



Performance-Based Incentive (PBI) Program

April 18, 2024

Initial Review of the Performance-Based Incentive Program for Fiscal Year 2025



- **Performance-based incentive programs:**
 - Are designed to attract, motivate and retain qualified investment professionals
 - Are standard in the investment management industry and at pension funds, including those in Ohio
 - Are the variable component of total compensation (base pay + pay for performance)
 - Align the interests of investment staff and STRS Ohio members (incentive payments increase with good performance and value added to the fund)

Initial Review of the Performance-Based Incentive Program for Fiscal Year 2025



- **STRS Ohio's internal investment management (inclusive of PBIs) saves money**
 - For 2022, CEM reported STRS Ohio's internal investment management saved ~ \$135 million annually
- **STRS Ohio's net total fund performance is in the top 15% of Meketa's plan sponsor peer group analysis over the long term:**
 - ✓ 3 yrs (top 4%) ✓ 5 yrs (top 12%) ✓ 10 yrs (top 4%) ✓ 20 yrs (top 2%)
- **Performance over the benchmark added \$2.28 billion in value during the past five years**
 - PBI Program return on investment = 57x (pay \$1 to get \$57)
- **Approximately 15% of total STRS Ohio employees are eligible for performance-based compensation; only certain eligible investment staff participate in the PBI Program**

Initial Review of the Performance-Based Incentive Program for Fiscal Year 2025



- **In fiscal year 2024:**
 - McLagan found the STRS Ohio incentive plan is aligned with competitive market practice
 - The board approved substantial PBI Program changes in August 2023, including:
 - More than 30 positions removed from the PBI Program
 - Maximum incentive percentages were reduced
 - A 10% reduction to PBI payments in any year where the board's actuary determines there is not sufficient funding to change member benefits
- **Minimal changes proposed for fiscal year 2025**

General Guidelines for Allocating Incentive Goals

Attachment B

The chart below is used as a general guideline for allocating the incentive goals to individual positions. This attachment is referenced on page 5 of the PBI Program document.

The allocation percentages listed below for the one year Asset Class and Total Fund performance represent minimum allocation levels. However, each Associate is generally expected to have on a combined basis, an effective weight on one year performance of at least 25%. The Portfolio/Industry group may include goals related to Individual Portfolios, industry sectors, analyst groups or other appropriate subsets within the relevant Asset Class. Private direct real estate is included in the Portfolio/Industry category for real estate positions. The "Asset Class" category for Fixed Income will include only the Core portfolio. Refer to Attachment D for an example of an incentive calculation and how these allocation percentages are used.

| | Incentive Allocation Percentages | | |
|--|----------------------------------|--|----------------------------------|
| | Assistant Director | Strategy Committee Member ⁴ | All Other PBI Eligible Positions |
| Portfolio/Industry, if applicable³ | 50% | 60% | 70% |
| 1 Year Relative Performance | 50% | 5% | 40% |
| 5 Year Relative Performance | 45% | 55% | 60% |
| Asset Class | 20% | 20% | 20% |
| 1 Year Relative Performance | 20% | 2% | 20% |
| 5 Year Relative Performance ⁴ | 18% | 18% | 18% |
| Total Fund | 30% | 20% | 42% |
| 1 Year Relative Performance | 15% | 10% | 510% |
| 5 Year Relative Performance | 15% | 10% | 510% |
| Total Incentive Allocation | 100% | | 100% |

Notes:

Currently, the Strategy Committee includes the following positions: Director, Domestic Equities; Director, Fixed Income; Director, Alternative Investments; Director, International Equities; Director, Investment Operations; Director, Real Estate. There are other positions held on the Strategy Committee that are not listed here because they are included in this footnote below. The Deputy Executive Director, Investments has a 60% allocation to Total Fund and a 40% allocation to the individual asset classes. The Sr. Economist, Director, Asset Allocation and Strategy, Investments and Chief of Staff, Investments have a 50% allocation to Total Fund and a 50% allocation to the individual asset classes.

Presented 8/17/2023



General Guidelines for Allocating Incentive Goals

Attachment B

The chart below is used as a general guideline for allocating the incentive goals to individual positions. This attachment is referenced on page 5 of the PBI Program document.

The allocation percentages listed below for the one year Asset Class and Total Fund performance represent minimum allocation levels. However, each Associate is generally expected to have on a combined basis, an effective weight on one year performance of at least 25%. The Portfolio/Industry group may include goals related to Individual Portfolios, industry sectors, analyst groups or other appropriate subsets within the relevant Asset Class. Private direct real estate is included in the Portfolio/Industry category for real estate positions. The "Asset Class" category for Fixed Income will include only the Core portfolio. Refer to Attachment D for an example of an incentive calculation and how these allocation percentages are used.

