



Board of Trustees

Special Meeting

July 12, 2022

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SPECIAL MEETING OF THE BOARD OF TRUSTEES

July 12, 2022
1:00-4:30 p.m.

The Alaska Community Foundation
BP Energy Center – Birch Room
1014 Energy Court
Anchorage, AK 99508

Webinar Access (click link to join webinar)

Join via WebEx and enjoy the ability to listen on your computer and follow presentations:

<https://apfc.org/bot-special-meeting>

Event Password: APFCBOT

Teleconference Option

*If you are unable to join via webinar, please contact us at
(907) 796-1501 to receive a teleconference number*

AGENDA

TUESDAY, JULY 12, 2022

- 1:00 p.m. CALL TO ORDER
- ROLL CALL (Action)
- APPROVAL OF AGENDA (Action)
- 1:15 p.m. EMPLOYEE COMPENSATION ASSESSMENT (Information)
 Val Mertz, Acting Chief Executive Officer
 Chad Brown, Director of Human Resources
- 2:15 p.m. PEER GROUP DEFINITION (Information)
 Maureen Reilly, McLagan
 Michael Oak, McLagan
- 3:15 p.m. INCENTIVE COMPENSATION POLICY (Information)
 Val Mertz, Acting Chief Executive Officer
 Marcus Frampton, Chief Investment Officer
- 4:15 p.m. OTHER MATTERS / FUTURE AGENDA ITEMS / TRUSTEE COMMENTS
- 4:30 p.m. ADJOURNMENT

**NOTE: TIMES MAY VARY AND THE CHAIR MAY REORDER AGENDA ITEMS
(Please telephone Jennifer Loesch at 907.796.1519 with agenda questions.)**

The logo for the Alaska Permanent Fund Corporation (APFC) consists of the letters "APFC" in a white, serif font, centered within a dark blue rectangular box. The background of the slide features a teal-tinted image of a large, multi-story building with many windows.

APFC

ALASKA PERMANENT
FUND CORPORATION

Employee Compensation Assessment July 2022

Situational Analysis

Significant constraints in recruitment and retention of key human resources across all corporate functions: front, middle and back office.

The recruitment and retention problem is now more acute, exposing the Fund/APFC to significant operational risks, with potential adverse impact on Fund performance and corporate reputation

The root cause seems to be a dated compensation structure, materially below par:

- efforts to train and develop fresh entrants become wasted when talent moves on to better pay and incentives
- budget constraints limit building deeper bench/back-up, exacerbating the problem



All mechanisms of the organization must be adequately resourced for the Corporation to perform optimally - all gears working together. Failure of any one cog comes at the expense of the Fund.

Evidence of the Problem: Five Year Review

2017-2022

Who is leaving? 5 Year staff Turnover	43 permanent staff have separated	Why did they go?
Investment	13 3 retirement, 1 school, 8 other employment	>3x Increase pay at peer public fund & APFC Investment Manager • 2.5-3x Increase at endowment • Closer to friends and family • More investment authority • Private sector • Return to former employer
Operations	30 2 retirement, 1 school, 27 other employment	Higher compensation • Less stress • Job protection • Bonus eligibility

As exempt employees, agreements with collective bargaining units do not apply, including: COLA adjustments, Built-in salary step adjustments

The Problem is Acute 2022: 9 Departures

Deputy CIO and Head of Alternatives

- Key member of investment team who generated outstanding returns

Director of Administrative Operations

- Key member of operations team responsible for oversight of procurement and budget

Entire Investment Operations Team (3)

- Critical to internal trading and requires 6-12 months of training

Two members of the IT Team

- 2 front line IT support, stretching the capacity of the remaining IT staff, taking time away from critical data, security and infrastructure projects

Procurement Officer

- Deep expertise in State Procurement who developed a nuanced understanding of APFC's unique procurement needs

HR Generalist

- Focused on recruitment and intern program

FY 21 to FY22:



Average applicant pool
dropped by 57%
(~30 candidates per job)



Average Recruitment
Time increased by 36%

Areas of Immediate Concern

Middle Office: Trade Support and Settlement

Entire team leaving in the next 30 days

- Failed trades are costly and directly impact performance
- Outsourcing will cost more but is the only viable option

Back Office: Administration & Business Operations

Procurement

- No procurement officer
- Building 'bench' – current lack of experience

Budget

- Closing out FY22, Beginning FY23, and Developing FY24
- Staff already spread thin



Firefighting Mode for
Current Issues



Need Proactive
Approach for Future
Mitigation

Where did they go?

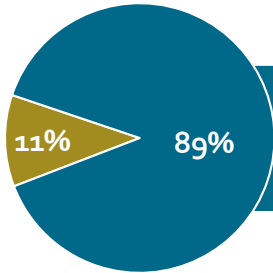
2017-2022 | 43 Staff separated



75% of Operations Staff relocated out of Alaska
100% of Investment Staff have relocated out of State

53% of Operations Staff leave for Private Sector Jobs
89% of Investment Staff leave for Private Sector Jobs

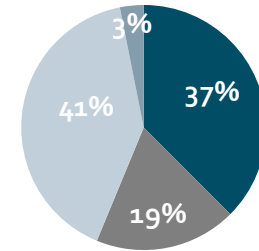
5 YEAR STAFF TURNOVER



Left State Service

Continued with State Service

OF THE 89% THAT LEFT STATE SERVICE



- Investment
- Finance
- Operations
- Risk & Compliance

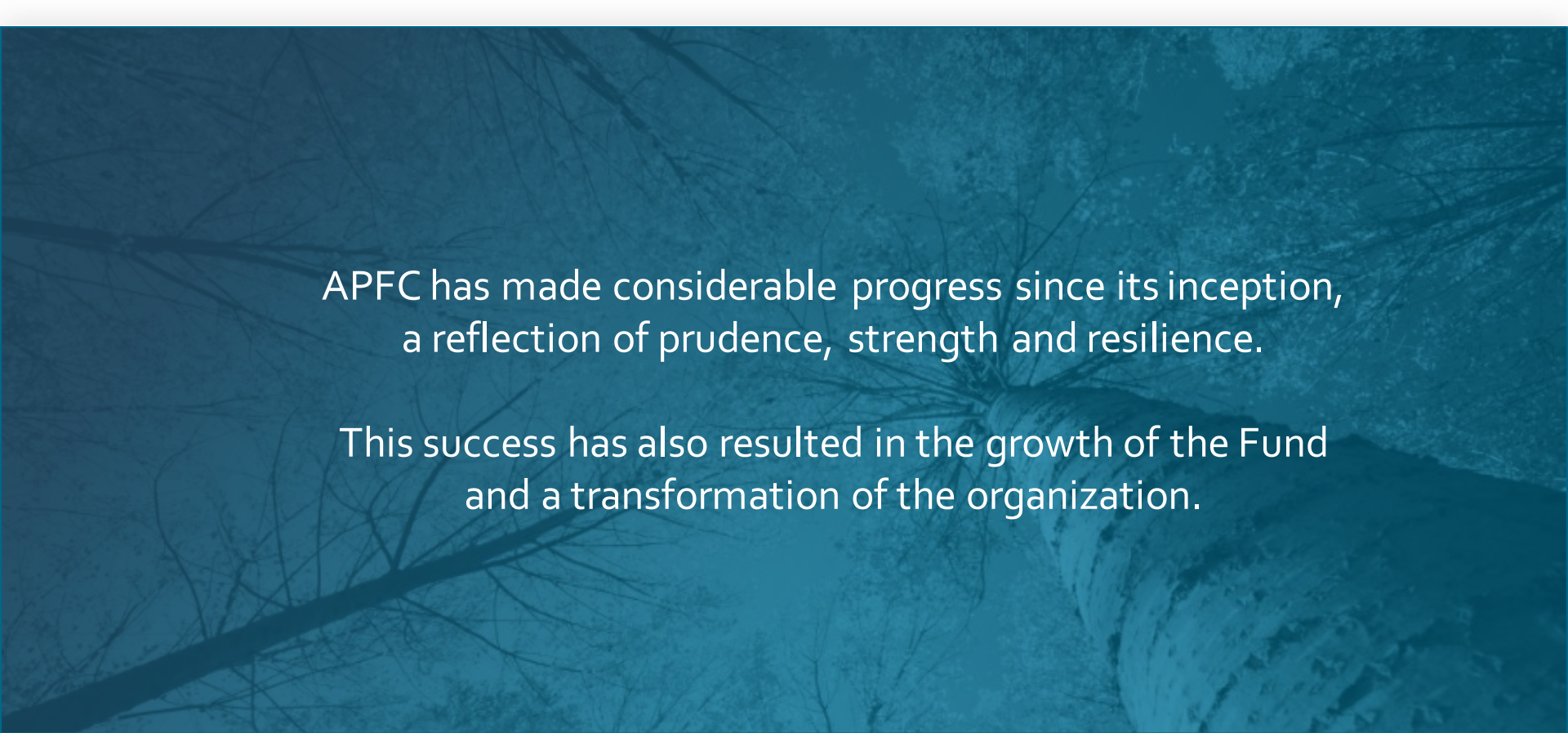
8 of 122

Peer Group

Does APFC have the appropriate peer group?

Data suggests that we are losing staff across the organization to the private and public sectors, primarily out of Alaska.

This indicates that our competition for talent is a blend of private and public sector organizations throughout the US.



APFC has made considerable progress since its inception,
a reflection of prudence, strength and resilience.

This success has also resulted in the growth of the Fund
and a transformation of the organization.

Preparing for the next decade

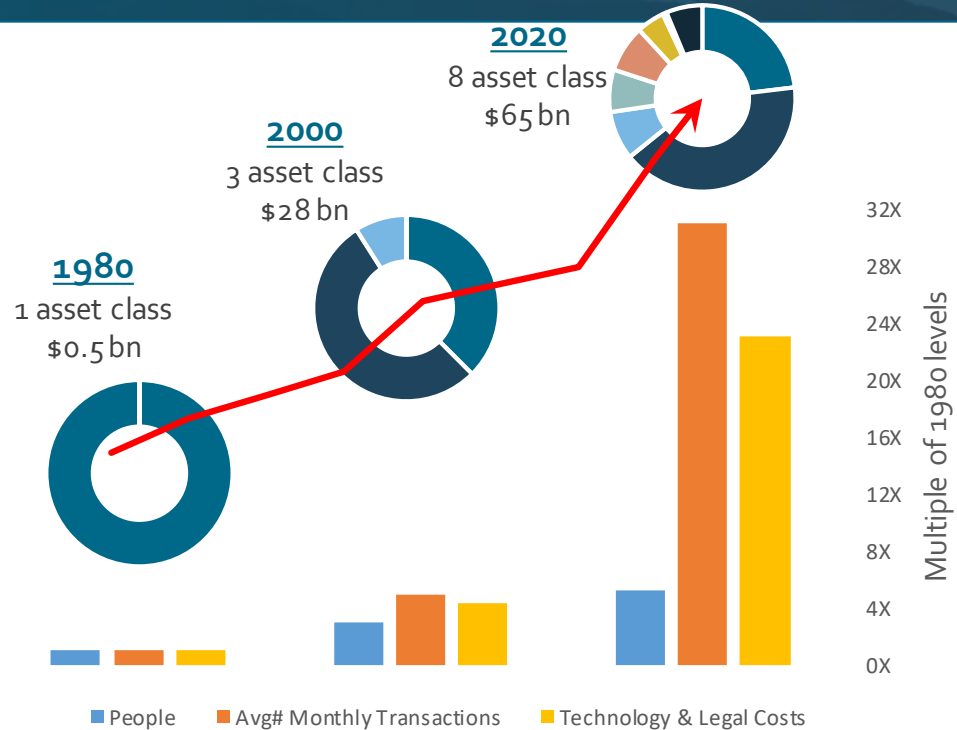
It is vital to recognize portfolio transformation and prepare APFC for future demands

