

SUBJECT: Performance-Based Incentive Compensation	SECTION: Compensation	HRS POLICY NUMBER: 4.150
EFFECTIVE DATE: March 15, 1985 (Amended by May 20, 2021 board action)	FOR USE BY: All Associates	
CONTACT: Director, HRS		

Purpose:

The STRS Ohio Retirement Board (“Board”) is committed to the internal management of its investment assets as it is the most cost effective alternative for achieving the investment objectives for the System. In order to maintain a successful internal management program, it is necessary to provide a compensation plan that is designed to attract, retain, motivate and reward above-average investment talent.

Investment Compensation Philosophy:

To attempt to compete effectively for investment talent, the total compensation (base salary and Incentive Compensation) for PBI-eligible investment associates and investment associates in salary schedules 308 through 317 will utilize the benchmark of the median compensation of a blended peer group weighted 50% to large/leading public funds and 50% to national private sector firms. The Executive Director is responsible for ensuring this objective is met and that the STRS Ohio annual operating budget submitted to the Board is adequate to achieve this objective. The STRS Ohio Salary Schedule is increased by a factor of 1.2X for investment associates in pay grades 308 through 317.

Summary:

The Performance-Based Incentive Program (“Program”) in conjunction with base salary is designed to motivate, attract, reward, and retain highly qualified investment associates for achieving and sustaining outstanding investment performance based on a written yearly plan of objectives. The Program is intended to provide incentive compensation for Eligible Associates based on the results of the Total Fund, Asset Class and Individual Portfolio performance and the Eligible Associate’s individual goals. These objectives are aligned with the achievement of the organization’s overall long-term investment performance, since STRS is a long-term investor.

Board Approval:

The Program and any Incentive Compensation under the Program are subject to review and approval on an annual basis by the Board, Ohio Administrative Code Rule 3307-01-05.

GUIDELINES:

Eligibility

Only full-time exempt Investment Department associates who make direct portfolio or asset class decisions or perform analysis that facilitate or implement portfolio decisions may be eligible to participate in this Program. The relative degree of value added is reflected in the compensation percentage at each level. Eligible positions and their respective maximum incentive percentages are listed on Attachment A, titled “Maximum Eligible Incentive Compensation by Position”. The maximum incentive percentages for any eligible new positions not listed on Attachment A will be determined by Human Resources and the

Executive Director and will be added to Attachment A upon review and approval by the Board. Part-time associates are not eligible to participate in the Program.

Associates newly employed into an eligible position in the Investment Department during the fiscal year (July 1 – June 30) will be eligible to receive pro-rated Incentive Compensation for that period based on the date of employment. The Eligible Associate must be employed in the eligible position by the fifth business day of the month to receive a full month's credit.

Pro-ration is determined as follows:

Month employed by the 5th business day	PBI Pro-rata (No. of months)	% (Prorata/12)
August	11	92%
September	10	83%
October	9	75%
November	8	67%
December	7	58%
January	6	50%
February	5	42%
March	4	33%
April	3	25%
May	2	17%
June	1	8%

An Eligible Associate who receives more than one rating of “Needs Improvement” on a STRS Ohio annual associate performance appraisal at any time during the fiscal year will be ineligible for Incentive Compensation for the corresponding year.

Any Eligible Associate who is promoted or transfers to another position within the Investment Department will have their Maximum Eligible Incentive Compensation adjusted for that year. The Maximum Eligible Incentive Compensation will be based on the Maximum Eligible Incentive Compensation for each position in which the Eligible Associate was employed during the fiscal year, weighted by the amount of time the Eligible Associate was employed in each position for that year.

An Eligible Associate who takes a paid or unpaid leave of absence of more than twelve weeks during the fiscal year shall receive earned Incentive Compensation on a pro-rated basis factoring the number of leave days beyond twelve weeks in the calculation for the fiscal year.

In the event of a death or disability of an Eligible Associate, any incentive compensation payment will be pro-rated to the end of month of the last day worked and based on the full year results.

Incentive Compensation

The Maximum Eligible Incentive Compensation for Eligible Associates is outlined in Attachment A.

Incentive Compensation will be calculated on the Eligible Associate’s annual base salary in effect on the final full pay period of the fiscal year.

Annual compensation (base salary plus Incentive Compensation earned) of an investment associate in any calendar year cannot exceed two times the maximum amount of pay grade 317.

Performance Measures

The following performance measures will be applied to every Eligible Associate's Incentive Plan:

- Only quantitative goals will be utilized. Subjective goals will not be used.
- If the STRS Ohio Total Fund does not earn a positive Absolute (actual) Return in the fiscal year, the Incentive Compensation for each Eligible Associate will be reduced as follows:

STRS Ohio Total Fund Absolute Return	Reduction
-0.01% to -2%	10%
-2.01% to -4%	15%
-4.01% to -6%	20%
-6.01% to -8%	25%
-8.01% to -10%	35%
-10.01% to -12%	50%
-12.01% or lower	50% (however payment deferred for one year)

