



GLOBAL
GOVERNANCE
ADVISORS

Long-Term Incentive Plan Design & Stress Testing Presentation

June 2, 2021

Prepared for:

CALSTRS[®]
HOW WILL YOU SPEND YOUR FUTURE?

Recommended LTIP Design

Performance period of 4 years.

LTIP opportunity provided annually to cover forward-looking 4-year period.

Performance measured in 2 areas:

- 1) Savings from Collaborative Model
- 2) Absolute Total Fund Return Performance (4-year rolling average)

Actual LTIP payouts can range from 0% to 100% of Maximum LTIP opportunity.

If 4-year rolling average Total Fund Return is less than 7%, No LTIP payout is made.

If staff achieve LTIP goals, first LTIP payout will not be made until after FY2024/2025.

Example of LTIP Design

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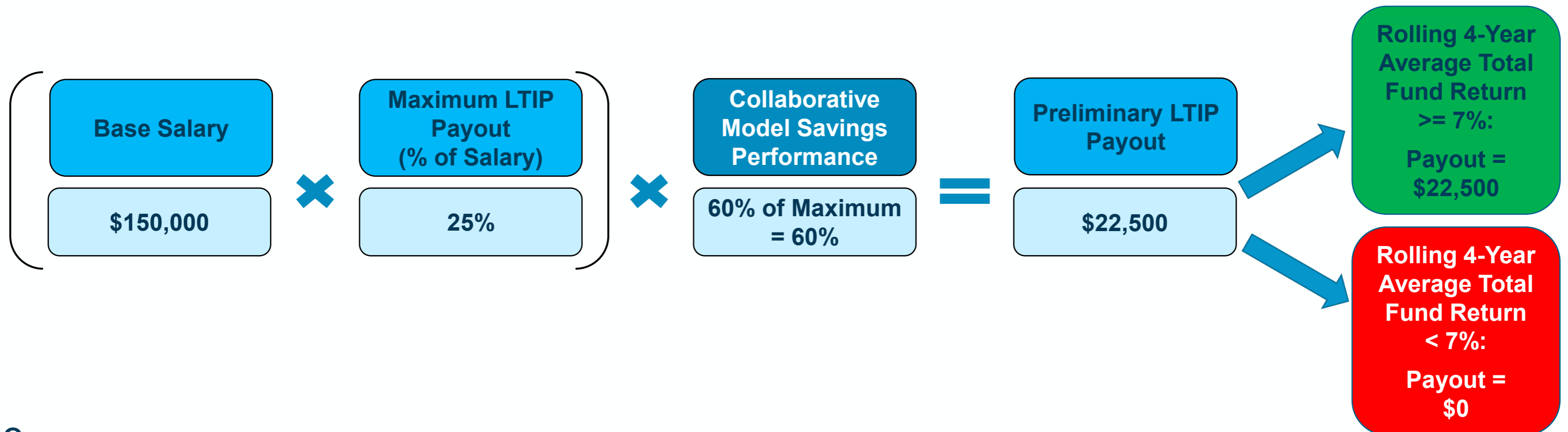
The following example illustrates how a LTIP payout would be determined assuming a certain level of Cost Savings and different Total Fund return results.

Example:

Incumbent Base Salary: \$150,000

Maximum LTIP Payout: 25% of Base Salary (\$37,500)

