

TEACHERS' RETIREMENT BOARD

COMPENSATION COMMITTEE

Item Number: **3**

SUBJECT: Disclosure of Incentives for Statutory Positions for the 2014-15 Plan Year

CONSENT: X

ATTACHMENT(S): 1

ACTION:

DATE OF MEETING: November 5, 2015

INFORMATION: X

PRESENTER(S): Chairperson

PURPOSE

The purpose of this item is to disclose to the board a summary report of incentive awards for participants covered under the board's policy, Section 700, Compensation Policy for Designated Executive Management and Investment staff (Compensation Policy), for FY 2014-15.

DISCUSSION

The board's Compensation Policy and its Administrative Procedures are designed to provide full transparency for members, beneficiaries and other related constituents. The policy is intended to reinforce CalSTRS investment, governance and compensation philosophies and objectives, allow CalSTRS to attract, motivate and retain top-performing executive and investment staff, align incentive payouts with overall System, functional area, and individual performance, and focus staff on key investment objectives/benchmarks that are measured on a long-term basis.

Participants within the incentive pay plan are eligible for maximum incentive opportunities based on quantitative and qualitative measures which vary by position and associated responsibility. The board's compensation principles incorporate a clear direction that quantitative incentives are only earned when investment performance is above identified benchmarks. Those benchmarks are delineated by the board's Compensation Committee with the assistance of its compensation consultant, as well as its overall investment consultant, and are regularly reviewed and updated as necessary. As a defined benefit pension system, our investment outlook is long-term. Quantitative measures are based on three-year average returns of the total portfolio and asset classes. During FY 2014-15, the three-year average for the total portfolio return did not exceed the target benchmark. This resulted in no incentives being awarded for that component of the incentive, which ranges from 20-50 percent of the total opportunity based on position. Qualitative measures are focused on the current plan year and include personal evaluation components. In some cases where there was no incentive being awarded for total portfolio or asset class performance, an award could be made for the qualitative components.

An annual report summarizing incentives awarded to eligible staff is provided in Attachment 1. This report catalogs staff's annual base salary, the maximum incentive award percentage opportunity, the actual incentive percentage achieved, and the resulting dollar amount of the incentive awarded for those subject to the board's compensation setting policy. In addition, the report includes Investment Officer IIIs, whose compensation and incentive parameters are set by

the State's collective bargaining process and administered in alignment with the board's Compensation Policy. The quantitative elements of the incentive awards were reviewed and verified by an independent investment consultant, Aon Hewitt. All of the awards were made in compliance and disclosed per the board's Compensation Policy and its Administrative Procedures.

Per board policy, the actual compensation awards are calibrated to represent a very small portion of the above-benchmark value that staff could create. As of the fiscal year ending June 30, 2015, the 3-year returns for Innovation & Risk, Real Estate, Global Equity, Corporate Governance and Fixed Income each outperformed their benchmarks, equating approximately \$763 million in income for CalSTRS based upon specific staff decisions (net of fees). Excluding awards for the Chief Executive Officer and the Chief Investment Officer which will be presented for approval at a meeting of the full board later today, the incentive payments for this fiscal year, totaling \$2.07 million, represent .27 percent of the value added from those specific investment decisions.

Incentive awards are not considered creditable compensation for defined benefit pension (CalPERS) calculations.

FY 2014-15 Disclosure

		Max Incentive % Allowed	Actual Incentive % Achieved	Annual Salary for Incentive Calculation	* Award	Notes
<u>Deputy CIO</u>						
Michelle Cunningham	Deputy CIO	80%	47.46%	\$332,760	\$157,917	
<u>DIRECTORS</u>						
Anne Sheehan	Corporate Governance	75%	52.50%	\$259,872	\$136,433	
Glenn Hosokawa	Fixed Income	75%	50.25%	\$168,920	\$84,882	
June Kim	Global Equity	40%	14.07%	\$248,102	\$34,896	1st year under plan
Paul Shantic	Infrastructure	75%	12.75%	\$168,920	\$21,537	
Steven Tong	Innovation & Risk	75%	52.50%	\$266,196	\$139,753	
Debra Smith	COIO	75%	51.67%	\$168,920	\$87,289	
Debra Smith	Operations	30%	13.01%	\$55,356	\$7,203	
Margot Wirth	Private Equity	75%	12.30%	\$253,380	\$31,166	
Mike DiRe	Real Estate	75%	21.57%	\$268,320	\$57,890	
<u>PORTFOLIO MANAGERS</u>						
Brian Rice	Corporate Governance	75%	52.50%	\$175,440	\$92,106	
Deborah Contini	Fixed Income	75%	50.55%	\$195,888	\$99,021	
Glenn Hosokawa	Fixed Income	75%	52.50%	\$75,224	\$39,493	
R. Lucchesini-Jack	Fixed Income	75%	50.85%	\$175,440	\$89,211	
Margaret Morris	Fixed Income	75%	52.50%	\$91,210	\$47,885	Retired December 2014
John Perez	Fixed Income	75%	49.95%	\$195,888	\$97,846	
Paul Shantic	Fixed Income	75%	52.50%	\$75,224	\$39,493	
David Murphy	Global Equity	75%	28.47%	\$185,759	\$52,889	
Candace Ronan	Global Equity	60%	22.78%	\$183,708	\$41,844	2nd year under plan
Diloshini Seneviratne	Infrastructure	75%	12.45%	\$194,400	\$24,203	
Glen Blacet	Innovation & Risk	75%	49.65%	\$190,248	\$94,458	
Carrie Lo	Innovation & Risk	75%	50.55%	\$184,224	\$93,125	
Lyndall (Tom) Baker	Private Equity	40%	6.48%	\$125,468	\$8,130	1st year under plan
Solange Brooks	Private Equity	75%	11.70%	\$193,152	\$22,599	
Seth Hall	Private Equity	75%	12.90%	\$195,888	\$25,270	
Robert Ross	Private Equity	40%	7.12%	\$109,336	\$7,785	1st year under plan
Deanna Winter	Private Equity	75%	12.30%	\$195,768	\$24,079	
Greg Nyland	Real Estate	75%	26.22%	\$199,308	\$52,268	
Don Palmieri	Real Estate	60%	18.70%	\$175,440	\$32,807	2nd year under plan
Henry Thomas	Real Estate	75%	23.68%	\$199,560	\$47,246	
Mike Thompson	Real Estate	75%	23.37%	\$199,308	\$46,588	
Subtotal:					\$1,837,312	