- A minimum of 10% of every Eligible Associate's Incentive Plan will be based on the Total Fund Net Relative Return allocated 50% to the 1-year period and 50% to the 5-year period. The Net Relative Return that must be met for full incentive achievement will be based on the Board's current Net Relative Return Objective as defined in the annual Statement of Investment Objectives and Policy.
- No associate will earn their Maximum Eligible Incentive Compensation unless the Total Fund Net Relative Return meets or exceeds the current Net Relative Return Objective as defined in the annual Statement of Investment Objectives and Policy in the fiscal year. The costs (difference between gross and net of fee performance goals) are reported annually by CEM Benchmarking Inc. on a calendar year basis and are reflected on the Board's Trustee Summary performance report prepared by the Investment Consultant.
- All incentive goals except those based on Total Fund, real estate and alternative investments will be based on gross Relative Returns (before all investment management costs, both internal and external). Total Fund will be based on Net Relative Returns net of all investment management costs (internal and external) including carried interest and other fund expenses. Real estate and alternative investments will be based on Relative Returns net of all external management fees and costs including carried interest and other fund expenses as per industry convention but no costs deducted for internal management.

Quantitative incentive goals are established for the associate's responsibilities, Individual Portfolio and the Asset Class by the supervisor and asset head and approved by the Deputy Executive Director - Investments. The asset head may take into consideration the tracking risk of the Individual Portfolio and Asset Class goals in the Board's Investment Policy (refer to the Statement of Investment Objectives and Policy) which is reviewed annually. In order to encourage success in the new role when an associate is promoted or laterally transferred, the associate's long-term performance may be transferred to the new position provided it does not disadvantage them from being eligible to earn the maximum incentive for

their new position. For general guidelines on allocating the incentive goals to individual positions, see Attachment B. These guidelines are in place to achieve consistency among the Asset Classes. Since STRS Ohio invests for the long-term, incentive goals at the Asset Class and Individual Portfolio/industry levels will generally include results on a 1 and 5 year basis. Industry standard Geometrically Linked Annualized Returns will be used.

Using a Linear Basis to calculate the PBI, the Relative Return (in basis points) is divided by the Maximum Incentive Hurdle (in basis points) for the Total Fund, Asset Class and Individual Portfolio. This demonstrates the Board's policy to exceed expectations in the Asset Classes and Individual Portfolios as compared to their specific benchmarks. These performance figures and hurdles are found on the Incentive Compensation Performance worksheet (Attachment E), which is updated annually through June 30th.

Relative Return calculations will be rounded to the nearest whole basis point and no decimals will be used (e.g., 3.5 basis points will be rounded to 4 basis points and 2.4 basis points will be rounded to 2 basis points).

See Attachment D for an example of an associate's incentive calculation.

Program Administration

Incentive goals are established annually based on the Board's Statement of Investment Objectives and Policy and are submitted for review to the Deputy Executive Director—Investments. The Deputy Executive Director – Investments will submit the individual goals for all Eligible Associates to the Executive Director, after review and approval by Human Resource Services and Internal Audit generally in June, for the next incentive period for final review and approval. Once approved, the Executive Director issues an individual PBI memo that is provided to each Eligible Associate outlining the individual goals generally no later than one month after the start of the fiscal year. See Attachment F for a Sample of an Individual PBI Memo.

At the end of the incentive period, the performance of the Total Fund, Asset Classes and Individual Portfolios are evaluated by the Finance Department in comparison to the benchmarks and compiled on the Incentive Compensation Performance worksheet. Performance results of the Asset Classes and Total Fund will be examined annually by a third party performance verification firm. The Finance Department will provide and the Investment Department asset heads will confirm each Eligible Associates' overall percentage earned of their Maximum Eligible Incentive Compensation based on their incentive goals and the Incentive Compensation Performance worksheet. The Deputy Executive Director—Investments reviews all calculations of performance and the proposed payments. (Refer to Attachment D for an example of the Incentive Calculation.) The Internal Audit Department and the Human Resources Department will review each of the individual incentive calculations to verify the Program is in compliance with Board policy. Once the internal audit review is complete, the Executive Director will review and approve all individual Incentive Compensation and then submit the recommended Incentive Compensation to the Board in August for final approval. Any administratively applied geographical pay differential will be noted. Approved Incentive Compensation will be forwarded to Human Resource Services for the final processing and payment.

Payment

Incentive payments (via direct deposit according to the banking distribution currently on file) will be made separate from regular earnings following the end of the fiscal year generally no later than the third Monday of the month following the month in which Incentive Compensation is approved by the Board.

Eligible Associates must be employed by STRS Ohio on the date of payment (except in the case of a death or disability) in order to be eligible for the Incentive Compensation.

Governance

The Program may be interpreted, amended, rescinded and/or terminated by the Board at any time. Participation in the Program in one year does not confer the right to participate in the current or any other year and does not confer the right to continued employment.

