

# **School Employees Retirement System**

## **Investment Department Incentive Plan**

**Amended May 15, 2014**

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**Section 1: Plan Purpose**

The purpose of the Incentive Plan (“Plan”) is to provide a compensation package that allows SERS to recruit and retain talent in the Investment Department that is necessary to maximize investment returns.

**Section 2: Plan Objectives**

The objectives of the Plan are to:

- a. Reinforce a performance philosophy
- b. Attract and retain high quality talent.

**Section 3: Performance Period**

The performance period for purposes of the Plan will coincide with SERS’ fiscal year, i.e. July 1 through June 30 of each year.

**Section 4: Eligibility**

There are three tiers of participation within the Plan and those tiers cover the following job classifications:

<b>TIER</b>	<b>JOB TITLES</b>
<b>I</b>	Chief Investment Officer
<b>II</b>	Investment Officer and Senior Investment Officer
<b>III</b>	Associate Investment Officer Senior Investment Analyst

In general, a participant must meet performance expectations as reflected on SERS’ performance management rating scale in order to be eligible to receive incentive compensation.

**Section 5: Plan Funding**

The Plan will be funded if the Investment Department achieves positive returns relative to the benchmark on the overall fund or on specific asset classes.

The Plan funding amount will be calculated on the number, level and salaries of eligible participants in the Plan as of July 1 of the fiscal year in which the incentive is earned. The Investment Compliance & Governance Officer verifies the abovementioned information with Human Resources.

**Fund Performance**

Fund performance reflects the planned total fund or asset class goal. Upon achievement of positive excess returns, the Plan is funded at a level that provides for individual incentive compensation.

For purposes of the Plan, the fund performance goal is positive excess return relative to the benchmark established by the Board. If the total fund performance or specific asset class performance net of fees is above its respective benchmark that part of the Plan will be funded and conversely, if the total fund performance or specific asset class performance is equal to or below its respective benchmark, that part of the Plan will not be funded.

For purposes of this Plan, the maximum performance goal is 50 basis points over the benchmark established by the Board.

**Section 6: Incentive Compensation Opportunity**

Distribution under the Plan to eligible participants is determined by performance goals as outlined in Section 7. For purposes of this Plan, the maximum performance goal is 50 basis points over the benchmark established by the Board. Incentive compensation is managed within the following range of opportunity:

Based on level of performance, a participant has the opportunity to earn incentive compensation as follows:

**Opportunity by Level (% applied to Base Salary)**

<b>TIER</b>	<b>JOB TITLE</b>	<b>Maximum distribution (50 bps or greater)</b>
<b>I</b>	▪ Chief Investment Officer	90%
<b>II</b>	▪ Investment Officer ▪ Senior Investment Officer	60%
<b>III</b>	▪ Associate Investment Officer ▪ Senior Investment Analyst	30%

The base salary in effect on July 1 of the fiscal year in which the incentive is earned is used for purposes of the incentive compensation calculation. Compensation for performance between 1 bps and 50 bps above the benchmark is based on defined performance goals and is prorated on a linear basis according to the schedule in Attachment 1.

### **Section 7: Performance Goals**

The incentive compensation is based on a combination of individual and department performance goals in reference to the benchmark. Portfolio performance is calculated by SERS' third party performance and analytics consultant based on SERS' annual returns net of investment manager fees' and certified by Investment Accounting within SERS' Finance Department. Three primary performance measures noted below are defined as critical to the success of the Investment Department.

#### Individual Goals

##### Portfolio Performance

Portfolio performance is based on results relative to the Board established performance benchmark for each asset class. Performance goals for each asset class are calculated based on annual returns net of investment manager fees for that particular asset class as described in the previous paragraph. The benchmarks are in the current Statement of Investment Policy (SIP).

##### Portfolio Management Objectives

Each year, the Chief Investment Officer assigns certain portfolio management objectives, such as improvement of portfolio design and characteristics, risk management, cost effectiveness, and other new projects that are identified each year in the Annual Investment Plan. The Board, with the assistance of the Executive Director and the Chief Investment Officer, will evaluate the Annual Investment Plan and develop the objectives contained therein.

The incentive award for portfolio management objectives is determined by the Chief Investment Officer and calculated on the following ranking:

Exceeds	1.5
Meets	1.0
Does not meet	0.0

#### Department Goals

##### Total Fund

The performance benchmark for the total fund is a weighted average of the performance benchmarks and the policy allocation of each asset class as stated in the SIP.