Growth

- Fund value
- Increased diversity & complexity of asset classes
- Transaction volumes have multiplied
- Number, diversity & remoteness of counterparts expanding
- Technology incorporated in every facet of business

Operating Environment

- Rapidly changing
- Cyber & technology crime
- Fraud and malpractices
- Legal & regulatory frameworks

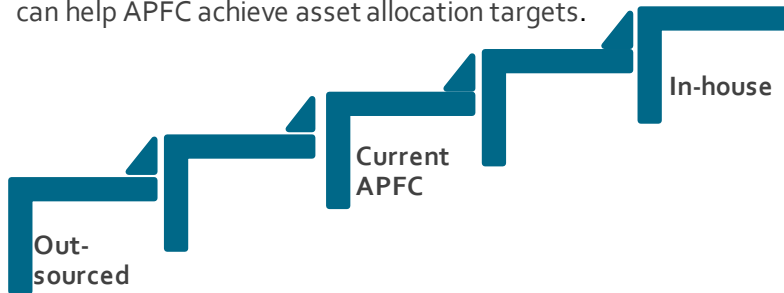


Business Model & Resource Requirements

Appetite for operational risk must be de minimis:
The tolerance for loss resulting from inadequate or failed internal processes, people and systems should be very low.

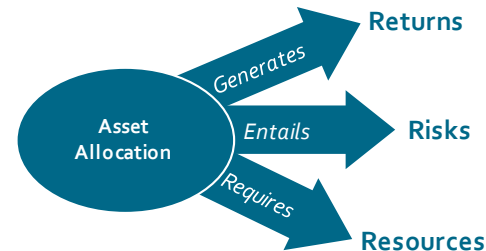
Business Model:

A model comprised of both in- and out- sourced activities can help APFC achieve asset allocation targets.



Asset Allocation decisions should consider operational risk:

- Adequacy of Resources should be a key sub-consideration. Asset allocation aspirations and capabilities must be aligned.
- Capability requirements and associated infrastructure costs vary based on asset class type, volume, size and dispersion.
- Budgetary constraints are likely to conflict with asset allocation aspirations – an appropriate balance should be achieved.



Compensation – Peer Group

Identifying the appropriate peer group is vital to ensuring that the core compensation structure is properly built.

This will allow for consistent and data driven means of recruiting and retaining talent throughout the Corporation.

Compensation Historical Summary

In March of 2017, APFC, at the request of the Board of Trustees, hired McLagan to undertake a compensation review and develop an incentive compensation plan for APFC.

At the December, 2017 meeting, the Board of Trustees adopted updated base salary pay bands for all positions as a result of that review. The adjustments based on the new base salary bands were incorporated into the FY19 budget request for APFC.

In May of 2018, the Board unanimously adopted Resolution 18-02, which included peer group definition and incentive compensation to address the deficiencies determined by the consultant.

After years of trying to get an incentive compensation program in place, the FY22 budget included funds to support a pro-rated program for all eligible investment staff. The Board approved Incentive Compensation not to exceed \$890,000.

In accordance with the incentive compensation policy passed by the Board, funding for FY23 was approved by the Board at \$1,600,000 during the September 2021 Annual Meeting and was included in the FY23 Operating Budget passed by the Legislature and enacted by the Governor.



Attracting and Retaining Talent

Why is having a defined peer group important?

Data continues to demonstrate that APFC's compensation is lagging.

While **base compensation** is low compared to peers, it is in the ballpark. The significant gap comes in when comparing to **total compensation** (base + bonus).

Why the emphasis on compensation?

- ✓ Primary source of dissatisfaction at APFC according to our staff surveys
- ✓ Critical to recruitment & retention of skilled professionals
- ✓ Continued loss of valuable employees across APFC to peers with higher compensation
- ✓ Should be reflective of the extremely high performance expectations at APFC
- ✓ Growth in value and complexity of fund increases sophistication of required skills
- ✓ Increasingly rapid changes in operating environment

APFC Value Propositions

- Mission driven work
- Work life balance
- Alaska / Adventure
- Great work with great people
- Best Places to Work – *Pensions & Investments*



Current Peer Group

McLagan

In 2018, APFC contracted McLagan, a division of AON, to conduct a comprehensive review of our compensation program. The complete presentation from the May 10, 2018 Board Meeting is included in the appendices.

Discovery:

- Review of job descriptions
- Extensive staff interviews
- Comparison to industry data

Recommendations:

- APFC's salary structure constructed with custom peer group – 75% Public Funds/25% Private Organizations
- At the time of analysis, APFC's lack of incentive compensation widened the gap for all staff, moving forward with incentive compensation was recommended.

Does this peer group continue to make sense for APFC?



Regional Comparison

Milliman AK Compensation

- Milliman conducts an annual survey of Alaskan organizations including public and private sector organizations.
- Used by other quasi corporations as a solid source of relevant regional data.
- Survey does include State of Alaska employee data.



Refocusing the Conversation

Building an effective compensation structure that is competitive with our peers allows for recruitment and retention of crucial, bespoke skills.

By focusing our conversations on the compensation structure rather than individual employee, it removes the personal nature of the comparison.

Midpoint Comparison

Investments

McLagan data is dated and seems incongruent with our recent experiences of employees leaving for jobs at peer organizations.

Title	Midpoint Current Structure	Midpoint Current Structure + Inflation	Midpoint 2020 McLagan (75/25)
Investment Analyst I	78,394	91,324	72,204
Investment Analyst II	88,991	103,668	81,922
Investment Analyst Senior	101,102	117,776	92,996
Investment Analyst Senior II	114,726	133,647	105,651
Portfolio Manager I	147,381	171,688	175,821
Portfolio Manager II	168,250	195,999	200,907
Portfolio Manager Senior I	192,255	223,963	262,037
Portfolio Manager Senior II	219,612	255,832	299,326
Director of Investments	250,753	292,109	341,925
Director of Investments Senior / Managing	286,436	333,677	390,581

Midpoint Comparison

Operations

Title	Midpoint Current Structure	Midpoint Current Structure + Inflation	Midpoint 2020 McLagan (75/25)	Midpoint 2021 Regional Adjusted
Portfolio Accountant I	60,877	70,917	72,204	69,347
Portfolio Accountant Senior I	101,102	117,776	119,889	122,405
Administrative Specialist I	53,632	62,477	69,978	65,894
Administrative Specialist II	60,877	70,917	79,425	85,488
Administrative Officer I	101,102	117,776	117,842	122,142
HR Generalist I	64,984	75,702	72,204	86,645
HR Generalist II	72,469	84,422	81,922	98,306
HR Manager	106,055	123,547	119,889	143,866

Moving Forward



CONCLUSIONS

- Best interest of the Fund and the State of Alaska to attract and retain the best possible employees
- Having a competitive compensation structure across all departments is critical to protecting and growing the Fund
- Defining the right peer group is essential to the foundation of the compensation structure
- Employees with similar skill sets should be compensated similarly
- As industry specific knowledge and experience is gained, compensation should reflect that for retention
- A well defined compensation structure that has budgetary support is a win-win for employees and the Fund



Next Steps and Considerations

Consider further updates to the compensation structure and salary study outlined in the Personnel Management Plan

- Commence an independent compensation review by an external consultant
- Engagement with external consultant to be coordinated by a committee comprising of select staff and board members
- Findings of the review to be presented to Board by consultant

Appendix

- Resolution 18-02



ALASKA PERMANENT FUND CORPORATION

RESOLUTION OF THE BOARD OF TRUSTEES RELATING TO APFC STAFF COMPENSATION

RESOLUTION 18-02

All employees of the Alaska Permanent Fund Corporation (“APFC”) are valued and essential to fulfilling APFC’s mission to deliver sustained compelling investment returns as the United States’ leading sovereign endowment manager, benefiting all current and future generations of Alaskans. In fulfillment of this mission it is imperative that APFC is in a position to attract, incent, and retain staff at all levels and in all positions.

The APFC Board of Trustees Charters and Governance Policies, therefore, obligate the Board to establish human resources policies and procedures necessary for the effective management of the Permanent Fund, including a compensation and benefits policy. Because the level and complexity of internal investment management at APFC and the value-added and savings achieved by this internal management has grown significantly in the last five years, the Board feels strongly that fair and competitive compensation for APFC staff needs to evolve and grow to acknowledge and foster this successful result.

NOW THEREFORE BE IT RESOLVED THAT:

1. Compensation for APFC staff should be commensurate with its peer equivalent, which the Board has determined shall be comprised of a weighting that reflects 75% US and Canadian public fund asset managers with internal/direct asset management capability and 25% of the private sector investment organizations with assets under management of less than \$100 billion, including endowments, foundations, advisory firms, banks, insurance companies and corporate plan sponsors;

2. APFC staff responsible for the Administration and Operations, including the Director of IT, Administrative Services Director and the Human Resources Manager should be compensated at competitive regional salaries, eligible for annual merit increases, targeted at median total cash compensation in comparison to the APFC peer equivalent;

3. APFC staff responsible for the Investment, including the Chief Investment Officer should be compensated through a base salary plus annual incentive compensation targeted at median total cash compensation in comparison to the APFC peer equivalent;

4. Annual incentive compensation will be measured net-of-fees on a three year basis versus the relative performance benchmark and no incentive compensation will exceed 50% of an individual’s base salary;

5. APFC Executive Management, including the Executive Director, Chief Financial Officer, Chief Operating Officer and General Counsel may be subject to incentive compensation at the discretion of the Board;

6. The Board of Trustees will include an incentive compensation request with each annual budget request beginning with its Fiscal Year 2020 request, which will be based on incentive compensation earned for Fiscal Year 2019 performance benchmarks; and

7. Upon the appropriation of funds to award annual incentive compensation and amendment to the APFC Personnel Management Program, the Executive Director will be responsible for determining and distributing individual incentive awards.

PASSED AND APPROVED by the Board of Trustees of the Alaska Permanent Fund Corporation this 24th day of May, 2018.

/s/

Bill Moran
Chairman, Board of Trustees
Alaska Permanent Fund Corporation

ATTEST:

/s/

Angela M. Rodell, Corporate Secretary



Alaska Permanent Fund Corporation Compensation Program Review

May 24, 2018

Introduction

- Alaska Permanent Fund Corporation (APFC) asked McLagan to review the competitiveness of APFC's compensation program.
- Recognizing that APFC competes with a broad range of firms for investment talent, McLagan assembled pay data from three peer groups (see Appendix for additional detail on each peer group):
 - I. US and Canadian public funds with internal/direct asset management capability.
 - II. Private sector investment organizations with AUM less than \$100B including advisory firms, banks, insurance companies, endowments, foundations, and corporate plan sponsors with.
 - III. A blended peer group: 75% public fund and 25% private sector firms.
- This report contains information about:
 - The competitive range of salary and total cash compensation (e.g., salary + cash incentives) for 44 APFC positions. Note that long-term incentives common in the private sector have been excluded (e.g., stock options, mutual fund deferrals, restricted stock, etc.).
 - The typical features and mechanics of incentive compensation plans within public funds.