ATTACHMENTS/REFERENCES:

- A – Maximum Eligible Incentive Compensation by Position
- B – General Guidelines for Allocating Incentive Goals
- C – Definitions
- D - Incentive Calculation Example (For Illustration Purposes only)
- E - Incentive Compensation Performance Worksheet (For Illustration Purposes only)
- F – Sample of Individual PBI Incentive Memo (For Illustration Purposes only)

Attachment A

Maximum Eligible Incentive Compensation

Position Title	Maximum Incentive
	Current FY 2022
Deputy Executive Director, Investments	125%
Assistant Director, Investments	125%
Director, Investment Operations	125%
Director, Domestic Equities	125%
Director, International Equities	125%
Director, Fixed Income	125%
Director, Alternative Investment	125%
Director, Real Estate	125%
Director, Midwest Region	125%
Director, Western Region	125%
Director, Eastern Region	125%
Director, Southern Region	125%
Portfolio Manager, Equities	100%
Portfolio Manager, Director of Research, Equities	100%
Portfolio Manager, International	100%
Portfolio Manager, Fixed Income	100%
Portfolio Manager, Quantitative Equities	100%
Portfolio Manager, Alternative Investments	100%
Portfolio Manager, EAFE Quantitative	100%
Portfolio Manager, EAFE Value	100%
Portfolio Manager, Emerging Markets	100%
Portfolio Manager, REITs	100%
Managing Director, International Real Estate	100%
Director, Asset Allocation and Strategy, Investments	100%
Asset Management Director	100%
Acquisition Director	100%
Senior Economist	80%
Chief of Staff, Investments	80%
Consulting Analyst	80%
Head Trader	80%
Assistant Portfolio Manager, Equities	80%
Assistant Portfolio Manager, International	80%
Assistant Portfolio Manager, Fixed Income	80%
Assistant Portfolio Manager, Quantitative Equities	80%
Assistant Portfolio Manager, Alternative Investments	80%
Senior Asset Management Officer 2	80%
Senior Acquisition Officer 2	80%
Manager, International Real Estate	80%

Attachment A

Maximum Eligible Incentive Compensation

Position Title	Maximum Incentive
	Current FY 2022
Senior International Economist	60%
Senior Securities Trader	60%
Senior Securities Analyst, Equities	60%
Senior Securities Analyst, International	60%
Senior Securities Analyst, Fixed Income	60%
Senior Quantitative Analyst, Equities	60%
Senior Quantitative Analyst, International	60%
Senior Analyst, Alternative Investments	60%
Senior Real Estate Analyst	60%
Senior Asset Management Officer	60%
Senior Acquisition Officer	60%
Senior Real Estate Officer	60%
Economist II	50%
Securities Trader	50%
Securities Analyst II, Equities	50%
Securities Analyst II, International	50%
Securities Analyst II, Fixed Income	50%
Quantitative Analyst II, Equities	50%
Quantitative Analyst II, International	50%
Analyst II, Alternative Investments	50%
Real Estate Analyst II	50%
Real Estate Officer	50%
Acquisition Officer	50%
Asset Management Officer	50%
Senior Due Diligence Officer 2	50%
Manager, Investment Operations	35%
Senior Due Diligence Officer	35%
Economist I	30%
Securities Analyst I, Equities	30%
Securities Analyst I, International	30%
Securities Analyst I, Fixed Income	30%
Quantitative Analyst I, Equities	30%
Quantitative Analyst I, International	30%
Analyst I, Alternative Investments	30%
Real Estate Analyst I	30%
Due Diligence Officer	30%
Senior Property Manager	25%
Treasury Management Analyst	20%
Cash Manager	20%

General Guidelines for Allocating Incentive Goals

Attachment B

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

The allocation percentages listed below for the one year Asset Class and Total Fund performance represent minimum allocation levels. However, each Associate is generally expected to have on a combined basis, an effective weight on one year performance of at least 32%. The Portfolio/Industry group may include goals related to Individual Portfolios, industry sectors, analyst groups or other appropriate subsets within the relevant Asset Class. Private direct real estate is included in the Portfolio/Industry category for real estate positions. The "Asset Class" category for Fixed Income will include only the Core portfolio. Refer to Attachment D for an example of an incentive calculation and how these allocation percentages are used.

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

Notes:

¹Currently includes the following positions: Director, Domestic Equities; Director, Fixed Income; Director, Alternative Investments; Director, International Equities; Director, Investment Operations; Director, Real Estate. There are other positions held on the Strategy Committee that are not listed here because they are included in this footnote below. The Deputy Executive Director, Investments has a 60% allocation to Total Fund and a 40% allocation to the individual asset classes. The Sr. Economist, Director, Asset Allocation and Strategy, Investments and Chief of Staff, Investments have a 50% allocation to Total Fund and a 50% allocation to the individual asset classes.

²The Sr. International Economist has a 50% allocation to Total Fund and 50% to the Total International Asset Class. The Head Trader, the Sr. Securities Trader, and the Securities Trader positions have a 4% allocation to the 1 year and a 36% allocation to the 5 year within the Asset Class level; and a 10% allocation to the 1 year and a 40% allocation to the 5 year within the Portfolio/Industry level. The Managing Director, International Real Estate position has a 7% allocation to the 1 year and 23% allocation to the 5 year within the Portfolio/Industry level and a 5% allocation to the 1 year and a 55% allocation to the 5 year within the asset class level. Real Estate Acquisition positions have a 33% allocation to the 1 year and 37% allocation to the 5 year within the Portfolio/Industry group.

³ For the liquid asset classes, individuals within 3 years or less of experience on an assigned Portfolio/Industry have the entire allocation to the Portfolio/Industry category based on the actual number of months on the Portfolio/Industry.