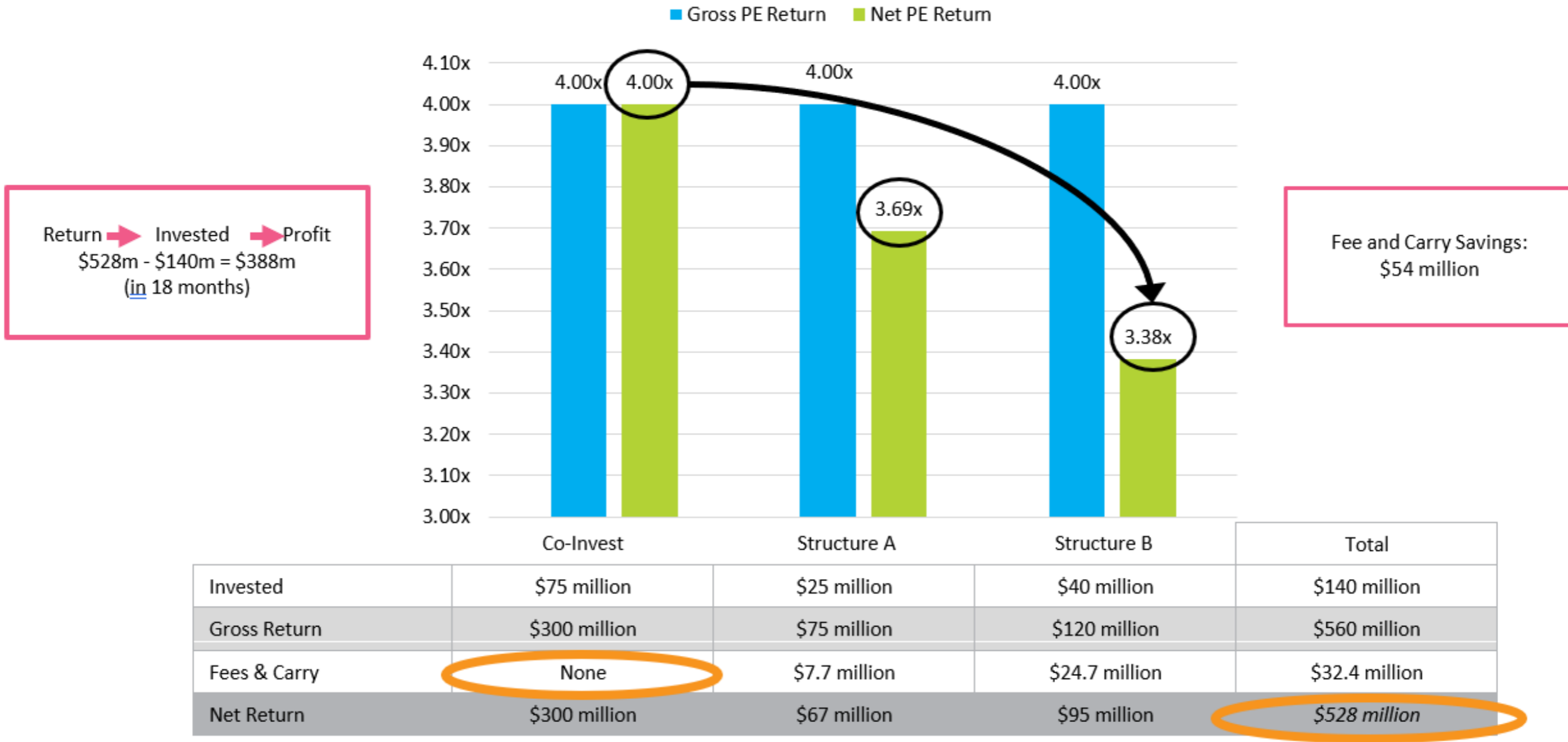
Collaborative Model Cost Savings Performance: 60% of Maximum



Estimated Collaborative Model Savings

- In the 2019 Cost Report, presented in November 2020, Staff estimated that fee savings from the collaborative model (excluding savings from carried interest) totaled \$294 million over the prior two years.
- In the 2020-21 Investment Business Plan, presented in July 2020, Staff estimated that, by 2030, the Collaborative Model would produce fee savings of more than \$500 million per year (including carried interest).

Example of Collaborative Model Cost Savings



Overlapping Long-Term Incentives

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9
LTIP Grant #1	Performance Period (Employee Leaves Then No Payout)				Paid for performance				
LTIP Grant #2		Performance Period (Employee Leaves Then No Payout)			Paid for performance				
LTIP Grant #3			Performance Period (Employee Leaves Then No Payout)		Paid for performance				
LTIP Grant #4				Performance Period (Employee Leaves Then No Payout)			Paid for performance		
LTIP Grant #5					Performance Period (Employee Leaves Then No Payout)				Paid for performance

- LTIP grants are made annually and cover a forward-looking 4-year performance period, so grants will overlap starting in Year 2 for added retention.
- Performance metrics and performance expectations can be updated for each grant, if warranted, to meet the evolving needs of CalSTRS.

Stress Testing Summary – Minimum Salaries

The table below summarizes the potential LTIP payouts at the end of a 4-year performance period assuming payouts are made based on Salary Range Minimums at CalSTRS.

Performance Level	Potential LTIP Payouts at End of 4-Year Performance Period				
	Worst	Threshold	Base	Superior	Best
	Below Threshold	Threshold	Target	Maximum	Above Maximum
Cost Savings Under Collaborative Model					
Rolling 4-Year Average of 7% Achieved	No	No	Yes	Yes	Yes
Potential LTIP Payouts					
CEO	\$0	\$0	\$203,125	\$406,250	\$406,250
COO	\$0	\$0	\$25,500	\$51,000	\$51,000
CFO	\$0	\$0	\$25,500	\$51,000	\$51,000
System Actuary	\$0	\$0	\$21,200	\$42,400	\$42,400
CIO	\$0	\$0	\$306,000	\$612,000	\$612,000
Deputy CIO	\$0	\$0	\$210,000	\$420,000	\$420,000
Senior Investment Director	\$0	\$0	\$181,250	\$362,500	\$362,500
Investment Director - Front Office	\$0	\$0	\$131,000	\$262,000	\$262,000
Investment Director - Investment Services	\$0	\$0	\$78,600	\$157,200	\$157,200
Senior Portfolio Manager	\$0	\$0	\$82,500	\$165,000	\$165,000
Portfolio Manager - Front Office	\$0	\$0	\$43,000	\$86,000	\$86,000
Portfolio Manager - Investment Services	\$0	\$0	\$25,800	\$51,600	\$51,600
Associate Portfolio Manager - Front Office	\$0	\$0	\$15,000	\$30,000	\$30,000