Executive Summary - Overview

- APFC's salaries are mainstream while total cash compensation is positioned well below peers:
 - In aggregate, APFC's base salaries approximate the competitive market median of the blended peer group. (Note: this generally represents base salaries being at the 75th percentile of other public funds and at the 25th percentile of the private sector).
 - Without an incentive compensation plan, APFC's total cash compensation falls 31% below the blended peer group median of salary + cash incentive (19% below the public fund peer group, 53% below private sector).

APFC versus Median			
	Public Funds	Private Sector	Blended Peers
Salary	+11%	-15%	+3%
Salary + Incentive	-19%	-53%	-31%

- 75% of public fund peers and virtually all private sector peers offer incentive compensation.
 - Generally, all investment positions and select investment support positions are covered by incentive plans within public fund peers. At private sector firms, virtually all staff are eligible.
 - Incentives are generally weighted to quantitative and qualitative factors. Quantitative factors are generally formulaically evaluated based on investment performance and are more heavily weighted for senior investment staff.

Executive Summary - Recommendations

- APFC should consider:
 - I. Confirming (formally adopting) peer groups and establishing a compensation philosophy to guide further pay decision making:
 - Salaries targeted at the 75th percentile of the public fund group with total cash, at maximum, targeted at the median of the blended peer group.
 - II. Implementing a performance-based incentive compensation plan that:
 - Aligns compensation with APFC's long-term investment success.
 - Provides pay opportunities that allow APFC to attract, retain, and motivate talented investment professionals.
 - Is aligned with market practice.
 - Is fair to all stakeholders.

1. Pay Level Analysis

Salaries are Mainstream, Total Cash Well Below Market

- As detailed below, APFC’s salaries, in aggregate, approximate the competitive market median of the blended peer group.
- Without incentive compensation, APFC’s total cash compensation falls below the 25th percentile (31% below median).

APFC's vs. Blended Peer Group (75% Public / 25% Private)						
Aggregate Pay Spend (\$000s)						
	APFC	25th Percentile	Median	75th Percentile	Variance to Median	Quartile Positioning
Base Salary	\$6,514	\$5,318	\$6,320	\$7,525	3%	2
Total Cash	6,514	6,897	9,447	13,285	-31%	4

Represents the total pay for 44 of APFC's incumbents.

Represents the total pay, at median, for 44 matching survey positions.

1 Top quartile / Q1 paypositioning (75th to 100th percentile) 2 50th to 75th / Q2 percentile paypositioning 3 25th to 50th percentile / Q3 pay positioning 4 Bottom quartile / Q4 pay positioning (0 to 25th percentile)

Some Variation in Pay Positioning by Function

- Pay positioning varies somewhat by function:
 - Investment salaries are positioned 17% above median of the blended peer group. However, total cash compensation falls 26% below median.
 - Management is positioned closest to median on a salary only basis yet is positioned worst on a total cash basis.

APFC's vs. Blended Peer Group (75% Public / 25% Private)				
Aggregate Pay Spend (\$000s)				
	Variance to Median		Quartile Positioning	
	Base Salary	Total Cash	Base Salary	Total Cash
Management	-9%	-48%	3	4
Investments	17%	-26%	2	4
Administrative	-12%	-25%	3	4
Total	3%	-31%	2	4

1 Top quartile / Q1 paypositioning (75th to 100th percentile)

2 50th to 75th / Q2 percentile paypositioning

3 25th to 50th percentile / Q3 pay positioning

4 Bottom quartile / Q4 pay positioning (0 to 25th percentile)

Different Peer Groups = Different Pay Positioning

- Not surprisingly, APFC’s competitive pay positioning varies depending on which peer group is focused on. While the majority of this report has been focused on the blended peer group is it important to note:
 - Base salaries approximate the 75th percentile of public fund peers and 25th percentile of the private sector peers.
 - Total cash compensation falls between the 25th percentile and median for public fund peers and well below the 25th percentile for private sector peers.

APFC's Pay vs. Multiple Peer Groups									
		Aggregate Pay Spend (\$000s)							Quartile Positioning
		25th Percentile		Median		75th Percentile			
		# of APFC Employees	APFC	% APFC vs. Mkt	% APFC vs. Mkt	% APFC vs. Mkt	% APFC vs. Mkt		
Base Salary									
Private Sector Firms	44	\$6,514	\$6,537	0%	\$7,706	-15%	\$9,252	-30%	4
Public Funds	44	6,514	4,912	33%	5,858	11%	6,949	-6%	2
75%/25% Public/Private Sector	44	6,514	5,318	22%	6,320	3%	7,525	-13%	2
Total Cash Compensation									
Private Sector Firms	44	\$6,514	\$10,280	-37%	\$13,807	-53%	\$19,734	-67%	4
Public Funds	44	6,514	5,769	13%	7,994	-19%	11,135	-41%	3
75%/25% Public/Private Sector	44	6,514	6,897	-6%	9,447	-31%	13,285	-51%	4

1 Top quartile / Q1 pay positioning (75th to 100th percentile)

2 50th to 75th / Q2 percentile pay positioning

3 25th to 50th percentile / Q3 pay positioning

4 Bottom quartile / Q4 pay positioning (0 to 25th percentile)

2. Incentive Structure

- ~75% of public fund peers offer incentive compensation.
 - Generally all investment and senior management positions participate in the incentive plan.
 - Incentive awards are generally weighted to quantitative and qualitative components.
 - Quantitative components generally provide formulaic linkages between pay and long-term investment returns. The most common metrics is three-year performance relative to the policy benchmark.
 - Qualitative components are generally assessed on a discretionary basis and may include performance and achievements made towards individual goals, objectives, and behaviors.
- The following pages describe a “typical” incentive plan within US public pension funds. APFC should consider adopting a market competitive incentive compensation plan.

A "Typical" Public Fund Incentive Plan

Near the Beginning of Each Year:

1. Identify/Re-Confirm Maximum Award
 - Assume \$80K (for illustrative purposes)
2. Weight Maximum Award to Specific Components

Plan Component	Incentive Weighting	Weighted Portion of Target Incentive
Total Fund	20%	\$16,000
Asset Class	60%	48,000
Qualitative	20%	16,000
Total	100%	\$80,000

3. Establish Performance Criteria/Scales:

- Investment performance criteria.
- Individual performance criteria.

Total Fund Performance-Award Scale	
bps of Above-B'mark Performance	Award Earned
60 bps or more	100%
⋮	⋮
30 bps	50%
⋮	⋮
0 bps or less	0%

Intermediate points are interpolated.

Asset Class - Internal Equity Performance-Award Scale	
bps of Above-B'mark Performance	Award Earned
50 bps or more	100%
⋮	⋮
25 bps	50%
⋮	⋮
0 bps or less	0%

Intermediate points are interpolated.

After the End of Each Year:

1. Determine Multipliers for each Plan Component

Plan Components	Performance (illustrative)	Performance Multiplier
Total Fund	45 bps	0.75
Asset Class	25 bps	0.50
Qualitative	"Very good year"	0.75

2. Determine Final Awards

Plan Component	Weighted Portion of Target Incentive	Performance Multiplier	Actual Award
Total Fund	\$16,000	x 0.75	= \$12,000
Asset Class	48,000	x 0.50	= 24,000
Qualitative	16,000	x 0.75	= 12,000
= Final Award			\$48,000

3. Pay Out Award

APFC's Incentive Recommendation

- Mirroring the structure presented on the prior page, each participant would:
 - Have an incentive maximum expressed as a percentage of base salary. The opportunity would vary by position and be calibrated to deliver competitive levels of total cash compensation.
 - Have incentive opportunities weighted to quantitative and qualitative components. Weightings would likely vary by position with:
 - Senior leadership having a higher weighting (70%-80%) towards total fund results and a modest qualitative award.
 - Senior investment staff would have weightings toward total fund (30%-40%) and asset class (30%-40%) with a modest qualitative award.
 - Junior and administrative staff would have a modest weighting (20%-50%) to total fund performance and the majority of their incentives determined on a discretionary basis.
- Quantitative investment performance would be measured net-of-fees on a three- and/or five-year basis versus policy benchmark.

Appendix

Public Fund Peers

APFC's Public Pension Fund Comparator Group					
	12/31/16 % Internally			12/31/16 % Internally	
	AUM	Managed		AUM	Managed
California Public Employees Retirement System	\$302.8		Virginia Retirement System	\$69.9	
Canada Pension Plan Investment Board	235.9		OMERS	63.5	
Caisse de Depot	201.6		State of Michigan Retirement Systems	62.2	
California State Teachers' Retirement System	196.4		Public School Employees' Retirement System	57.8	
New York State Common Retirement Fund	186.0		Healthcare of Ontario Pension Plan	52.4	
State Board of Administration of Florida	184.6		Tennessee Consolidated Retirement System (TCRS)	47.0	
Teacher Retirement System of Texas	140.4		Colorado Public Employees' Retirement Association	45.0	
Ontario Teachers' Pension Plan Board	130.8		Arizona State Retirement System	35.1	
Washington State Investment Board	112.4		Montana Board of Investments	16.9	
State of Wisconsin Investment Board	109.1		OPTrust	14.2	
PSP Investments	101.0		New Mexico Educational Retirement Board	12.1	
Ohio Public Employees Retirement System	89.1		South Dakota Investment Council	11.3	
New York State Teachers' Retirement System	83.6		Municipal Employees' Retirement System of Michigan	9.6	
State Teachers' Retirement System of Ohio	71.7		Missouri State Employees' Retirement System (MOSERS)	8.0	
Alberta Investment Management Corporation	71.3		Employees' Retirement Fund of the City of Dallas	3.2	
State of New Jersey Pension Fund	71.2				
			75th Percentile	\$121.6	68%
			Median	71.2	50%
			25th Percentile	40.1	35%
			Alaska Permanent Fund Corporation	\$55.1	20%

Private Sector Peers

APFC's Private Sector Pay Comparators (AUM < \$100B)				
	# Firms	12/31/16 AUM (\$Bs)		
		25th	Median	75th
Investment Management Firms	106	\$11.0	\$29.2	\$53.4
Banks (Investment Management Department)	23	9.3	31.0	45.3
Insurance Companies (Investment Management Departments)	41	18.5	34.7	56.3
Endowments, Foundations, & Corporate Plan Sponsors	89	2.3	5.2	11.9
Total	259	\$5.4	\$18.7	\$41.7

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APFC

ALASKA PERMANENT
FUND CORPORATION

Incentive Compensation Plan



Current Policy

Background

2018

May

Board Resolution 18-02 adopted in support of competitive pay for all staff and incentive compensation for investment staff

October

Ad hoc compensation committee of the Board formed and tasked with development of the incentive compensation policy