⁴New Eligible Associates in the liquid asset classes have a 1 Year Asset Class Relative Performance goal in the first eligible fiscal year and this increases by an additional year until the 5 Year Relative Performance period is met. Effectively the entire allocation to the Asset Class category in the first eligible fiscal year is on the 1 Year Relative Performance.

Absolute Return: The STRS Ohio actual return (income plus appreciation/depreciation expressed as a percentage) that is earned over a certain period of time.

Asset Class: A collection of securities that have conceptually similar claims on income streams and have returns that are highly correlated with each other. The current asset classes used by STRS Ohio include liquidity reserves, fixed income, domestic equities, international equity, real estate and alternative investments.

Eligible Associate: A full-time exempt investment department associate who makes direct portfolio or asset class decisions or performs analysis that facilitates or implements portfolio decisions.

Geometrically Linked Annualized Returns: The compounding of period-to-period returns calculated using a time weighted rate of return method. Annualized returns are the equivalent to the annual return which, if earned in each year of the indicated multi-year period, would produce the actual cumulative return over such period.

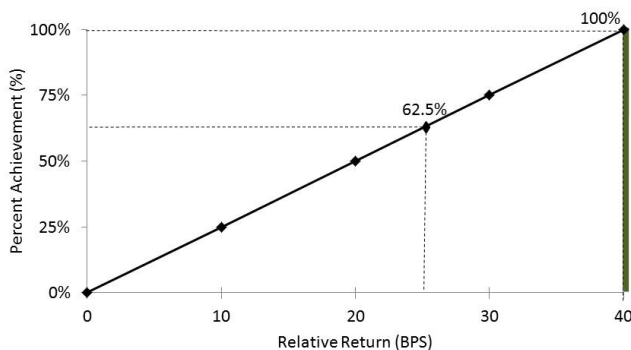
Incentive Compensation: The amount of the incentive payout that is earned by an Eligible Associate.

Incentive Plan: The Performance-Based Incentive Compensation Program that is documented as HRS Policy Number 4.150 and is approved and reviewed by the Board annually.

Individual Portfolio: A pool of assets for which the Eligible Associate has responsibility. Within an Asset Class, there can be several individual portfolios used to accomplish the objectives and goals at the asset class level.

Linear Basis: The mathematical relationship of direct proportionality that, when plotted on a graph, traces a straight line. The Net Relative Return or Relative Return (in basis points) is divided by the Maximum Incentive Hurdle (in basis points) to determine the Percentage Achievement.

Linear Chart Example



Maximum Eligible Incentive Compensation: This is the highest incentive percentage that can be earned by an Eligible Associate and is based on full 100% achievement of the associate's incentive goals. Eligible positions and their respective maximum incentive percentages are listed on Attachment A.

Maximum Incentive Hurdle: For Total Fund and each Asset Class, this equals the Board's return objectives (or Expected 5-Year Management Returns) as defined in the annual Statement of Investment Objectives and Policy.

Net Relative Return: The Relative Return that is achieved after all investment management costs have been deducted. This includes external manager fees, investment department salaries, incentive compensation, benefits, and the allocation of ITS costs and other expenses. The investment management costs are reported annually on a calendar year basis by CEM Benchmarking, Inc.

Relative Return: The return that is achieved over a period of time compared to a benchmark over the same period of time. The relative return is the difference between the Absolute Return earned by STRS Ohio and the return achieved by the benchmark.

Total Fund: The Total Fund includes all discretionary assets managed by STRS Ohio for the benefit of participants in the State Teachers Retirement System of Ohio. Six primary asset classes make up this composite and both internally and externally managed accounts are used.

Incentive Calculation Example

Attachment D (For Illustration Purposes only) Example 1

This example is for illustration purposes:

- Actual fiscal year performance and incentive hurdles are on the Incentive Performance Worksheet (Attachment E).
- Associate's incentive goals are on the Individual PBI Incentive Memo (Attachment F).

Chart 1							
Example Returns/Hurdles:			(A)	(B)	(C) (1)	(D) (2)	(C) x (D) (3)
Incentive Goals	STRS Actual	Benchmark	Relative Performance	Max Incentive Hurdle	Percent Achieved	Associate's Allocation	Percentage Earned
Total Fund - one year net of fees	6.40%	5.90%	+50 bps	+40 bps	100.0%	5.0%	5.0%
Total Fund - five year net of fees	9.00%	8.00%	+100 bps	+40 bps	100.0%	5.0%	5.0%
Total Domestic Equities - one year	-12.10%	-12.30%	+20 bps	+35 bps	57.1%	2.0%	1.1%
Total Domestic Equities - five year	12.50%	12.20%	+30 bps	+35 bps	85.7%	18.0%	15.4%
Mid Cap Value Portfolio - one year	-8.30%	-7.90%	-40 bps	+50 bps	0.0%	10.0%	0.0%
Mid Cap Value Portfolio - five year	14.08%	13.70%	+38 bps	+50 bps	76.0%	60.0%	45.6%
						100.0%	72.1%
Total Percentage Earned							
bps = basis points							
¹ (C) = (A) / (B). If the result is greater than 100%, the percent of goal achieved is 100%. If the result is less than 0%, the percent of goal achieved is 0%.							
² (D) is obtained from the Individual PBI Incentive Memo.							
³ Rounded to one decimal place.							