Stress Testing Summary – Midpoint Salaries

The table below summarizes the potential LTIP payouts at the end of a 4-year performance period assuming payouts are made based on Salary Range Midpoints at CalSTRS.

Performance Level	Potential LTIP Payouts at End of 4-Year Performance Period				
	Worst	Threshold	Base	Superior	Best
	Below Threshold	Threshold	Target	Maximum	Above Maximum
Cost Savings Under Collaborative Model					
Rolling 4-Year Average of 7% Achieved	No	No	Yes	Yes	Yes
Potential LTIP Payouts					
CEO	\$0	\$0	\$250,000	\$500,000	\$500,000
COO	\$0	\$0	\$31,250	\$62,500	\$62,500
CFO	\$0	\$0	\$31,250	\$62,500	\$62,500
System Actuary	\$0	\$0	\$26,000	\$52,000	\$52,000
CIO	\$0	\$0	\$382,500	\$765,000	\$765,000
Deputy CIO	\$0	\$0	\$259,000	\$518,000	\$518,000
Senior Investment Director	\$0	\$0	\$225,000	\$450,000	\$450,000
Investment Director - Front Office	\$0	\$0	\$163,500	\$327,000	\$327,000
Investment Director - Investment Services	\$0	\$0	\$98,100	\$196,200	\$196,200
Senior Portfolio Manager	\$0	\$0	\$105,000	\$210,000	\$210,000
Portfolio Manager - Front Office	\$0	\$0	\$53,750	\$107,500	\$107,500
Portfolio Manager - Investment Services	\$0	\$0	\$32,250	\$64,500	\$64,500
Associate Portfolio Manager - Front Office	\$0	\$0	\$18,750	\$37,500	\$37,500



Stress Testing Summary – Maximum Salaries

The table below summarizes the potential LTIP payouts at the end of a 4-year performance period assuming payouts are made based on Salary Range Maximums at CalSTRS.

Performance Level	Potential LTIP Payouts at End of 4-Year Performance Period				
	Worst	Threshold	Base	Superior	Best
	Below Threshold	Threshold	Target	Maximum	Above Maximum
Rolling 4-Year Average of 7% Achieved	No	No	Yes	Yes	Yes
Potential LTIP Payouts					
CEO	\$0	\$0	\$296,875	\$593,750	\$593,750
COO	\$0	\$0	\$37,000	\$74,000	\$74,000
CFO	\$0	\$0	\$37,000	\$74,000	\$74,000
System Actuary	\$0	\$0	\$30,800	\$61,600	\$61,600
CIO	\$0	\$0	\$459,000	\$918,000	\$918,000
Deputy CIO	\$0	\$0	\$308,000	\$616,000	\$616,000
Senior Investment Director	\$0	\$0	\$268,750	\$537,500	\$537,500
Investment Director - Front Office	\$0	\$0	\$196,000	\$392,000	\$392,000
Investment Director - Investment Services	\$0	\$0	\$117,600	\$235,200	\$235,200
Senior Portfolio Manager	\$0	\$0	\$127,500	\$255,000	\$255,000
Portfolio Manager - Front Office	\$0	\$0	\$64,500	\$129,000	\$129,000
Portfolio Manager - Investment Services	\$0	\$0	\$38,700	\$77,400	\$77,400
Associate Portfolio Manager - Front Office	\$0	\$0	\$22,500	\$45,000	\$45,000



Back Testing

Variable	Rolling 4-Year Average Total Fund Return (as of June 30)											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Fund Return	-0.27%	-0.49%	-0.06%	1.34%	12.47%	14.06%	9.56%	9.45%	9.35%	7.05%	7.56%	8.21%
Achieved 7%	No	No	No	No	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Rolling 4-Year Average of 7% not achieved from 2009 to 2012.

Rolling 4-Year Average of 7% has been achieved every year since FY 2012-2013.

Conclusion: Rolling 4-Year Average of 7% seems reasonable.



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