2019

December

Current incentive compensation policy approved by the Board of Trustees

Incentive Compensation Funding

FY20

\$1.8 million included in Board's proposed budget, not forwarded in the Governor's budget request

FY21

\$2.8 million appropriated by the Legislature, but vetoed by the Governor

FY22

\$890,000 is appropriated and enacted based on request for partial funding of the program

FY23

\$1.6 million appropriated by the Legislature - now before the Governor

Incentive Compensation Plan



Retention Recruitment Performance

Title	Total Fund Weight	Asset Class Weight	% of Salary Eligible
Chief Investment Officer	100%	0%	50%
Asset Class Director	50%	50%	50%
Senior Portfolio Manager	45%	55%	50%
Portfolio Manager	40%	60%	35%
Senior Analyst	35%	65%	25%
Analyst	25%	75%	15%

- Only investment staff are eligible for incentive compensation
- Maximum payment equals 50% of salary for senior professionals, with lower maximum awards for junior staff
- No employee can make more than 1.5 times of their previous year's compensation
- Both total Fund performance and individual asset class performance contribute to the calculation
- If fiscal year total performance return for the Fund is negative, there will be no payment of incentive compensation
- Calculation is weighted 80% for 5 year returns and 20% for 1 year

Current Policy

Employee A: Private Equity Analyst

Base Salary = \$80,000

Max Bonus Award = \$12,000 (15% of \$80,000)

Title	Total Fund Weight	Asset Class Weight	% of Salary Eligible
Analyst	25%	75%	15%
Performance assumption: (performance band caps)		1 Year (20%)	5 Year (80%)
Total Fund (100bp = 100% = max)		75bp	150bp
Private Equity Asset Class (200bp = 100% = max)		300bp	100bp
Calculation:		1 Year (20%)	5 Year (80%)
Total Fund		$(.75 * 20 * .25) = 3.75$	$(1.00 * 80 * .25) = 20$
Private Equity Asset Class		$(1.00 * 20 * .75) = 15$	$(.50 * 80 * .75) = 30$
Total Points		18.75	50.00

Total Points = 18.75 (1 year) + 50.00 (5 year) = 68.75 out of 100

Total Bonus = 68.75% * \$12,000 (max bonus) = \$8,250

Total Compensation = \$80,000 (base salary) + \$8,250 (comp) = \$88,250

Employee B: Private Equity Director

Base Salary = \$200,000

Max Bonus Award = \$100,000 (50% of \$200,000)

Title	Total Fund Weight	Asset Class Weight	% of Salary Eligible
Asset Class Director	50%	50%	50%
Performance assumption: (performance band caps)		1 Year (20%)	5 Year (80%)
Total Fund (100bp = 100% = max)		75bp	150bp
Private Equity Asset Class (200bp = 100% = max)		300bp	100bp
Calculation:		1 Year (20%)	5 Year (80%)
Total Fund		$(.75 * 20 * .50) = 7.5$	$(1.00 * 80 * .50) = 40$
Private Equity Asset Class		$(1.00 * 20 * .50) = 10$	$(.50 * 80 * .50) = 20$
Total Points		17.5	60.00

Total Points = 17.5 (1 year) + 60.00 (5 year) = 77.50 out of 100

Total Bonus = 77.50% * \$100,000 (max bonus) = \$77,500

Total Compensation = \$200,000 (base salary) + \$77,500 (comp) = \$277,500



FY22 Performance Payment

Incentive Compensation

- Performance = One and five year returns as of the end of FY21
- Appropriation = FY22 Operating Budget
- Maximum Pool per Policy = \$2.5 million
- Payment Calculation per Policy = \$1.6 million
- Budget Authorization = \$890,000
- Each Payment Reduced by ~44%



Staff Feedback



Marcus Frampton
Jim Parise
Steve Moseley
Fawad Razzaque
Tim Andreyka
Valeria Martinez
Rachel Price

Staff Feedback on Current Policy

Review Peer Plans

- APFC plan is smaller and more contingent
- CALSTRS and Texas TRS provided for reference

Consider Plan Objectives

- Does current structure align with stated objectives?
- Clarify goal of 50% target vs 50% maximum of salary
- Do performance thresholds incent desired behavior?

Minimize Contingencies

- Eliminate requirement for positive return
- Subject to appropriation (outside of policy)



Marcus Frampton
Jim Parise
Steve Moseley
Fawad Razzaque
Tim Andreyka
Valeria Martinez
Rachel Price

Staff Feedback on Current Policy

Adjust Methodology

- Smooth % of salary targets between positions
- Pool for distribution of 50% of salaries is not being followed and is more than needed under current calculation
- Clarify requirement to exceed both short & long term benchmarks
- Eliminate the 1.5X prior year salary limit for total compensation
- Include operational staff in some scaled back way

Focus on Base Salaries

- Base salaries lag other large, sophisticated funds in the US

Staff Input: Policy Change

- Mechanics of the current policy has been an area of focus and educational effort during Legislative meetings
- Generally, investment staff was not disappointed, but pleased to see the first funding and payment come through
 - Albeit partial – it was funded in FY22
- Staff dissatisfaction comes from uncertainty due to annual appropriation process
- Some Investment leaders acknowledge disparity in not including all staff

Appendix

- Current APFC Incentive Compensation Plan
- CALSTRS Incentive Plan
- Texas TRS Incentive Plan



Alaska Permanent Fund Corporation (“APFC”)
Incentive Compensation Plan - Investment Staff

AUTHORITY

On May 24, 2018, the Board of Trustees of the Alaska Permanent Fund Corporation (the “Board”) adopted Resolution 18-02, which modified the compensation for the Investment Staff and Chief Investment Officer (“CIO”) to provide for a base salary plus an annual incentive compensation targeted at the median total cash compensation provided to the APFC peer equivalent. This document specifies the policies and procedures related to the administration of this modified compensation plan (“Plan”) for the Investment Staff and CIO (“Participants”).

OBJECTIVES

As outlined by the Board in Resolution 18-02, the modified compensation plan is designed to:

1. Help attract and retain world class investment professionals;
2. Help APFC earn the highest possible investment returns at a reasonable cost and at controlled levels of risk;
3. Reward long-term investment performance that reflects the Alaska Permanent Fund’s aspiration to achieve above-benchmark, net of fees performance (as measured in basis points and the corresponding dollars of excess value added);
4. Motivate Participants to make sound decisions for the Fund, including implementation decisions related to asset allocation;
5. Foster a collaborative approach to investing APFC’s assets under management; and
6. Reward measurable and achievable performance.

ADMINISTRATION AND MANAGEMENT

Because the funds needed to implement this annual compensation plan are contingent upon an annual appropriation by the Legislature, the policies and procedures described in this document are not a contract, guarantee of payment, guarantee of participation in the incentive plan in subsequent years, or guarantee employment among APFC and the Participants. Notwithstanding any other provision in this Plan and regardless of any incentive compensation award calculations hereunder, no incentive compensation award shall be made unless amounts have been included in a Board approved budget, appropriated by the Alaska Legislature and signed into law by the Governor of Alaska.

The Executive Director will implement and administer this Plan and may delegate certain administrative responsibilities to other senior managers at APFC, including the Director of Human Resources.

Participants may present questions related to the Plan to the Director of Human Resources. Under the Executive Director’s direction, the Director of Human Resources will work with the appropriate persons to answer such

questions. The Executive Director will have full discretion to conclusively decide all questions or matters relating to the interpretation of the provisions and administration of this Plan.

Amendments or changes to the Plan may be proposed by the Executive Director but must be approved by the Board.

As provided in Resolution 18-02, positions at APFC eligible to participate in the Plan are regular, full-time positions classified by the State of Alaska as Chief Investment Officer, Investment Officer or Investment Associate.

By December of each year, the Executive Director will consult with the Board to confirm any new APFC investment positions that will be eligible to participate in the Plan during the next fiscal year.

For all Participants, an incentive compensation award is contingent on a Participant be in good standing on the day of payment. "Employment in good standing" means the Participant is not being disciplined and/or the Participant is not on a performance improvement plan.

INCENTIVE COMPENSATION POOL

For budgeting purposes, the annual total Plan Participants' incentive compensation pool is equal to 50% of the prior fiscal year's total base salaries of the Plan Participants.

AVAILABILITY OF QUANTITATIVE INCENTIVE POOL FOR DISTRIBUTION

The annual award of incentive compensation to Plan Participants is contingent on the Fund exceeding its short term and long term policy benchmarks, net of fees, as defined by the Investment Policy adopted by the Board and associated Investment Guidelines.

AWARDS TO INDIVIDUALS

Contingent upon funding and the Fund achieving its short term and long term policy benchmarks, the award of incentive compensation to individual Plan Participants, with weights varying by responsibilities, is provided in the chart below:

Title	Total Fund Weight	Asset Class Weight	Percent of Salary Eligible
Chief Investment Officer	100%	0%	50%
Director – Asset Class	50%	50%	50%
Senior Portfolio Manager	45%	55%	50%
Portfolio Manager	40%	60%	35%
Senior Portfolio Analyst	35%	65%	25%
Analyst	25%	75%	15%

The following performance bands, weighted 80% to five-year performance and 20% weighted to one-year performance, will be applied to determine the percentages of “Total Fund Weight” and “Asset Class Weight” that each Plain Participant will be awarded:

	Outperformance	Credit
Total Fund	100 bp or more	100%
	50 bp	50%
	0 bp	0%
Public Equities	100 bp or more	100%
	50 bp	50%
	0 bp	0%
Fixed Income	50 bp or more	100%
	25 bp	50%
	0 bp	0%
Private Equity & Special Opportunities	200 bp or more	100%
	100 bp	50%
	0 bp	0%
Real Estate, Infrastructure & Private Income	100 bp or more	100%
	50 bp	50%
	0 bp	0%
Absolute Return	50 bp or more	100%
	25 bp	50%
	0 bp	0%
Asset Allocation	50 bp or more	100%
	25 bp	50%
	0 bp	0%

- Intermediate points will be interpolated

If with respect to any performance year the absolute investment return, gross of fees, for the Fund for which a Participant is eligible is negative no payment of incentive compensation will be paid.

The following examples are for Illustrative Purposes:

Example A

Director – Private Equity

Base Salary =

\$200,000

Max Bonus Award = \$100,000 (50% of \$200,000)

Assume the following performance:

	Short Term	Long Term
Total Fund Performance	75 bp	150 bp
PESO Asset Class Performance	300 bp	100 bp

Calculation:

	Short Term	Long Term
Total Fund Performance	$(0.75 * 20 * .50) = 7.5$	$(1.00 * 80 * .50) = 40$
Asset Class Performance	$(1.00 * 20 * .50) = 10$	$(0.50 * 80 * .50) = 20$
Total Points	17.5	60

Total Points = 77.5 out of possible 100

Total Bonus = 77.5% * \$100,000 = \$77,500

Total Cash Compensation = \$277,500

Example B:

Analyst – Private Equity

Base Salary = \$80,000

Max Bonus Award = \$12,000 (15% of \$80,000)

Assume the following performance:

	Short Term	Long Term
Total Fund Performance	75 bp	150 bp
PESO Asset Class Performance	300 bp	100 bp

Calculation:

	Short Term	Long Term
Total Fund Performance	$(0.75 * 20 * .25) = 3.75$	$(1.00 * 80 * .25) = 20$
Asset Class Performance	$(1.00 * 20 * .75) = 15$	$(0.50 * 80 * .75) = 30$
Total Points	18.75	50

Total Points = 68.75 out of possible 100

Total Bonus = 68.75% * \$12,000 = \$8,250

Total Cash Compensation = \$88,250

PROCESS FOR THE DIRECTOR OF HUMAN RESOURCES

The Director of Human Resources, in consultation with the Executive Director and each Participant’s manager, will determine the amount of each of Participant’s incentive compensation award pursuant to the Plan.