Assume the investment associate is eligible for maximum incentive compensation of 100%. The percentage of incentive earned is calculated as follows:

Maximum Incentive Eligible	100.00%
Percentage Earned (from Chart 1 above)	x 72.10%
Incentive Earned	72.10%

Example 1 – Base Case

Assume the investment associate's base salary on June 30 is \$100,000. The calculation of the associate's actual incentive payment is as follows:

Base Salary	\$ 100,000.00
Incentive Earned	x 72.10%
Incentive Payment	\$ 72,100.00

Attachment D (continued)
Example 2

Example 2 – Negative Absolute Return

Incentive earned is reduced if the STRS Ohio Total Fund Absolute Return is negative.

Assume that the STRS Ohio Total Fund Absolute Return is -3.50% for the fiscal year.

Incentive Earned	\$ 72,100.00
* Reduction = 15% x \$72,100	<u>\$ (10,815.00)</u>
Total Incentive Payment	\$ 61,285.00

* The 15% Reduction is based on the chart on page 5.



	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Liquidity Reserve Portfolio						
Liquidity Reserve Actual		1.47%	2.33%	1.35%	0.59%	0.24%
90 Day T-Bill		1.63%	2.31%	1.36%	0.49%	0.19%
Relative Performance	1 bps	-16	2	-1	10	5

1-Year	5-Year
1.47%	1.19%
1.63%	1.19%
-16	0

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016	4/20-6/20
Core Fixed Income							
Total Core Fixed Income Actual		7.92%	7.87%	0.00%	1.88%	5.62%	4.88%
Barclays US Universal		7.88%	8.07%	-0.28%	0.91%	5.82%	3.82%
Relative Performance	35 bps	4	-20	28	97	-20	106

1-Year	4-Year	5-Year	3-mos
7.92%	4.36%	4.61%	4.88%
7.88%	4.08%	4.42%	3.82%
4	28	19	106

	Maximum Incentive Hurdle	2020	2019	2018	4/20-6/20
Liquid Treasury Portfolio					
Liquid Treasury Actual		7.19%	6.23%	-0.66%	0.57%
Bloomberg Barclays US Intermediate Treasury		7.07%	6.19%	-0.76%	0.54%
Relative Performance	1 bps	12	4	10	3

1-Year	2-Year	3-Year	3-mos
7.19%	6.71%	4.19%	0.57%
7.07%	6.63%	4.11%	0.54%
12	8	8	3

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Total Domestic Equities						
Total Domestic Equities Actual		7.87%	8.74%	16.21%	19.59%	0.41%
Russell 3000		6.53%	8.98%	14.78%	18.51%	2.14%
Relative Performance	35 bps	134	-24	143	108	-173

1-Year	2-Year	3-Year	5-Year
7.87%	8.30%	10.88%	10.36%
6.53%	7.75%	10.04%	10.03%
134	55	84	33

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Analyst Select Fund						
Russell 1000		6.71%	8.29%	9.75%	19.99%	-0.76%
Relative Performance	50 bps	-77	-173	-479	196	-370

1-Year	3-Year	5-Year
6.71%	8.24%	8.59%
7.48%	10.64%	10.47%
-77	-240	-188

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Concentrated Select Fund						
Russell 1000		-11.21%	10.09%	10.39%	26.81%	-2.48%
Relative Performance	50 bps	-1,869	7	-415	878	-542

1-Year	5-Year
-11.21%	5.94%
7.48%	10.47%
-1,869	-453

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016	2/19-6/19	1/19-6/19
Large Cap Growth								
Russell 1000 Growth		27.70%	14.13%	25.49%	21.01%	-2.34%	12.42%	24.06%
Relative Performance	50 bps	442	257	298	59	-536	95	257

1-Year	2-Year	5-Year	17-mos	18-mos
27.70%	20.73%	16.67%	29.08%	35.90%
23.28%	17.27%	15.89%	25.16%	30.91%
442	346	78	392	499

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Large Cap Value						
Russell 1000 Value ¹²		-6.39%	8.66%	11.72%	16.64%	0.90%
Relative Performance	50 bps	245	20	495	111	-196

1-Year	5-Year
-6.39%	5.99%
-8.84%	4.64%
245	135

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016	2/19-6/19	1/19-6/19
Mid Cap Growth								
Russell Midcap Growth		16.71%	15.24%	24.02%	16.00%	-5.44%	14.88%	27.60%
Relative Performance	75 bps	480	130	550	-105	-330	179	152

1-Year	2-Year	5-Year	17-mos	18-mos
16.71%	15.97%	12.84%	22.99%	30.41%
11.91%	12.92%	11.60%	18.09%	25.80%
480	305	124	490	461

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Mid Cap Value Active						
Russell Midcap Value		-9.44%	-1.40%	9.52%	17.21%	0.79%
Relative Performance	75 bps	237	-508	192	128	-246

