securities representing a particular market or a portion of it. Each index has its own calculation methodology and is usually expressed in terms of a change from a base value. A custom index can be created by weighting or combining percentages of various standard or other custom indices. CalSTRS endeavors to use published, independent investable indices as benchmarks wherever possible.

**INVESTMENT POLICY STATEMENT:** This document outlines CalSTRS' general and financial objectives including specific investment strategy. This document is the result of studies that include the assets and liabilities for the System. The Policy can be found on the CalSTRS website.

**SUSTAINABLE INVESTMENT & STEWARDSHIP STRATEGIES:** Unless otherwise indicated, all references to Sustainable Investment & Stewardship Strategies (SISS) are to the Corporate Governance program established pursuant to Education Code, Section 22354. That section requires the board retain investment managers who are experienced and knowledgeable in corporate management issues to monitor corporations whose shares are owned by the System plan and to advise the board on the voting of the shares owned by the plan and on all other matters pertaining to corporate governance.

**PORTFOLIO:** A collection of stocks, bonds, or money market securities owned by an investor and segmented by a predefined method at CalSTRS.

**TOTAL FUND:** The aggregate of all Teachers' Retirement Fund defined benefit assets (net) invested by the CalSTRS Investment Office.

Adopted September 7, 2005

Revised June 5, 2014

Revised September 4, 2014

Revised June 10, 2015

Revised June 9, 2016

Revised June 7, 2017

Revised July 13, 2017

Revised November 2, 2017

Revised May 9, 2018

Revised June 18, 2019

Revised June 9, 2020

Revised August 6, 2020

Revised July 1, 2021

Revised July 29, 2021

Revised September 27, 2021

Revised June 15, 2022



Revised June 1, 2023  
Revised March 22, 2024  
Revised June 6, 2024