**Section 8: Incentive Compensation Calculation**

In determining the appropriate percent applied to an individual's base salary, the calculation by the Investments Compliance & Governance Officer includes the achievement of both individual and department goals as described in Section 7. The performance goals are weighted as follows:

TIER	JOB TITLE	INDIVIDUAL GOALS		DEPARTMENT GOALS
		Portfolio Performance	Portfolio Management	Overall Fund
I	Chief Investment Officer	30%*	20%	50%
II	Senior Investment Officer and Investment Officer	40%	20%	40%
III	Associate Investment Officer	40%	20%	40%
III	Senior Investment Analyst	40%**	20%	40%

\*The incentive compensation for the Chief Investment Officer is based on aggregate performance in each asset class on a weighted basis.

\*\* The incentive compensation for the Senior Investment Analyst is based proportionately on performance in each asset class where analytical work was provided.

**Multiple Year Results**

Incentive compensation for portfolio performance and overall fund performance considers both current year results and results over multiple years. During year one of an individual's participation in the Plan, incentive compensation is based solely on the performance for the first year. In year two of participation in the Plan, 50% of the incentive compensation is based on performance for the current year and 50% on the performance for the two-year period. In years three and beyond, 25% of the incentive compensation is based on performance for the current year and 75% on the performance for the three-year period or on a rolling three year period. When employees become eligible for the Plan, their compensation will be calculated as described above, based on their years of participation in the Plan.

Plan Year Weighting	Employee's Year of Participation		
	Year 1	Year 2	Year 3 /Subsequent Years
Current Year	100%	50%	25%
Second Year		50%	
Third Year/Subsequent Years			75%
<b>Total Weighting</b>	100%	100%	100%

**Section 9: Incentive Compensation Adjustment**

If the total fund absolute return in the current fiscal year is negative (less than 0%) then the total incentive compensation calculated according the foregoing methodology will be reduced as follows:

Total Fund 1-Year Absolute Returns	Incentive Adjustment
0%	0%
-1%	-5%
-2%	-5%
-3%	-5%
-4%	-5%
-5%	-5%
-6%	-5%
-7%	-5%
-8%	-10%
-9%	-10%
-10%	-10%
-11%	-10%
-12%	-10%
-13%	-10%
-14%	-10%
-15% or less	-15%

**Section 10: Plan Administration**

The Board of Trustees of SERS adopts, modifies, and monitors the Plan, and delegates to the Executive Director the administration of the Plan. The Executive Director shall have the right to interpret the plan and may administer the plan through a committee comprised of the Executive Director, Deputy Executive Director, General Counsel, Investment Compliance & Governance Officer and the Chief Investment Officer.

Verification of Performance

An independent third party verifies annual, two and three-year Portfolio Performance and Overall Fund results.

Termination of Employment

In order to be compensated under this Plan, a participant must be employed and considered an active employee on the date the incentive compensation is paid. If a participant terminates from SERS for any reason other than death, disability, or normal retirement prior to the date of the incentive payment, that employee is ineligible to receive compensation under the Plan. If a

participant terminates from SERS for reasons of death, permanent or total disability, or normal retirement, then pro-rata compensation is payable for the period of time the participant was employed based on the number of whole months worked during the performance period divided by 12. The pro-rata compensation is paid at the same time all other payments are made under the Plan. The target compensation payment date is September following the end of the performance period.

#### New Hires and Promotions

If an employee is hired or promoted into an incentive-eligible job during the first nine months of the performance period, he or she is eligible for a pro-rata payment based on the number of whole months he or she worked during the performance period.

If, during the first nine months of the performance period, a current incentive-eligible employee is promoted to a higher incentive-eligible level that has a higher incentive opportunity, he or she is eligible for an adjusted payment based on the number of whole months worked at each level during the Performance Period.

#### Plan Amendment, Suspension, or Termination

The Board shall review the Plan annually. The Plan may be amended, suspended or terminated at any time by the Board without advance notice. Further, nothing in the Plan shall confer on the participant the right to continued employment or affect SERS' right to terminate a participant's employment at any time and for any reason.