AWARD LIMITS

The maximum incentive award that may be awarded to an individual employee shall not exceed 1.50 times an individual’s previous year’s total compensation.

AWARD AND PAYMENT DATES

Incentive compensation awards will be determined and authorized as soon as practical following the close of each fiscal year. Contingent upon having access to the Fund performance information needed to complete the calculation, annual incentive awards for the prior year should be completed during the first six months of each fiscal year.

APFC and the State of Alaska shall be entitled to withhold or deduct, as applicable, from the amount of any payment under this Plan or any other compensation due to the Participant, all federal, state, city and other taxes and all other amounts, as applicable.

PRO-RATA PERFORMANCE AWARDS

Individuals who begin employment or who are appointed or transferred to positions eligible under this Plan, after the start of the fiscal year, may still receive a portion of the total potential incentive compensation amount, to be determined by the Executive Director, based upon the percentage of the fiscal year that they were employed in the position eligible for incentive compensation under the Plan. Individuals must be in an eligible position for at least one calendar quarter to participate in the Plan.

ELIGIBILITY UPON TERMINATION

Employment at APFC, in good standing on the day of payment, is a pre-requisite for receiving any approved incentive compensation payment. In the case of retirement, disability or death of a Participant occurring during the fiscal year, the potential incentive amount may be paid to the Participant, the amount to be determined by the Executive Director, based on the time worked during the fiscal year (using exact office dates, not payroll dates). These payments will be made at the same time as any other incentive compensation award.

GOVERNING LAW

The Policy shall be construed and interpreted according to the laws of the State of Alaska to the extent such laws are not preempted by federal law.

Administrative Procedures for the Teachers' Retirement Board's Compensation Policy – Section 700

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 700 – 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	325	400	475
COO	204	250	296
CFO	204	250	296
General Counsel	325	400	475
System Actuary	212	260	308
CIO	408	510	612
Deputy CIO	300	370	440
Senior Investment Directors ¹	290	360	430
Investment Directors	262	327	392
Senior Portfolio Managers ¹	220	280	340
Portfolio Managers	172	215	258
Dir Invest Oprns	164	205	246
Assoc Portfolio Mgrs	120	150	180

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 1st) 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

¹ Establishment of this classification is pending state processing

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^{2,3} 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:

² In compliance with AB 736, amending Education Code Section 22212.5, the annual percentage base pay increase that may be paid to a person who has served as COO or CFO on January 1, 2016, and who does not separate from service prior to the date on which the increase is applied, shall not exceed either: (1) Ten percent for the 2017-18 fiscal year or (2) Five percent for any fiscal year subsequent to 2017-18.

³ In compliance with the Compensation Committee's action on April 6, 2017, the annual percentage base pay increase that may be paid to a person who has served as General Counsel on April 6, 2017 shall not exceed either (1) Ten percent for the 2017-18 fiscal year or (2) Five percent for any fiscal year subsequent to 2017-18.

- 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, Investment Directors, Portfolio Managers, Associate Portfolio Managers, and Director of Investment Operations. 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 ¹	0%	150%
Investment Directors	0%	125%
Senior Portfolio Managers ¹	0%	125%
Portfolio Managers	0%	125%
Director Invest Oprns	0%	75%
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.
- The Deputy CIO, Investment Directors, Portfolio Managers and Associate Portfolio Managers' 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	30%	50%	20%	-	100%
Investment Dir PM APM	30%	50%	20%	-	100%
Investment Dir PM APM (Strategy & Risk)	30%	30%	40%	-	100%
Investment Dir PM APM (SISS)	30%	25%	45%	-	100%
Investment Dir PM APM (Risk Mtg Strategies)	30%	20%	50%	-	100%
PM APM (Innovation)	30%	30%	40%	-	100%
PM APM (Diversity)	30%	30%	40%		100%
Investment Dir PM Dir Investment Oprns 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 fees⁴) 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.

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

⁴ 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 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.⁵
- **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.

⁵ 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 his or her 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. 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)

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"> * Incentive amount, if any, based on criteria for prior year. * Salary movement. <p>TRB evaluates CIO's performance based on personal assessment and quantitative investment measures and approves:</p> <ul style="list-style-type: none"> * Incentive amount, if any, based on criteria for prior year. * Salary movement. <p>CIO evaluates performance of each eligible investment employee and makes recommendations to the CEO to approve:</p> <ul style="list-style-type: none"> * Incentive amount, if any, based on criteria for prior year. * Salary movement. <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%

Criteria	Weight	Performance Measures	Scale
Long-Range Strategic Performance	40%	Board Evaluation	TBD
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 yearend: Fund: Total Fund, <u>TC00A1CP</u> Index: Total Fund Index, <u>STRT01</u>	Zero basis points to a maximum of 40 basis points.
Qualitative 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
Long-Range Strategic Performance	35%	CEO Evaluation	TBD
Total Fund 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.
Qualitative 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%

Criteria	Weight	Performance Measures	Scale
Long-Range Strategic Performance	30%	CEO Evaluation	TBD
Total Fund 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.
Qualitative 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>Qualitative 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

Appendix 7

Chief Investment Officer
Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021
Incentive Range: 0% - 200%

Criteria	Weight	Performance Measures	Scale
<p>Asset Class/Portfolio</p> <p>Value Added</p> <p>Average of the 7 Director criteria scores (net of fees)</p>	25%	<p>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</p>	Average score from Zero to 100%
<p>Total Fund</p> <p>Total CalSTRS Portfolio Return (net of fees)</p>	50%	<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>Qualitative</p> <p>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

Appendix 8

Deputy Chief Investment Officer
Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021
Incentive Range: 0% –175%

Criteria	Weight	Performance Measures	Scale
<p>Asset Class/Portfolio</p> <p>Value Added</p> <p>Average of the 7 Director criteria scores (net of fees)</p>	50%	<p>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</p>	Average score from Zero to 100%
<p>Total Fund</p> <p>Total CalSTRS Portfolio Return (net of fees)</p>	30%	<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>Qualitative</p> <p>Personal Performance</p>	20%	<p>Comprehensive review of personal performance factors.</p>	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

Fixed Income

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2021-22

Incentive Range: Investment Director: 0% - 125%

Portfolio Manager: 0% -125%

Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
Asset Class 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.
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.
Qualitative 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, November 5, 2015,

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

Private Equity

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

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

Criteria	Weight	Performance Measures	Scale
Asset Class 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>STRSPECP</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.
Qualitative 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, November 5, 2015
 Amended June 9, 2016, July 13, 2017, May 9, 2019, June 9, 2020

Innovative Strategies Incentive
 Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

Incentive Range: Portfolio Manager: 0% - 125%

Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
Portfolio Innovative Strategies Portfolio alpha (net of fees)	30%	Return of the total Innovative Strategies CP, less the respective policy index: Fund: <u>TCA140CP</u> Index: <u>STRINNCP</u>	Zero basis points to a maximum of 40 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.
Qualitative Personal Performance	40%	50% Comprehensive annual review of personal performance factors. 50% Annual review of Innovation key success factors	Assign a factor rating of zero to 1.

Portfolio and index are comprised of the existing public and private Innovation portfolios and benchmark in addition to the Innovation strategies that have been reclassified and continue to be managed by the Innovation staff.

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

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

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 2021-22

Incentive Range: Investment Director: 0% - 125%

Portfolio Manager: 0% - 125%

Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
Portfolio Level 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 45 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.
Qualitative 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 20 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 November 5, 2015,

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

Global Equity

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

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

Criteria	Weight	Performance Measures	Scale
Asset Class 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.
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, STRT01	Zero basis points to a maximum of 40 basis points.
Qualitative 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, November 5, 2015

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

Real Estate

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

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

Criteria	Weight	Performance Measures	Scale
Asset Class 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.
Qualitative 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, November 5, 2015

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

Investment Services

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2021-2022

Incentive Range: Investment Director: 0% - 125%

Portfolio Manager: 0% - 125%, Director of Investment Operations: 0% - 75%

Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measure	Scale
<p>Asset Class/Portfolio</p> <p>Value Added</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>Total Fund</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>Qualitative</p> <p>Personal Performance</p>	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, November 5, 2015

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

Inflation Sensitive

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

Incentive Range: Investment Director: 0% - 125%

Portfolio Manager: 0 – 125%

Associate Portfolio Manager: 0 – 50%

Criteria	Weight	Performance Measures	Scale
Asset Class 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.
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.
Qualitative 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, November 5, 2015

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

Risk Mitigating Strategies

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

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

Criteria	Weight	Performance Measures	Scale
Asset Class 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.
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.
Qualitative 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

Strategy and Risk

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

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

Criteria	Weight	Performance Measures	Scale
Asset Class/Portfolio Value Added 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%
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>STR01</u>	Zero basis points to a maximum of 40 basis points.
Qualitative Personal Performance	40%	50% Comprehensive annual review of personal performance factors. 50% Annual review of Innovative Strategies, Partnerships and Risk 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.

Adopted July 18, 2018,

Amended May 9, 2019, Amended June 18, 2019, Amended November 5, 2019, Amended June 9, 2020

Diversity

Incentive Compensation Evaluation Format

Effective for Fiscal Year 2020-2021

Incentive Range: Portfolio Manager: 0% – 125%

Associate Portfolio Manager: 0% - 50%

Criteria	Weight	Performance Measures	Scale
<p>Asset Class/Portfolio</p> <p>Value Added</p> <p>Average of the 7 Director criteria scores (net of fees)</p>	30%	<p>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</p>	Average score from Zero to 100%
<p>Total Fund</p> <p>Total CalSTRS Portfolio Return (net of fees)</p>	30%	<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></p> <p>Index: Total Fund Index, <u>STRT01</u></p>	Zero basis points to a maximum of 40 basis points.
<p>Qualitative</p> <p>Personal Performance</p>	40%	<p>50% Comprehensive annual review of personal performance factors.</p> <p>50% Annual review of Diversity key success factors,</p>	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

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 and Management Plan. The index reflects the current targets and historical policy changes to the asset class custom benchmarks and weights.

US DEBT INVESTMENT GRADE CUSTOM INDEX⁶, STRD16: Represents a custom Bloomberg U.S. Aggregate index, a measure of the U.S. investment grade fixed rate bond universe.

US DEBT CUSTOM INDEX⁶, STRD01: Represents 95% Bloomberg U.S. Aggregate and 5% Bloomberg U.S. High Yield Cash Pay 2% Issuer Constrained custom indices. This represents a measure of both the U.S. investment grade and non-investment grade universes.