| | Incentive Allocation Percentages | |
|--|----------------------------------|----------------------------------|
| | Assistant Director | All Other PBI Eligible Positions |
| Portfolio/Industry, if applicable³ | 50% | 60% |
| 1 Year Relative Performance | 0% | 0% |
| 5 Year Relative Performance | 50% | 60% |
| Asset Class | 20% | 20% |
| 1 Year Relative Performance | 0% | 0% |
| 5 Year Relative Performance ⁴ | 20% | 20% |
| Total Fund | 30% | 20% |
| 1 Year Relative Performance | 15% | 10% |
| 5 Year Relative Performance | 15% | 10% |
| Total Incentive Allocation | 100% | 100% |

Notes:

~~Currently, the Strategy Committee includes the following positions: Director, Domestic Equities; Director, Fixed Income; Director, Alternative Investments; Director, International Equities; Director, Investment Operations; Director, Real Estate. There are other positions held on the Strategy Committee that are not listed here because they are included in this footnote below. The Deputy Executive Director, Investments has a 60% allocation to Total Fund and a 40% allocation to the individual asset classes. The Sr. Economist, Director, Asset Allocation and Strategy, Investments and Chief of Staff, Investments have a 50% allocation to Total Fund and a 50% allocation to the individual asset classes.~~

Proposed

General Guidelines for Allocating Incentive Goals

Attachment B

The chart below is used as a general guideline for allocating the incentive goals to individual positions. This attachment is referenced on page 5 of the PBI Program document.

The allocation percentages listed below for the one year Asset Class and Total Fund performance represent minimum allocation levels. However, each Associate is generally expected to have on a combined basis, an effective weight on one year performance of at least 25%. The Portfolio/Industry group may include goals related to Individual Portfolios, industry sectors, analyst groups or other appropriate subsets within the relevant Asset Class. Private direct real estate is included in the Portfolio/Industry category for real estate positions. The "Asset Class" category for Fixed Income will include only the Core portfolio. Refer to Attachment D for an example of an incentive calculation and how these allocation percentages are used.

Incentive Allocation Percentages

Notes:

~~Currently, the Strategy Committee includes the following positions: Director, Domestic Equities; Director, Fixed Income; Director, Alternative Investments; Director, International Equities; Director, Investment Operations; Director, Real Estate. There are other positions held on the Strategy Committee that are not listed here because they are included in this footnote below.~~ The Deputy Executive Director, Investments has a 60% allocation to Total Fund and a 40% allocation to the individual asset classes. The Sr. Economist, Director, Asset Allocation and Strategy, Investments and Chief of Staff, Investments have a 50% allocation to Total Fund and a 50% allocation to the individual asset classes.

Currently, the Strategy Committee includes the following positions: Director, Domestic Equities; Director, Fixed Income; Director, Alternative Investments; Director, International Equities; Director, Investment Operations; Director, Real Estate. There are other positions held on the Strategy Committee that are not listed here because they are included in this footnote below. The Deputy Executive Director, Investments has a 60% allocation to Total Fund and a 40% allocation to the individual asset classes. The Sr. Economist, Director, Asset Allocation and Strategy, Investments and Chief of Staff, Investments have a 50% allocation to Total Fund and a 50% allocation to the individual asset classes.

Presented 8/17/2023

General Guidelines for Allocating Incentive Goals

Attachment B

The chart below is used as a general guideline for allocating the incentive goals to individual positions. This attachment is referenced on page 5 of the PBI Program document.

The allocation percentages listed below for the one year Asset Class and Total Fund performance represent minimum allocation levels. However, each Associate is generally expected to have on a combined basis, an effective weight on one year performance of at least 25%. The Portfolio/Industry group may include goals related to Individual Portfolios, industry sectors, analyst groups or other appropriate subsets within the relevant Asset Class. Private direct real estate is included in the Portfolio/Industry category for real estate positions. The "Asset Class" category for Fixed Income will include only the Core portfolio. Refer to Attachment D for an example of an incentive calculation and how these allocation percentages are used.

Incentive Allocation Percentages

Notes:

~~Currently, the Strategy Committee includes the following positions: Director, Domestic Equities; Director, Fixed Income; Director, Alternative Investments; Director, International Equities; Director, Investment Operations; Director, Real Estate. There are other positions held on the Strategy Committee that are not listed here because they are included in this footnote below.~~ The Deputy Executive Director, Investments has a 60% allocation to Total Fund and a 40% allocation to the individual asset classes. The Sr. Economist, Director, Asset Allocation and Strategy, Investments and Chief of Staff, Investments have a 50% allocation to Total Fund and a 50% allocation to the individual asset classes.

Proposed



This material is intended for use by the board of the State Teachers Retirement System of Ohio (STRS Ohio) and not by any other party. STRS Ohio makes no representations, guarantees, or warranties as to the accuracy, completeness, currency, or suitability of the information provided in this material. Nothing included herein is either a legal reference or a complete statement of the laws or administrative rules of STRS Ohio. In any conflict between the information provided herein and any applicable laws or administrative rules, the laws and administrative rules shall prevail. This material is not intended to provide tax, legal or investment advice. STRS Ohio disclaims any liability for any claims or damages that may result from reliance on this material or the information it contains, including any information obtained from third parties.