1-Year	2-Year	5-Year
-9.44%	-5.50%	2.93%
-11.81%	-4.38%	3.32%
237	-112	-39

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Small Cap Select						
Russell 2000		-8.61%	-9.93%	15.63%	17.75%	-3.75%
Relative Performance	75 bps	-198	-662	-194	-685	298

1-Year	5-Year
-8.61%	1.53%
-6.63%	4.29%
-198	-276

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016	5/18-6/18
Quantitative 2000							
Russell 2000		-9.89%	-4.67%	20.89%	25.30%	-4.45%	7.93%
Relative Performance	50 bps	-326	-136	332	70	228	110

1-Year	5-Year	26 Months
-9.89%	4.45%	-3.43%
-6.63%	4.29%	-1.65%
-326	16	-178

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Total Equities						
Total Equity Actual		1.79%	6.08%	11.99%	20.91%	-3.04%
Total Equity Blended Benchmark ¹		1.89%	6.17%	11.65%	19.98%	-3.49%
Relative Performance	50 bps	-10	-9	34	93	45

1-Year	5-Year	2-Year
1.79%	7.23%	3.91%
1.89%	6.94%	4.01%
-10	29	-10

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Global Quantitative		-3.43%	4.17%	8.14%	22.13%	-5.25%
MSCI All Country World Index		2.11%	5.74%	10.73%	18.78%	-3.73%
Relative Performance	75 bps	-554	-157	-259	335	-152

1-Year	5-Year
-3.43%	4.71%
2.11%	6.46%
-554	-175

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Total International Equities		-5.17%	2.85%	7.15%	22.23%	-7.11%
Total International Actual		-3.63%	2.70%	7.87%	21.60%	-9.85%
International Blended Benchmark ²						
Relative Performance	100 bps	-154	15	-72	63	274

1-Year	2-Year	5-Year
-5.17%	-1.24%	3.48%
-3.63%	-0.51%	3.20%
-154	-73	28

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016	9/18 - 6/19	5/19 - 6/19
Internal Active Combined		-8.62%	6.70%	2.90%	21.53%	-5.49%	4.69%	-0.03%
MSCI Emerging Markets ²		-3.39%	1.21%	8.20%	23.75%	-12.06%	1.78%	-1.47%
Relative Performance	100 bps	-523	549	-530	-222	657	291	144

1-Year	2-Year	5-Year	22 Months	14 Months
-8.62%	-1.25%	2.88%	-2.39%	-7.46%
-3.39%	-1.12%	2.86%	-0.91%	-4.13%
-523	-13	2	-148	-333

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016	12/14 - 6/15	9/18 - 6/19	5/19 - 6/20	8/19 - 6/20
International Value		-5.43%	3.76%	5.67%	25.66%	-8.32%	3.14%	2.92%	-0.47%	-5.47%
International Blended Benchmark ²		-3.63%	2.70%	7.87%	21.60%	-9.85%	2.54%	2.12%	0.03%	-3.24%
Relative Performance	100 bps	-180	106	-220	406	153	60	80	-50	-223

1-Year	2-Year	5-Year	22 Months	14 Months
-5.43%	-0.94%	3.62%	-1.46%	-5.06%
-3.63%	-0.51%	3.20%	-0.87%	-3.09%
-180	-43	42	-59	-197

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016	8/15-6/16
Structured EAFE		-3.48%	3.51%	7.69%	20.78%	-8.89%	-11.20%
MSCI World Ex US 50% Hedged		-3.79%	3.02%	7.68%	21.00%	-9.51%	-11.64%
Relative Performance	30 bps	31	49	1	-22	62	44

1-Year	5-Year	59 Months
-3.48%	3.44%	2.96%
-3.79%	3.17%	2.72%
31	27	24

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Quantitative EAFE Composite		-10.27%	-1.64%	6.82%	21.02%	-9.57%
MSCI World Ex US 50% Hedged		-3.79%	3.02%	7.68%	21.00%	-9.51%
Relative Performance	100 bps	-648	-466	-86	2	-6

1-Year	5-Year
-10.27%	0.63%
-3.79%	3.17%
-648	-254

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016
Emerging Quantitative		-10.10%	3.50%	6.49%	27.59%	-10.52%
MSCI Emerging Markets		-3.39%	1.21%	8.20%	23.75%	-12.06%
Relative Performance	100 bps	-671	229	-171	384	154