DEBT-CORE/OPPORTUNISTIC CUSTOM INDEX⁶, STRT91: Represents a weighted blend of the Bloomberg U.S. Aggregate and Bloomberg U.S. High Yield Cash Pay 2% Issuer Constrained custom indices, effective October 2021.

PRIVATE EQUITY CUSTOM INDEX CP^{6,7}, 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. Index returns from July 2017 to June 2019 represent a weighted blend of the underlying interim 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, in addition to the custom tactical index (comprised of CS High Yield Index, HFRX Global Hedge Fund index NCREIF Property index (daily), and MSCI ACWI Free x-U.S. index lagged by one quarter). Index returns from July 2014 to June 2017 represent the State Street Private Equity Index lagged by one quarter.

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 INDEX⁶, STRT03: Represents a custom MSCI All Country World Investable Market Index (MSCI ACWI IMI). From July 2020 to July 2021, represented a blend of a custom Russell 3000 index and custom MSCI All Country World ex-U.S. Investable Market Index, using the U.S. and Non-U.S. weights of the MSCI ACWI IMI.

⁶ Custom index returns are updated quarterly in accordance with the CalSTRS restricted securities list since July 2015.

⁷ 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.

SUSTAINABLE INVESTMENT & STEWARDSHIP STRATEGIES (SISS) CUSTOM INDEX⁶, STRT41: Represents a custom MSCI All Country World Investable Market Index.

INNOVATIVE STRATEGIES CUSTOM INDEX^{6,7}, STRINNCP: Represents a dynamically weighted index of the portfolios managed by the Innovation staff. As of July 2017, the indices are: 90-day U.S. Treasury bill (updated to quarter lagged version Jan 2021), 60% MSCI World +Canada/40% Bloomberg U.S. blended custom index, Russell 1000 HEDI Mod custom index and CBOE S&P 500 Buy write custom indices, MSCI World xUSA Minimum Volatility (USD) Index (Feb 2018), and Custom S&P/LSTA Leverage Loan Index +300 bps, quarter lagged (July 2020). Index returns from July 2016 to June 2017 were a weighted blend of: 60% MSCI World+Canada/40% Bloomberg U.S. blended custom index, Russell1000 HEDI Mod custom index and CBOE S&P 500 Buy write custom indices.

INFLATION SENSITIVE CUSTOM INDEX⁷, 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). Current index returns from July 2017 to May 2021, included Alerian MLP Daily Index. Index returns from April 2017 to June 2017 were a weighted blend of the Bloomberg Global Inflation Linked Series L index, Alerian MLP Daily index, Bloomberg Commodity Index and the CPI +4% lagged by one quarter. Index returns from May 2016 to March 2017 were a weighted blend of the Bloomberg Global Inflation Linked Series L index, Alerian MLP Daily index and the CPI + 4% lagged by one quarter.

RISK MITIGATION STRATEGIES CUSTOM INDEX⁷,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 AND MANAGEMENT PLAN: 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.

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Revised June 5, 2014
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Revised June 10, 2015
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Revised June 9, 2020
Revised August 6, 2020
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Revised September 27, 2021



Teacher Retirement System of Texas

PERFORMANCE PAY PLAN

Effective October 1, 2020

This version of the Plan is effective for Performance Periods beginning on or after October 1, 2020. Any Potential Awards for performance in prior Performance Periods can become Earned Awards subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods. No modification of the Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

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1. PERFORMANCE PAY PLAN PURPOSE AND AUTHORIZATION

To remain competitive in its efforts to attract and retain high caliber Investment Management Division (IMD) employees, TRS strives to offer a competitive compensation package. Awards of performance pay based on specified performance criteria are an industry standard practice in the private investment sector and are rapidly becoming a standard practice in the public sector. By offering both a competitive base salary and performance pay, TRS enhances its ability to fulfill its mission to “prudently invest and manage the assets held in trust for members and beneficiaries in an actuarially sound system administered in accordance with applicable fiduciary principles.” The Board of Trustees (the “Board”) has determined that establishing, and expending funds for, this Performance Pay Plan (the “Plan”) is consistent with and in furtherance of the fiduciary duties of the Board in administering the retirement system.

2. PLAN OBJECTIVES AND STRATEGY

2.1 Plan Objectives

The Plan serves a number of objectives:

- To attract and retain IMD employees who demonstrate outstanding ability;
- To reinforce employees’ strong commitment to the long-term investment performance of the assets for which TRS is responsible; and
- To motivate investment professionals to focus on maximizing real, long-term returns for funds invested and managed by TRS while assuming appropriate levels of risk.

2.2 Plan Strategy

Implementation of the Plan strategy includes:

- Base salaries targeted to be competitive as determined by the Executive Director and the Board, with individual base salaries based on an employee’s experience, education, knowledge, skills, and overall job performance in an Eligible Position.
- Performance pay award opportunities, calculated as a percentage of an employee’s base salary, based on performance above pre-determined standards, and earned contingent upon continued employment in an Eligible Position through specified dates subject to deferral as set forth in Section 4.7(b).

3. BASE SALARY ADMINISTRATION

3.1 Salary Structure

- (a) Notwithstanding any other law, the Board approves the rates of compensation of all IMD employees. Under state law and, the Board’s Bylaws, the Board authorizes the Executive Director, as part of the annual budget process, to determine and propose base salary rates generally based on the salary schedules, position classifications, and salary administration practices of the biennial General Appropriations Act, Chapter 659 of the Texas Government Code, and other relevant legislation to the extent that the Executive Director determines that a particular provision is in the best interest of the system and not in conflict with applicable law, fiduciary duty, or TRS policy.

- (b) Classified employees are assigned to a classification title that is consistent with their TRS responsibilities. Initial base salary for each classified employee is set within the salary range of the assigned pay group, considering the employee's experience, education, knowledge and skills, and external competitiveness and internal equity.
- (c) As part of the annual TRS budgeting process, the Board authorizes the Executive Director to determine base salaries for exempt employees up to a not-to-exceed rate specified in the TRS Budget. Initial base salaries for exempt employees are set by the Executive Director at or below the applicable not-to-exceed rate, considering the employee's experience, education, knowledge and skills, and external competitiveness and internal equity.

3.2. *Salary Adjustments*

- (a) Classified employees may receive base salary increases for a number of reasons, including but not limited to career ladder promotions and merit increases for individual performance. Exempt employees may receive base salary adjustments (increase within the TRS Budget's not-to-exceed rate or decrease) at the discretion of the Executive Director.
- (b) Notwithstanding Section 3.2(a), all base salary changes will be implemented in accordance with TRS salary administration procedures.

4. PERFORMANCE PAY PLAN; PERFORMANCE PERIODS

4.1. *Purpose of the Plan; Effective Date; Performance Periods; Board Continuation*

- (a) The purpose of the Plan is to provide the opportunity for IMD employees to receive performance pay based on specified investment performance criteria and the employee's job performance.
- (b) The first Performance Period for this Plan begins on October 1, 2020 and ends September 30, 2021. A Potential Award for performance in prior Performance Periods can become earned and payable subject to the terms and conditions stated in the version of the Plan effective for those Performance Periods.
- (c) Potential Awards may become Earned Awards for a Performance Period only if the Board has confirmed continuation of the Plan for such Performance Period during the calendar quarter preceding the first day of such Performance Period.

4.2. *Participation in the Plan; Proration*

- (a) Subject to Sections 4.2(c) and (d), an IMD employee who holds an Eligible Position as defined in Section 8 on the first day of a Performance Period is eligible to participate in the Plan as a Participant during that Performance Period. Secondees, non-TRS or contract workers, and other temporary workers are not TRS employees and are not eligible to participate in the Plan. An Eligible Position in one Performance Period is not automatically an Eligible Position in any subsequent Performance Period or successor or superseding performance pay plan.
- (b) Within thirty (30) days after the end of each Performance Period, the Chief Organizational Excellence Officer will certify to the Executive Director in writing the master "Participants List" setting forth all relevant information that is required for calculating each Participant's Potential Awards and any proration required under this Section 4.2.
- (c) Notwithstanding Section 4.2(a), an employee who begins employment in an Eligible Position (through new hire, promotion or reassignment) after the beginning of the Performance Period will become a Participant as follows:

- (i) If an employee begins employment in an Eligible Position after October 1 but on or before January 1, the employee will become a Participant on January 1 and the Participant's Potential Award will be prorated to 75% of the Potential Award calculated for the entire Performance Period.
 - (ii) If an employee begins employment in an Eligible Position after January 1 but on or before April 1, the employee will become a Participant on April 1 and the Participant's Potential Award will be prorated to 50% of the Potential Award calculated for the entire Performance Period.
 - (iii) If an employee begins employment in an Eligible Position after April 1 but on or before July 1, the employee will become a Participant on July 1 and the Participant's Potential Award will be prorated to 25% of the Potential Award calculated for the entire Performance Period.
 - (iv) If an employee begins employment in an Eligible Position after July 1 of a Performance Period, the employee will become a Participant on the first day of the next Performance Period, provided that such employee is employed by TRS in an Eligible Position on such date.
 - (v) If a Participant leaves an Eligible Position during a Performance Period and begins TRS employment in a non-Eligible Position, the Participant's Potential Award for the partial Performance Period will be prorated based on the number of complete calendar quarters worked in Eligible Positions during that Performance Period. For the avoidance of doubt, a Participant will not be eligible for performance pay for any quarter during which the Participant was not employed in an Eligible Position for all of such quarter.
- (d) If, during a Performance Period, a Participant moves from one Eligible Position to another Eligible Position, the Participant's Potential Award and performance measurements for that Performance Period will be prorated between the Potential Award calculated for the vacated Eligible Positions and the Potential Award calculated for the new Eligible Position as follows:
- (i) If a Participant moves to a new Eligible Position after October 1 but on or before January 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position for the period October 1 through December 31, and on the new Eligible Position beginning as of January 1.
 - (ii) If a Participant moves to a new Eligible Position after January 1 but on or before April 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through March 31, and on the new Eligible Position beginning as of April 1.
 - (iii) If a Participant moves to the new Eligible Position after April 1 but on or before July 1, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through June 30, and on the new Eligible Position beginning as of July 1.
 - (iv) If a Participant moves to a new Eligible Position after July 1 of a Performance Period, the Participant's Potential Award and performance measurements will be based on the previous Eligible Position through September 30.

An employee will cease to be a Participant in the Plan on the earliest to occur of:

- (i) Except as specifically provided in Section 4. 2(c)(v) with respect to continued TRS employment, the date the employee is no longer employed in an Eligible Position;
- (ii) In this Plan, the employment termination date is deemed to be the employee's last day worked, not including any leave the employee is allowed for payroll purposes; or
- (iii) The date the Plan terminates.

