



# 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)

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- **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**

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- **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 <sup>4</sup>	All Other PBI Eligible Positions
<b>Portfolio/Industry, if applicable<sup>3</sup></b>	<b>50%</b>	<b>60%</b>	<b>70%</b>
1 Year Relative Performance	50%	5%	40%
5 Year Relative Performance	45%	55%	60%
<b>Asset Class</b>	<b>20%</b>	<b>20%</b>	<b>20%</b>
1 Year Relative Performance	20%	2%	20%
5 Year Relative Performance <sup>4</sup>	18%	18%	18%
<b>Total Fund</b>	<b>30%</b>	<b>20%</b>	<b>42%</b>
1 Year Relative Performance	15%	10%	510%
5 Year Relative Performance	15%	10%	510%
<b>Total Incentive Allocation</b>	<b>100%</b>		<b>100%</b>

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



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	Assistant Director	All Other PBI Eligible Positions
<b>Portfolio/Industry, if applicable<sup>3</sup></b>	<b>50%</b>	<b>60%</b>
1 Year Relative Performance	0%	0%
5 Year Relative Performance	50%	60%
<b>Asset Class</b>	<b>20%</b>	<b>20%</b>
1 Year Relative Performance	0%	0%
5 Year Relative Performance <sup>4</sup>	20%	20%
<b>Total Fund</b>	<b>30%</b>	<b>20%</b>
1 Year Relative Performance	15%	10%
5 Year Relative Performance	15%	10%
<b>Total Incentive Allocation</b>	<b>100%</b>	<b>100%</b>

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