1-Year	5-Year
-10.10%	2.50%
-3.39%	2.86%
-671	-36

	Maximum Incentive Hurdle	2020	2019	2018	2017	2016	1-Year	5-Year
Total Real Estate								
Total Real Estate Actual		2.28%	7.60%	9.08%	4.67%	13.47%	2.28%	7.35%
Real Estate Blended Benchmark ³		0.91%	7.37%	6.74%	5.64%	12.59%	0.91%	6.59%
Relative Performance	100 bps	137	23	234	-97	88	137	76
Direct Real Estate								
Direct Real Estate Actual		4.95%	6.16%	9.51%	5.15%	11.71%	4.95%	7.46%
NPI		2.69%	6.51%	7.19%	6.97%	10.64%	2.69%	6.77%
Relative Performance	100 bps	226	-35	232	-182	107	226	69
International Real Estate								
International Real Estate Actual		0.73%	12.91%	14.06%	13.55%	10.20%	0.73%	10.17%
International R/E Relative Return Objective ¹⁰		5.69%	9.51%	10.19%	9.97%	13.64%	5.69%	9.77%
Relative Performance		-496	340	387	358	-344	-496	40
- or -								
International Real Estate Actual		0.73%	12.91%	14.06%	13.55%	10.20%	0.73%	10.17%
International R/E Absolute Return Objective ¹¹		10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%
Absolute Achievement		-977	241	356	305	-30	-977	-33
Custom Opportunistic Real Estate								
Custom Opportunistic Real Estate Actual		-1.18%	7.83%	13.98%	8.54%	9.71%	-1.18%	7.66%
Custom Opportunistic Real Estate Benchmark ¹⁰		5.69%	9.51%	10.19%	9.97%	13.64%	5.69%	9.77%
Relative Performance		-687	-168	379	-143	-393	-687	-211
- or -								
Custom Opportunistic Real Estate Actual		-1.18%	7.83%	13.98%	8.54%	9.71%	-1.18%	7.66%
Custom Opportunistic Real Estate Benchmark ¹¹		10.50%	10.50%	10.50%	10.50%	10.50%	10.50%	10.50%
Absolute Achievement		-1,168	-267	348	-196	-79	-1,168	-284
Alternative Investments								
Total Alternative Investments Actual		-1.03%	8.30%	13.59%	11.56%	1.60%	-1.03%	6.66%
AI Blended Benchmark ⁶		6.34%	8.86%	14.76%	18.51%	2.14%	6.34%	9.97%
Relative Performance		-737	-56	-117	-695	-54	-737	-331
- or -								
Total Alternative Investments Actual		-1.03%	8.30%	13.59%	11.56%	1.60%	-1.03%	6.66%
Alternative Investment policy return ⁷		7.09%	7.09%	7.09%	8.00%	8.00%	7.09%	7.45%
Absolute Achievement		-812	121	650	356	-640	-812	-79
Private Equity								
Private Equity Actual		6.26%	14.36%	19.69%	15.17%	4.81%	6.26%	11.91%
Private Equity Benchmark ⁸		7.60%	10.07%	15.92%	19.68%	3.16%	7.60%	11.13%
Relative Performance		-134	429	377	-451	165	-134	78
- or -								
Private Equity Actual		6.26%	14.36%	19.69%	15.17%	4.81%	6.26%	11.91%
Private Equity policy return ⁷		8.15%	8.15%	8.15%	9.00%	9.00%	8.15%	8.49%
Absolute Achievement		-189	621	1,154	617	-419	-189	342
Opportunistic/Diversified								
Opportunistic/Diversified Actual		-7.49%	2.72%	8.11%	8.45%	-1.32%	-7.49%	1.91%
Opportunistic/Diversified Benchmark ⁹		5.47%	7.91%	13.85%	17.34%	1.12%	5.47%	8.95%
Relative Performance		-1,296	-519	-554	-889	-244	-1,296	-704
- or -								
Opportunistic/Diversified Actual		-7.49%	2.72%	8.11%	8.45%	-1.32%	-7.49%	1.91%
Opportunistic/Diversified policy return ⁷		6.35%	6.35%	6.35%	7.00%	7.00%	6.35%	6.61%
Absolute Achievement		-1,384	-363	176	145	-832	-1,384	-470
Total Fund	Maximum Incentive Hurdle							
Total Fund Actual		3.14%	7.13%	9.57%	14.29%	0.92%	3.14%	6.91%
Total Fund Blended Benchmark ⁴		3.07%	7.30%	8.94%	13.52%	0.67%	3.07%	6.80%
Relative Performance		0.07%	-0.17%	0.63%	0.77%	0.25%	0.07%	0.31%
Costs not reflected in Total Fund Actual		-0.13%	-0.14%	-0.14%	-0.14%	-0.14%	-0.13%	-0.14%
Relative Performance, net of fees	40 bps	-6	-31	49	63	11	-6	17

Benchmarks:

¹ The Total Equity Blended Benchmark is calculated using the policy weights for domestic and international equity and the Russell 3000 and International Blended Benchmark indexes.

² The International Blended Benchmark is calculated using 80% MSCI World ex USA Index (50% hedged) and 20% of the MSCI Emerging Markets Index. On January 1, 2014, MSCI Emerging Index went to a Net Index from a Gross Index.

³ The Real Estate Blended Benchmark is calculated using 85% NCREIF Property Index (NPI) and 15% FTSE NAREIT Equity REITs Index effective July 1, 2012.

⁴ For the Total Fund Blended Benchmark, the policy weights effective in fiscal 2020 are as follows:

Benchmark	Jun 30, 2019	July 1, 2019	Jun 30, 2020	Asset Class
Russell 3000	28	28	28	Domestic Equities
International Blended Benchmark	24	23	23	International Equities
Fixed Income Blended Benchmark	21	21	21	Fixed Income
Bloomberg Barclays U.S. Universal	16	16	16	Core Fixed Income
Bloomberg Barclays US Intermediate Treasury	5	5	5	Liquid Treasury Portfolio
Real Estate Blended Benchmark	10	10	10	Real Estate
Alternative Investments Actual Return ⁵	16	17	17	Alternative Investments
Private Equity	7	7	7	Private Equity
Opportunistic/Diversified	9	10	10	Opportunistic/Diversified
90 Day T-Bill	1	1	1	Liquidity Reserves

⁵ Alternative Investments Actual Return through June 30, 2021. Effective July 1, 2021, the Alternative Investments Blended Benchmark will reflect private market benchmarks as described below.