#### Deferral of Compensation

The Board may from time to time adopt a resolution or take other action to amend or otherwise modify this Plan to approve and provide for a deferral of payment of all or any part of any compensation earned under the Plan (a "Deferral").

Regardless of whether expressly so stated in the resolution or other action of the Board approving the Deferral (the "Deferral Action"), unless a different form of deferred compensation agreement is adopted, every Deferral shall be structured, administered and paid in a manner consistent with the provisions of Treas. Reg. § 1.409A-1(b)(4) concerning short-term deferrals and Code section 457, including specifically,

a. the action shall specify a date of payment of the Deferrals that satisfies the requirements of the applicable two and one-half (2 ½) month period specified in Treas. Reg. § 1.409A-1(b)(4) (the "Payment Date");

b. the action shall state:

(i) the period of substantial services to be performed and/or the business condition(s) to be satisfied prior to any payment of a Deferral, however, if satisfaction of such a business condition is not required prior to deferral, the period of services required shall be at least as long as reasonably required under then applicable statutory, regulatory or other requirements or guidance so as to constitute a substantial risk of forfeiture; and



(ii) the requirement that the person eligible for payment of the Deferral must be in the employment of SERS as of the Payment Date in order to be eligible to receive the Deferral payment.

**Dispute Resolution**

The Executive Director, in consultation with the Board, resolves all disputes, and such resolution is final.

**Exhibit A HISTORY**

<b>Action</b>	<b>Approval Period</b>
Adopted by the Retirement Board on March 15, 2001	July 1, 2001 through June 30, 2002
Amended by the Retirement Board on June 25, 2004	July 1, 2004 through June 30, 2005
Amended by the Retirement Board on October 20, 2005	July 1, 2005 through June 30, 2006
Amended by the Retirement Board on May 19, 2006	July 1, 2006 through June 30, 2007
Unchanged by the Retirement Board on May 17, 2007	July 1, 2007 through June 30, 2008
Amended by the Retirement Board on May 22, 2008	July 1, 2008 through June 30, 2009
Amended by the Retirement Board on March 19, 2009	July 1, 2008 through June 30, 2009
Amended by the Retirement Board on July 23, 2009	July 1, 2009 through June 30, 2010
Amended by the Retirement Board on May 19, 2010	July 1, 2010 through June 30, 2011
Amended by the Retirement Board on June 16, 2011	July 1, 2011 through June 30, 2012
Amended by the Retirement Board on May 14, 2012	July 1, 2012 through June 30, 2013
Amended by the Retirement Board on May 16, 2013	July 1, 2013 through June 30, 2014
Amended by the Retirement Board on Nov. 21, 2013	July 1, 2013 through June 30, 2014
Amended by the Retirement Board on May 15, 2014	July 1, 2014 through June 30, 2015

