



## Regular Meeting

### Item Number 3 – Open Session

**Subject:** Review Long-Term Incentive Plan Framework

**Presenters:** Melissa Norcia / Luis Navas, Global Governance Advisors

**Item Type:** Information

**Date & Time:** March 5, 2021 – 30 minutes

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**Attachment(s):** None

**PowerPoint(s):** Proposal for Long-Term Incentive Plan

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#### **PURPOSE**

The purpose of this item is to present proposed long-term incentive plan framework to assist the board in its compensation program assessment in alignment with the Collaborative Model.

#### **BACKGROUND**

Education Code Section 22212.5 gives the board authorization to determine compensation of specific CalSTRS Executive management and Investment staff. The board has compensation setting authority for the following positions: Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, General Counsel, System Actuary, Chief Investment Officer, Deputy Chief Investment Officer, Investment Directors, Portfolio Managers, Associate Portfolio Managers, and Investment Operations Directors.

The last comprehensive review of the incentive plan framework was conducted in 2009. In the intervening years, the Compensation Committee has reviewed or adopted incentive performance criteria, measures, and qualitative/quantitative weightings on an as needed basis or when new positions or new asset class/functions have been established. In November 2018, the board delegated this authority to the Chief Executive Officer, who then subsequently provides formal informational updates to the committee.

In April 2017, the Compensation Committee was [presented with findings](#) from McLagan Partners that showed CalSTRS total rewards market position (base + annual incentive + long-term incentives + retirement and health benefits) lagged the competitive market. The results were primarily due to long-term incentive awards offered within the peer group. The April 2017 meeting also included an item to discuss [proposed topics for its 2017-18 work plan](#). During this discussion,

consultants from both Pension Consulting Alliance (PCA) and Meketa expressed their opinions that the incentive plan design be evaluated to ensure it is in alignment with current and future investment objectives. The committee decided to add a comprehensive review of the incentive plan to its 2017-2018 work plan.

At its [November 2017 meeting](#), the Compensation Committee refreshed its discussion on its 2017-18 work plan activities. The committee discussed that the 2017-18 Investment Committee work plan included an analysis of alternative business models to expand direct investments and co-investments opportunities. In light of the Investment Committee conducting its study of a collaborative business model that would bring changes to the Investments branch and possibly require updates to the compensation program, the Compensation Committee made the decision to delay the comprehensive incentive plan review until the conclusion of the Investment Committee's business model review.

In May 2019, upon the Investment Committee's direction to move forward with the Collaborative Model investment strategy, the Compensation Committee included a comprehensive review of the compensation program to align with the Collaborative Model in its 2019-20 workplan.

At the [March 2020 meeting](#) of the Compensation Committee, the committee received a presentation from Luis Navas, Global Governance Advisors, on key themes learned from the November 2019 board workshop and board member views on compensation philosophy as part of executive compensation planning. Mr. Navas' presentation included an introduction to a proposed long-term incentive plan framework to be included in the compensation program. The committee discussed the need for alignment between the compensation program and the objectives of the organization, specifically the Collaborative Model. At the conclusion of the meeting, the committee expressed its support for the general concept of establishing a long-term incentive plan and directed staff to return with more detail at a future meeting.

At the October 2020 board meeting, during discussion about committee structure and function, board members expressed their sentiments that Collaborative Model compensation discussions should be held at the full board level to ensure broad visibility and discussion. At the [January 2021 meeting](#) of the Board Governance Committee, the committee assessed and approved a proposal to subsume the activities of the Compensation Committee into the full board for the remainder of the fiscal year so that all items interconnected to the Collaborative Model are reviewed by the full board for more informed decision making.

## **DISCUSSION**

For this discussion, Mr. Navas will provide the members with a presentation of a long-term incentive plan framework to assist the board in its approach to a comprehensive compensation program assessment. Mr. Navas and Melissa Norcia, CalSTRS Director of Human Resources, will facilitate a discussion with board members to gain their insights and feedback and to obtain direction on next steps in the development of changes to the compensation program.

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**NEXT STEPS**

At its May meeting, the board will be presented with a labor market analysis to include long-term incentive data from the board approved compensation comparator groups. Based on today's discussion, recommended compensation program changes will be brought to the board at a future meeting.