⁶ The AI Blended Relative Return Objective is calculated monthly and is in two parts per policy: Effective January 1, 2013, Private Equity is the Russell 3000 Index plus 1% and Opportunistic/Diversified is the Russell 3000 Index minus 1%. The Private Equity target weight is 41.2% and the Opportunistic/Diversified target weight is 58.8% effective July 1, 2019 and through June 30, 2021. Effective July 1, 2021, Alternative Investments involve separate allocations to Private Equity (7%) and Opportunistic/Diversified investments (10%) totaling 17%. The Alternative Investment asset class is being managed to exceed private market benchmarks. The Alternative Investment Blended Benchmark consists of the Private Equity Benchmark multiplied by 41.2% plus the Opportunistic/Diversified Blended Benchmark multiplied by 58.8%.

⁷ The Absolute Return Objective for total alternative investments is 7.09%, private equity is 8.15%, and opportunistic/diversified is 6.35% through June 30, 2021. These are based on the 2017 Asset Liability Study.

⁸ The Private Equity Relative Return Objective is calculated monthly and is the Russell 3000 Index plus 1% through June 30, 2021. Effective July 1, 2021, the Private Equity Benchmark is the Cambridge Associates Private Equity and Venture Capital Index one quarter lagged to be consistent with external fund reporting.

⁹ The Opportunistic/Diversified Relative Return Objective is calculated monthly and is the Russell 3000 Index minus 1% through June 30, 2021. Effective July 1, 2021, the Opportunistic/Diversified Blended Benchmark consists of the actual Opportunistic Investments Portfolio weight multiplied by the Cambridge Associates Private Credit Index one quarter lagged to be consistent with external fund reporting plus the actual weight of the Diversified Investments Portfolio multiplied by the HFRI Fund of Funds Composite Index, which is a monthly index where subsequent revisions will be reflected in the following period.

¹⁰ The International Real Estate and Custom Opportunistic Real Estate Relative Return Objective is the NCREIF Property Index (NPI) plus 3%.

¹¹ The Absolute Return Objective for International Real Estate and Custom Opportunistic Real Estate is 10.5%.

¹² The benchmark for the Large Cap Value portfolio changed from the Russell 1000 to the Russell 1000 Value Index on July 1, 2014.



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Memo

To: Portfolio Manager, Equities
From: Executive Director
Date: July 1, 2021
Subject: Investment Department Associate Incentive Program

Under authority granted me by the STRS Ohio Retirement Board, I am instituting an incentive plan for you for fiscal year 2022 that ends on June 30, 2022. The Performance Based Incentive Program (“Program”) for 2022 was approved by the Board on May 20, 2021 and is detailed on STRS Ohio’s webSTRS site, under the Associate Guidelines, Your Compensation, Award Programs link.

Subject to all rules and requirements of the program, your current position is eligible to earn up to 100% of your annual base salary. If the Total Fund does not earn a positive Absolute Return in fiscal 2022, your total dollar incentive payment earned will be reduced as follows:

STRS Ohio Total Fund Absolute Return	Reduction
-.01% to -2%	10%
-2.01% to -4%	15%
-4.01% to -6%	20%
-6.01% to -8%	25%
-8.01% to -10%	35%
-10.01% to -12%	50%
-12.01% or lower	50% (however payment deferred for one year)

Your incentive goals for fiscal 2022:

Earned	Allocation	Goal
%	5%	STRS Ohio Total Fund performance (one year)
%	5%	STRS Ohio Total Fund performance (five years)
%	2%	Total Domestic Equities Portfolio Performance (one year)
%	18%	Total Domestic Equities Portfolio Performance (five years)
%	10%	Mid Cap Value Portfolio Performance (one year)
%	60%	Mid Cap Value Portfolio Performance (five years)

%	100%	TOTAL
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↓

$$\underline{\hspace{2cm}} \% \times \underline{\hspace{2cm}} \% \times \underline{\hspace{2cm}} \% = \underline{\hspace{2cm}} \%$$

(Earned) (Maximum Eligible Compensation) (Reduction Factor) (Incentive Payable)

Benchmarks and Hurdles are detailed on the STRS Ohio Incentive Performance Worksheet (Attachment E).

If you receive more than one performance rating of “Needs Improvement” at any time during the fiscal year, you will be ineligible for an Incentive Compensation for the corresponding year regardless of whether or not the individual goals were met. Further, the Program may be interpreted, amended, rescinded and/or terminated by the STRS Ohio Board (“Board”) at any time. Additionally, payments of Incentive Compensation under the Program require the Board’s prior approval. Neither this memo, nor participation in the Program, constitutes a contract or offer to contract. Finally, participation in the Program does not confer the right to participate in the Program in the current or any other year and does not confer the right to continued employment.