ATTACHMENT 1

**0 to 50 Basis Points**

**WE DO NOT PAY OUT ON NEGATIVE RETURNS TO THE BENCHMARK**

<b>Chief Investment Officer Increment Cumulative</b>			<b>Sr. Investment Officer Investment Officer Increment Cumulative</b>			<b>Associate Investment Officer Senior Investment Analyst Increment Cumulative</b>			
Excess Return (%)	Incremental Increase	Payout Percent	Excess Return (%)	Incremental Increase	Payout Percent	Excess Return (%)	Incremental Increase	Payout Percent	
0.00	0.018	0.0%	0.00	0.012	0.0%	0.00	0.006	0.0%	<b>Chief Investment Officer</b>
0.01	0.018	1.8%	0.01	0.012	1.2%	0.01	0.006	0.6%	90.0% Maximum
0.02	0.018	3.6%	0.02	0.012	2.4%	0.02	0.006	1.2%	
0.03	0.018	5.4%	0.03	0.012	3.6%	0.03	0.006	1.8%	<b>Sr. Investment Officer</b>
0.04	0.018	7.2%	0.04	0.012	4.8%	0.04	0.006	2.4%	60.0% Maximum
0.05	0.018	9.0%	0.05	0.012	6.0%	0.05	0.006	3.0%	
0.06	0.018	10.8%	0.06	0.012	7.2%	0.06	0.006	3.6%	
0.07	0.018	12.6%	0.07	0.012	8.4%	0.07	0.006	4.2%	<b>Other Investment</b>
0.08	0.018	14.4%	0.08	0.012	9.6%	0.08	0.006	4.8%	30.0% Maximum
0.09	0.018	16.2%	0.09	0.012	10.8%	0.09	0.006	5.4%	
0.10	0.018	18.0%	0.10	0.012	12.0%	0.10	0.006	6.0%	
0.11	0.018	19.8%	0.11	0.012	13.2%	0.11	0.006	6.6%	
0.12	0.018	21.6%	0.12	0.012	14.4%	0.12	0.006	7.2%	
0.13	0.018	23.4%	0.13	0.012	15.6%	0.13	0.006	7.8%	
0.14	0.018	25.2%	0.14	0.012	16.8%	0.14	0.006	8.4%	
0.15	0.018	27.0%	0.15	0.012	18.0%	0.15	0.006	9.0%	
0.16	0.018	28.8%	0.16	0.012	19.2%	0.16	0.006	9.6%	
0.17	0.018	30.6%	0.17	0.012	20.4%	0.17	0.006	10.2%	
0.18	0.018	32.4%	0.18	0.012	21.6%	0.18	0.006	10.8%	
0.19	0.018	34.2%	0.19	0.012	22.8%	0.19	0.006	11.4%	
0.20	0.018	36.0%	0.20	0.012	24.0%	0.20	0.006	12.0%	
0.21	0.018	37.8%	0.21	0.012	25.2%	0.21	0.006	12.6%	
0.22	0.018	39.6%	0.22	0.012	26.4%	0.22	0.006	13.2%	
0.23	0.018	41.4%	0.23	0.012	27.6%	0.23	0.006	13.8%	
0.24	0.018	43.2%	0.24	0.012	28.8%	0.24	0.006	14.4%	
0.25	0.018	45.0%	0.25	0.012	30.0%	0.25	0.006	15.0%	
0.26	0.018	46.8%	0.26	0.012	31.2%	0.26	0.006	15.6%	
0.27	0.018	48.6%	0.27	0.012	32.4%	0.27	0.006	16.2%	
0.28	0.018	50.4%	0.28	0.012	33.6%	0.28	0.006	16.8%	
0.29	0.018	52.2%	0.29	0.012	34.8%	0.29	0.006	17.4%	

**School Employees Retirement System of Ohio  
Investment Department Incentive Plan**

**May 2014**

0.30	0.018	54.0%	0.30	0.012	36.0%	0.30	0.006	18.0%
0.31	0.018	55.8%	0.31	0.012	37.2%	0.31	0.006	18.6%
0.32	0.018	57.6%	0.32	0.012	38.4%	0.32	0.006	19.2%
0.33	0.018	59.4%	0.33	0.012	39.6%	0.33	0.006	19.8%
0.34	0.018	61.2%	0.34	0.012	40.8%	0.34	0.006	20.4%
0.35	0.018	63.0%	0.35	0.012	42.0%	0.35	0.006	21.0%
0.36	0.018	64.8%	0.36	0.012	43.2%	0.36	0.006	21.6%
0.37	0.018	66.6%	0.37	0.012	44.4%	0.37	0.006	22.2%
0.38	0.018	68.4%	0.38	0.012	45.6%	0.38	0.006	22.8%
0.39	0.018	70.2%	0.39	0.012	46.8%	0.39	0.006	23.4%
0.40	0.018	72.0%	0.40	0.012	48.0%	0.40	0.006	24.0%
0.41	0.018	73.8%	0.41	0.012	49.2%	0.41	0.006	24.6%
0.42	0.018	75.6%	0.42	0.012	50.4%	0.42	0.006	25.2%
0.43	0.018	77.4%	0.43	0.012	51.6%	0.43	0.006	25.8%
0.44	0.018	79.2%	0.44	0.012	52.8%	0.44	0.006	26.4%
0.45	0.018	81.0%	0.45	0.012	54.0%	0.45	0.006	27.0%
0.46	0.018	82.8%	0.46	0.012	55.2%	0.46	0.006	27.6%
0.47	0.018	84.6%	0.47	0.012	56.4%	0.47	0.006	28.2%
0.48	0.018	86.4%	0.48	0.012	57.6%	0.48	0.006	28.8%
0.49	0.018	88.2%	0.49	0.012	58.8%	0.49	0.006	29.4%
0.50	0.018	90.0%	0.50	0.012	60.0%	0.50	0.006	30.0%