		Max Incentive %	Actual Incentive %	Annual Salary for Incentive Calculation	* Award	Notes
		Allowed	Achieved			

INVESTMENT OFFICER IIIs

Philip Larrieu	Corporate Governance	15%	10.02%	\$113,760	\$11,399	
Aeisha Mastagni	Corporate Governance	15%	10.05%	\$113,760	\$11,433	
Geetha Arani	Fixed Income	15%	10.50%	\$110,713	\$11,625	
Roy Clothier	Fixed Income	15%	10.05%	\$113,760	\$11,433	
Dan Depner	Fixed Income	15%	10.02%	\$105,618	\$10,583	
Simranjit Dhillon	Fixed Income	15%	9.90%	\$96,196	\$9,523	
Catherine Di Salvo	Fixed Income	15%	10.50%	\$107,808	\$11,320	
Ian McCarty	Fixed Income	15%	10.50%	\$113,760	\$11,945	
Debra Ng	Fixed Income	15%	10.02%	\$101,427	\$10,163	
April Wilcox	Fixed Income	15%	10.14%	\$96,415	\$9,776	
Jason Crawford	Global Equity	15%	5.69%	\$113,206	\$6,446	
Orintheo Swanigan	Global Equity	15%	5.30%	\$96,196	\$5,103	
Curtis Takechi	Global Equity	15%	5.30%	\$101,427	\$5,380	
Wilson Yee	Global Equity	15%	5.21%	\$113,760	\$5,932	
Wayne Yim	Global Equity	15%	5.27%	\$113,760	\$6,000	
Charles Fitzpatrick	Infrastructure	15%	2.40%	\$85,336	\$2,048	
Josh Diedesch	Innovation & Risk	15%	10.14%	\$102,261	\$10,369	
Kelly Criss	Operations	15%	6.18%	\$98,584	\$6,089	
Melissa DaRonco	Operations	15%	6.51%	\$105,618	\$6,872	
Deborah Kanner	Operations	15%	6.15%	\$113,760	\$6,992	
Steven Kruth	Operations	15%	6.12%	\$96,196	\$5,884	
Kimberly McDonnell	Operations	15%	6.51%	\$110,990	\$7,221	
Matthew Schroeder	Operations	15%	6.15%	\$105,180	\$6,465	
Haytham Sharief	Operations	15%	6.18%	\$105,180	\$6,496	
Geetika Misra	Private Equity	15%	2.64%	\$100,176	\$2,645	
Delfina Palomo	Private Equity	15%	3.00%	\$112,098	\$3,363	
Robert Ross	Private Equity	15%	2.67%	\$37,920	\$1,012	
Jean Kushida-Uda	Private Equity	15%	2.19%	\$113,760	\$2,491	
Kathleen Williams	Private Equity	15%	2.64%	\$113,760	\$3,003	
Daniel Clark	Real Estate	15%	5.25%	\$105,618	\$5,540	
Bruce Deutsch	Real Estate	15%	4.83%	\$113,760	\$5,489	
Tiffany Vispetto	Real Estate	15%	4.53%	\$100,593	\$4,552	
Michael Yager	Real Estate	15%	4.32%	\$100,176	\$4,323	

	Sub Total	\$228,915
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Total Incentive Awards: \$2,066,227

Total incentive comp as a % of salary:	22.6%	(sum of awards/sum of salaries)
Total incentive comp as % of max opportunity:	45.3%	(sum of awards/sum of maximum inc opportunity \$)

*Award is rounded to the nearest whole dollar.