4.3. Performance Components; Potential Awards

- (a) Participants' Potential Awards will be based on a combination of investment performance and qualitative performance measurement and rating components.
- (b) The investment performance components comprise two categories: 1) performance measured against pre-determined benchmarks and applicable excess return targets, and 2) performance measured against pre-determined peer groups.
 - (i) The benchmark index category of the investment performance component will determine 50% of the total Potential Award.
 - (ii) The peer group category of the investment performance component will determine 30% of the total Potential Award.
- (c) Notwithstanding that a Performance Period is October 1 through September 30, due to the delay in availability of final performance data for private markets assets, performance measurements for these investment areas will experience a one quarter time lag, such that all calculations requiring private markets performance will use data for the one and three year periods ending each June 30.
- (d) Each Eligible Position will be assigned specific weightings for Total Fund and other investment benchmarks based on investment area performance as shown in Addendums A and B. Addendum A correlates benchmarks and excess return targets to investment areas listed in the first column, and allocates performance weights for each area to the relevant excess return targets and benchmarks (50% of Potential Award). Addendum B correlates investment areas in the first column to peer group performance and relevant benchmarks and allocates performance weights among the excess return targets relative to the listed benchmarks (30% of Potential Award).
 - (i) To encourage a focus on the "big picture" and a sense of shared mission, the investment performance component (both benchmark and peer group categories) for all Eligible Positions will have a Total Fund weighting of at least 20%. Weightings for each investment area's benchmarks and excess return targets will be divided among the Eligible Position's primary investment area and other investment areas with which the Eligible Position has regular interaction.
 - (ii) Where no investment area peer group performance measures are available, that investment area's peer group performance weighting allocation is added to the Total Fund peer group performance weighting allocation.
- (e) The qualitative performance rating component will be measured systematically as part of each Participant's annual performance appraisal process aimed at evaluating, using pre-determined, standard criteria, each Participant's adherence to the core concepts and values of the IMD culture, and may include multi-rater feedback regarding a variety of contributions and behaviors needed for organizational success that are not directly measured or measurable in the investment

performance component, such as interpersonal relationship skills, accountability, effective teamwork, etc.

- (i) Regardless of a Participant’s qualitative performance rating, a Potential Award will include the qualitative performance component only if the Participant has attained at least the required threshold level for the investment performance component.
 - (ii) To encourage appropriate organizational behaviors, the qualitative performance rating for all Eligible Positions will be weighted at 20% of the Potential Award.
- (f) A Potential Award is the gross award amount calculated based on the final performance results for the relevant Performance Period, weighted as set forth in Addendums A and B. The Maximum Potential Award that can become an Earned Award with respect to a Performance Period may not exceed the percentage of a Participant’s Base Salary in an Eligible Position (subject to proration under Section 4.2) that is listed opposite the applicable Eligible Position Title in the table below. The Maximum Potential Award applies to limit a Participant’s maximum Earned Award regardless of (x) the amount by which a Participant’s performance has exceeded the excess return targets or (y) the calculated value of the Potential Award.

ELIGIBLE POSITION TITLE	MAXIMUM POTENTIAL AWARD
Chief Investment Officer	175%
Deputy CIO	175%
Senior Managing Director	175%
Managing Director	175%
Senior Director	150%
Director	150%
Senior Investment Manager	150%
Investment Manager	100%
Senior Associate	75%
Associate	65%
Senior Analyst	40%
Analyst	30%
Junior Analyst	15%
Administrative Assistants	5%

- (g) For each investment area, the portfolio weighting and excess return relative to each assigned excess return target will combine to determine the Potential Award for each Eligible Position.
- (i) The Potential Award includes a threshold, a maximum, and intermediate levels of Potential Award that correspond to specific levels of investment performance.
 - (ii) Intermediate levels of the Potential Award for investment performance are determined by linearly interpolating between the threshold and maximum.
 - (iii) For the qualitative performance rating component, intermediate levels of the Potential Award will be based on a system of annual performance evaluation approved by the Executive Director.

4.4. *Compliance with TRS Policies*

- (a) IMD employees exercise fiduciary investment responsibilities assigned by the Board under applicable law and policies. Investment professionals manage the portfolio according to the Board's policies, advise and inform the Executive Director and the Board about investment management and performance, and recommend modifications to the Board's investment policies. All IMD employees are responsible for complying with TRS policies. The Executive Director or the Board may suspend earning and payment of Potential Awards and Earned Awards (including deferred payments) until the conclusion of an investigation under this Section 4.4.
- (b) Excess performance by a Participant or Participants resulting from a failure to invest and manage TRS pension assets prudently and in compliance with investment and ethics policies and applicable law will result in disqualification of the Participant or Participants and forfeiture of any award for the relevant Performance Period. The Executive Director will make this determination on a case-by-case basis. The Executive Director's determination under this subsection is final and non-appealable.
- (c) If the Executive Director determines after investigation that a Participant's violation of law or policy is sufficiently serious, the Participant will be disqualified and forfeit all Potential Awards and Earned Awards for the Performance Periods in which the violation(s) occurred, including awards and payments deferred under Section 4.7(b). If the Executive Director determines that no serious violation has occurred, a suspended Earned Award shall be paid to the Participant within 30 days after such determination (or such later date on which the award would have been payable absent the suspension), provided that the Participant has been continuously employed in an Eligible Position through such payment date. The Executive Director's determination under this subsection is final and non-appealable.

4.5. *Performance Standards and Measurements*

- (a) For the purposes of this Plan, investment performance (for both benchmarks and peer group categories) is measured on one year and three year historical performance data, weighted at 33% for one-year performance (i.e., the Performance Period just ended) and 67% for the historical three-year performance that includes the Performance Period just ended. Investment performance is measured relative to appropriate pre-defined benchmarks in the asset allocation and benchmarks table, including applicable footnotes, in the Board's Investment Policy Statement ("IPS"). For the purposes of this Plan, changes to the IPS benchmarks during a Performance Period will be effective from and after the effective date of such changes in the IPS, subject to revisions to the Plan adopted by the Board of Trustees. In no event may benchmark changes be applied retroactively except as required to comply with applicable law, including federal tax laws and regulations
- (b) Notwithstanding Section 4.5(a), the investment performance of any new portfolio will be calculated for purposes of the Plan as follows:
 - (i) The investment performance measurement of any new portfolio (for both benchmark and peer group categories) created during a Performance Period will commence only on the next following October 1.
 - (ii) For a new portfolio's first full Performance Period, the investment performance measurement will be based 100% on the portfolio's performance data for the first full Performance Period;

- (iii) For a new portfolio's second full Performance Period, the investment performance measurement will be weighted (x) 50% on the portfolio's performance during the second full Performance Period, and (y) 50% on the portfolio's two-year performance during the first and second full Performance Periods.
 - (iv) For all Performance Periods commencing after the second full Performance Period, the investment performance of a new portfolio will be weighted (x) 33% on the portfolio's performance measurement during the one-year Performance Period just ended, and (y) 67% on the portfolio's three-year performance measurement during the three full Performance Periods just ended.
 - (v) For the purposes of this Plan, no investment performance measurement will be calculated for a new portfolio unless it existed on October 1 of that Performance Period.
- (c) Notwithstanding Section 4.5(a), if during a Performance Period, investments managed by an investment area are moved to another investment area as a result of an IMD reorganization, then the performance measurements for that Performance Period and each affected Participant's Potential Award will be based on the pre-change criteria and the post-change criteria as follows:
- (i) If the change described in this Section 4.5(c) is made after October 1 but on or before January 1, the performance measurements and each affected Participant's Potential Award calculation, will be based on the pre-change criteria for the period October 1 through December 31, and on the post-change criteria beginning as of January 1.
 - (ii) If the change described in this Section 4.5(c) is made after January 1 but on or before April 1, the performance measurements and each affected Participant's Potential Award calculation, will be based on the pre-change criteria through March 31, and on the post-change criteria beginning as of April 1.
 - (iii) If the change described in this Section 4.5(c) is made after April 1 but on or before July 1, the performance measurements and each affected Participant's Potential Award calculation, will be based on the pre-change criteria through June 30, and on the post-change criteria beginning as of July 1.
 - (iv) If the change described in this Section 4.5(c) is made after July 1 of a Performance Period, the performance measurements and each affected Participant's Potential Award calculation, will be based on the pre-change criteria through September 30.
- (d) The qualitative performance component is measured annually as part of each Participant's annual performance appraisal process using criteria established before the beginning of each Performance Period.

4.6. Potential Award Calculations

- (a) Following the end of each Performance Period, the Executive Director will review the reported performance of each Participant relative to the applicable investment and qualitative performance components.
- (b) Potential Awards are calculated based on the Participant's level of performance achieved in the applicable investment performance and qualitative performance components in each Performance Period.
- (c) Relative performance data and calculations may be reviewed by an external independent source selected by the Executive Director, but final calculations are approved by the Executive Director.

4.7. *Earning Performance Payments*

- (a) Notwithstanding the Executive Director's approval of Potential Award calculations, and except as provided in this Section 4.7, Potential Awards will only become Earned Awards as stated below:
- (i) Subject to Section 4.7(b), if a Participant is employed by TRS on January 1 following the end of the Performance Period for which that employee was a Participant, 50% of the Potential Award will become an Earned Award. Payment of Earned Awards will usually be processed with that January's payroll for delivery on or about February 1, but in no event later than February 15 of that calendar year.
 - (ii) Subject to Section 4.7(b), if a Participant is employed by TRS on January 1 following the first anniversary of the end of the Performance Period for which that employee was a Participant, the remaining 50% of the Potential Award will become an Earned Award. Payment of this award will usually be processed with that January's payroll, for delivery on or about February 1 but in no event later than February 15 of that calendar year.

Except as provided in Section 4.7(e), the payment dates of Earned Awards in respect of a Performance Period shall be the same for all Participants.

- (b) Notwithstanding Section 4.7(a), no Potential Awards will become Earned Awards following a Performance Period in which the Fund experiences a total return of zero or less. If this occurs, Potential Awards for that Performance Period that otherwise would have become Earned Awards on the January 1 next following the end of that Performance Period will not become Earned Awards until January 1 following the next Performance Period in which the Total Fund has a return greater than zero, subject to the requirement that the employee be employed by TRS on that January 1. Payment of this Earned Award will usually be processed with that January payroll for payment on or about February 1 but in no event later than February 15 of that calendar year.
- (c) If an employee ceases to be a Participant during a Performance Period due to termination of TRS employment for any reason *other than* involuntary termination of employment due to a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards from earlier Performance Periods that have not yet become Earned Awards (as set forth in Section 4.7(b) above) will not become Earned Awards and will not be paid or payable.
- (d) If an employee ceases to be a Participant during a Performance Period due to involuntary termination of TRS employment because of a Reduction in Force, death, or disability within the meaning of Code Section 409A, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Notwithstanding Sections 4.7(a) and (b), Potential Awards from earlier Performance Periods will immediately become Earned Awards. Payments under this subsection will be made to the terminated employee, the estate of the deceased employee, the disabled employee, or as otherwise provided by law. These payments will be made as soon as administratively practicable, but not later than 2½ months after the end of the calendar year in which the Reduction in Force, death or disability occurred.
- (e) If an employee ceases to be a Participant before the end of a Performance Period due to retirement, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards for the two most recent preceding Performance Periods may

become Earned Awards if the employee retires on or after January 1 following the end of the most recent preceding Performance Period in accordance with this Section 4.7(e). To establish an employee's eligibility for payment of awards for preceding Performance Periods as of the effective date of retirement, an employee who wishes to retire must (i) notify the Executive Director of the employee's intent to retire on a specified proposed retirement date at least forty-five (45) days before such date; (ii) obtain written approval of the Executive Director to (x) retire as of the proposed retirement date and (y) be eligible for payment of Earned Awards for the two most recent preceding Performance Periods; (iii) establish eligibility, apply for and submit the required documentation for retirement benefits under the TRS pension plan; and (iv) retire as of the proposed effective retirement date. Payments under this subsection for all earlier Performance Periods will be made to the retired employee as soon as administratively practicable after retirement, but not later than 2½ months after the end of the calendar year in which the employee retires. If a retired employee dies before the date on which TRS makes payment to the retired employee, TRS will pay any Earned Awards to the retiree's estate or as otherwise provided by law as soon as administratively practicable, but not later than 2½ months after the end of the calendar year in which the deceased employee retired or, if payment within such period is administratively impracticable, and such impracticability was unforeseeable on the first day of the Performance Period, as soon as administratively practicable thereafter.

- (f) If an employee ceases to be a Participant before the end of a Performance Period due to Plan termination, a Potential Award for that Performance Period will not become an Earned Award and will not be paid or payable. Potential Awards from earlier Performance Periods that have not yet become Earned Awards, can become Earned Awards and be paid according to this Section 4.7 if the Board determines that such payments would be consistent with and in furtherance of the fiduciary duties of the Board in administering the retirement system, and if such payments are not prohibited by applicable law.

5. PLAN AUTHORITY AND RESPONSIBILITY

5.1 Plan Modification, Suspension, and Termination

The Board shall have the right in its sole discretion to modify the Plan or any portion thereof at any time. The Board shall have the right in its sole discretion to suspend or terminate the Plan, including payments of awards, entirely or any portion thereof at any time. For avoidance of doubt, no modification, amendment, suspension, or reinstatement of this Plan or any performance criteria relating to this Plan may be given retroactive effect except as required to comply with applicable law, including federal tax laws and regulations.

5.2 Plan Administration

The Executive Director has the sole discretion to administer and interpret the Plan in accordance with its terms and conditions. The Executive Director may adopt such procedures and practices as he considers advisable to carry out the purposes of the Plan in accordance with the Code.

5.3 Record Keeping and Reporting

A record of the master "Participants List," including a list of staff of the IMD covered by this plan and the data forming the basis for all Plan calculations shall be maintained by the Chief Organizational Excellence Officer.

5.4 Compliance with State and Federal Law

If the Executive Director or a court having jurisdiction determines that any provision of the Plan violates applicable state or federal law, that provision shall not be given effect. The remaining provisions of the Plan shall remain in full force and effect to the maximum extent possible, and any amendments or modifications that are necessary to give effect to the remaining provisions will be deemed to have been made to allow proper administration of the Plan.

6. AT-WILL EMPLOYMENT

Nothing in this Plan or the payment of Earned Awards alters the at-will nature of TRS employment, creates a contract between TRS and any TRS employee, confers on any TRS employee the right to continued employment with TRS, or affects in any way the right of TRS to terminate the employment of employees at any time.

7. OTHER PLAN PROVISIONS

7.1 Non-transferability of Awards

Potential Awards and Earned Awards under the Plan are non-assignable and non-transferable and are not subject to anticipation, adjustment, alienation, encumbrance, pledge, lien, security interest, garnishment, attachment, or levy of any kind.

7.2 Plan Does Not Create a Property Interest, Trust, or Entitlement

- (a) Neither the establishment of the Plan or the calculation of Potential Awards or Earned Awards shall be deemed to create a property interest, trust or entitlement. The Plan is an unfunded, unsecured liability of TRS to make payments in accordance with the provisions of the Plan and applicable law. Any amounts budgeted for Earned Awards are TRS assets until properly disbursed in accordance with this Plan and applicable law, and no employee or third party shall have any property, security, expectancy, contractual right, lien, security interest, encumbrance, or other interest in any TRS assets by reason of the Plan.
- (b) Nothing in the Plan shall be deemed to create or confer any right, interest, expectancy, or title to any specific property of TRS to any Participant, or to any estate, trust, personal representative, heir, family member, or beneficiary of a Participant.

7.3 Tax and Other Deductions

All payments under the Plan shall be subject to any deductions at the time of payment (x) for tax and withholding required by federal (or other foreign jurisdiction), state, or local law and (y) for any and all amounts owed by the employee to TRS. TRS is not obligated to advise an employee of the existence of any tax or the tax treatment, reporting requirements, or required withholding in connection with the Plan.

7.4 Payments Not Eligible for Retirement Purposes

Any payments made pursuant to the Plan are fringe benefits and are not eligible compensation for TRS pension plan purposes.

7.5 Grievances

Except as expressly provided in this Plan, all grievances related to the Plan will be addressed according to the TRS Grievance and Appeals Policy or any successor policy, as amended from time to time.

8. DEFINITIONS

Asset Allocation or **AA** comprises strategic asset allocation, tactical asset allocation, and quantitative equity investments.

Base Salary for use in the Plan is the Participant's annualized monthly salary as of October 1 of the applicable Performance Period (not including longevity or benefit replacement pay), or the annualized monthly salary of new Participants as of the date they first become a Participant, as certified by the Chief Organizational Excellence Officer.

Classified employee means an employee whose position classification title, pay group and range, and pay administration practices are based on the State Position Classification Plan and related salary administration provisions.

Code means the United States Internal Revenue Code of 1986, as amended from time to time, or any successor U.S. federal income tax code.

Earned Award means a Potential Award that has become earned and payable because all of the terms, conditions, and requirements of this Plan have been satisfied. An Earned Award may be forfeited for misconduct, or suspended, canceled, or deferred as stated in this Plan. An Earned Award is not property.

Eligible Position means a title listed in Section 4.3(f) and, when the context refers to an Eligible Position with respect to a Participant's performance allocation and Potential Award calculation, the investment area or areas to which a Participant is assigned or interacts with during a Performance Period and the relevant excess return targets and portfolio benchmarks in Addendum A. A Participant who is reassigned from one investment area to another during a Performance Period also changes Eligible Positions, whether or not the Participant's title changes.

Exempt employee means an employee whose job title, pay, and pay administration practices are not based on the State Position Classification Plan. An exempt employee does not have a specified base salary range. For purposes of this Plan, the Chief Investment Officer and the Investment Fund Directors are exempt employees, and all other IMD employees are classified employees.

Investment areas are listed in the first columns of Addendums A and B and correspond to the benchmarks, excess return targets, performance allocations, and peer groups in Addendum A and Addendum B, and which are used to calculate Potential Awards for Participants in Eligible Positions. In this Plan, investment areas are synonymous with IMD employee teams or groups.

Maximum Potential Award is defined in Section 4.3(f) and is a limit on the gross Potential Award that can become an Earned Award in an Eligible Position title with respect to a Performance Period.

Participant is an employee in an Eligible Position on October 1 of the Performance Period, or who is first employed in an Eligible Position after the beginning of the Performance Period based on the proration schedules in Section 4.2, as certified by the Chief Organizational Excellence Officer.

Performance Period is the period beginning on October 1 of each year and ending on September 30 of the following year.

Portfolios, also referred to broadly as "profit centers" or by reference to an applicable benchmark, are listed in the first row of Addendum A and correspond in this Plan to their respective benchmarks and excess return targets in the applicable addendum.

Potential Award is defined in Section 4.3(f) and is the amount calculated based on the Participant's performance achieved in the applicable investment performance and qualitative performance components. A Potential Award is contingent and no Earned Award may exceed the Maximum Potential Award, regardless of whether the Participant exceeds the stated excess return target.

Reduction in Force as used in this Plan refers to termination of an employee due to elimination of the employee's position caused by a required reduction in the number of TRS Full-Time Equivalents (FTEs) or by a required reduction in expenses within the TRS operating budget. The Executive Director has sole discretion in determining whether an employee's termination is due to a Reduction in Force.

SPN means a Strategic Partner Network investment area. TRS has both private markets and public markets SPNs.

Total Fund means the TRS total or overall investment portfolio and includes all pension assets held in trust by TRS and invested to provide retirement, death, and disability benefits administered by the system, including cash and cash equivalents. For avoidance of doubt, for the purposes of the Plan the Total Fund does not include the assets of health plans administered by TRS and held in trust by the Board of Trustees.

Administrative Policy

Current effective date: October 1, 2020*
First issued: October 1, 2007
Last reviewed: September 18, 2020

Reviewers: Executive Director, Chief
Investment Officer,
Organizational Excellence,
Legal & Compliance

Review Cycle: Annual
Authorized by: Board of Trustees

Next review due: September 2021
Date authorized: September 18, 2020

Approved:

By: 
Digitally signed by Brian Guthrie
Date: 2020.10.01 16:03:49
-05'00'

Brian K. Guthrie,
Executive Director

Approved as of: October 1, 2020

*This version of the Plan is effective for Performance Periods beginning on or after October 1, 2020. Any awards for performance in prior Performance Periods can become earned and payable subject to the terms and conditions stated in the versions of the Plan effective for those Performance Periods.

ADDENDUM A

Performance Payout Allocation and Maximum Payout Targets vs. Passive Benchmark (50% of Potential Award)

	Total Fund	Active Public Markets	Private Equity	Real Estate	Energy Natural Resources Infrastructure	Total
Index	Total Fund Policy Composite Index	Daily Weighted Excess Return Based on Actual Portfolio Weights (1)	State Street Private Equity Index	NCREIF ODCE	40% Cambridge Natural Resources, 40% Cambridge Infrastructure, 20% CPI	
Excess Return Target	100 bps	100 bps	200 bps	125 bps	125 bps	
Executive	100.00%					100%
Risk and Portfolio Management	100.00%					100%
Public Markets	30.00%	70.00%				100%
Private Equity	30.00%		70.00%			100%
Real Estate	30.00%			70.00%		100%
Energy Natural Resources & Infrastructure	30.00%				70.00%	100%
Trade Management	60.00%	40.00%				100%
Investment Operations	100.00%					100%
IMD Legal & Compliance	100.00%					100.00%

(1) Active Public Markets includes all Global Equity investments, hedge funds, active Government Bond portfolios, ARP/Innovation portfolios, and Public SPN portfolios managed by Public Markets. Performance inception 10/1/2017.

ADDENDUM B

Performance Payout Allocation and Maximum Payout Targets vs. Peer Group Comparison (30% of Potential Award)

Fund Level	Total Fund	Trade Management	Private Equity	Real Estate	Risk Parity Portfolio	Total
Index	TUCS Public Funds > \$10 Billion Universe	ITG / Plexus	TUCS Private Equity > \$1 billion Universe	Real Estate vs. TUCS Real Estate > \$1 billion Universe	Risk Parity Benchmark	
Excess Return Target	100 bps	8 bps	200 bps	125 bps	25bps	
Executive	100.00%					100.00%
Risk and Portfolio Management	50.00%				50.00%	100.00%
Public Markets	90.00%	10.00%				100.00%
Private Equity	30.00%		70.00%			100.00%
Real Estate	30.00%			70.00%		100.00%
Energy Natural Resources & Infrastructure	100.00%					100.00%
Trade Management	30.00%	70.00%				100.00%
Investment Operations	90.00%	10.00%				100.00%
IMD Legal & Compliance	100.00%					100.00%