

SUBJECT: Performance-Based Incentive Compensation	SECTION: Compensation	HRS POLICY NUMBER: 4.150
EFFECTIVE DATE: March 15, 1985 (Amended by August 18, 2023 board action)	FOR USE BY: All Associates	
CONTACT: Director, HRS		

Purpose:

The State Teachers Retirement System of Ohio’s (“STRS Ohio” or “System”) mission is to provide Ohio’s public educators a foundation for their financial security. As a mature plan that pays out more annually in benefits than it receives in contributions, the System relies on the performance of its investments as a key source of funding for benefits. Thus, achieving the System’s investment objectives is central to sustaining and potentially enhancing long-term benefits for members. STRS Ohio’s investment beliefs include that internal asset management capabilities are a strategic advantage providing low-cost access to both active and passive strategies. 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, STRS Ohio targets a total compensation (base salary and Incentive Compensation) for PBI-eligible investment associates between 60% and 80% of a peer group of large/leading public funds, and may, on a case by case basis, vary from the target range based on factors including maintaining market competitiveness and internal equity. The Executive Director is responsible for ensuring these objectives are met and that the STRS Ohio annual operating budget submitted to the Board is adequate to achieve these objectives.

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 Ohio 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 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 Resource Services 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 (hired, transferred, or promoted) 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 newly 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, as documented in an updated individual PBI Incentive Memo.

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 by a factor of 4x the Total Fund Absolute Return, up to a maximum reduction of 50%. In the event a reduction of the earned incentive reaches the maximum of 50% (i.e., Total Fund Absolute Return at or below -12.5%), all incentives will be deferred for a one-year period.

See attachment D for an example of a negative Absolute Return reduction.

- Linking Incentive Compensation to the financial health of the System directly aligns the Program with member outcomes. Therefore;

If the Board's actuary determines the System does not have at least a de minimis amount available under its Sustainable Benefit Enhancement Plan (SBEP) for the fiscal year during which Incentive Compensation is scheduled for payment, the Incentive Compensation for each Eligible Associate will be reduced by 10%.

- A minimum of 20% 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. The total fund 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.
- Total Fund investment performance will be based on Net Relative Returns net of all investment management costs (internal and external) including carried interest and other fund expenses. Each asset class will be based on Relative Returns net of all external management fees and costs including (as applicable) carried interest and other fund expenses as per industry convention but no costs deducted for internal management. Consistent with industry standards, private market performance is lagged one quarter due to the timing and availability of financial information.

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. If an associate is promoted or laterally transferred, the associate's past long-term performance will be transferred to the 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. A value of no less than 5% will be assigned to any individual incentive goal. 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 Finance, Human Resource Services and Internal Audit (generally occurring 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 Associate's 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 Resource Services 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 program administration memos from Finance, Human Resource Services and Internal Audit which affirm each respective department has completed the above administration and that payouts have been calculated in accordance with Board policy, approve all individual Incentive Compensation and then submit the

recommended Incentive Compensation to the Board, typically in August, for final approval. Once a third-party performance verification firm confirms total fund performance is calculated and reported in accordance with the Global Investment Performance Standards (GIPS), approved Incentive Compensation will be processed for payment by Human Resource Services.

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 2024
Deputy Executive Director, Investments	95%
Assistant Director, Investments	95%
Director, Domestic Equities	95%
Director, International Equities	95%
Director, Fixed Income	95%
Director, Alternative Investment	95%
Director, Real Estate	95%
Director, Midwest Region	95%
Director, Western Region	95%
Director, Eastern Region	95%
Director, Southern Region	95%
Portfolio Manager, Equities	80%
Portfolio Manager, Director of Research, Equities	80%
Portfolio Manager, International	80%
Portfolio Manager, Fixed Income	80%
Portfolio Manager, Quantitative Equities	80%
Portfolio Manager, Alternative Investments	80%
Portfolio Manager, EAFE Quantitative	80%
Portfolio Manager, EAFE Value	80%
Portfolio Manager, Emerging Markets	80%
Portfolio Manager, REITs	80%
Managing Director, International Real Estate	80%
Director, Asset Allocation and Strategy, Investments	80%
Asset Management Director	80%
Acquisition Director	80%
Senior Economist	65%
Chief of Staff, Investments	65%
Consulting Analyst	65%
Head Trader	65%
Assistant Portfolio Manager, Equities	65%
Assistant Portfolio Manager, International	65%
Assistant Portfolio Manager, Fixed Income	65%
Assistant Portfolio Manager, Quantitative Equities	65%
Assistant Portfolio Manager, Alternative Investments	65%
Senior Asset Management Officer 2	65%
Senior Acquisition Officer 2 Manager, International Real Estate	65%
Senior Securities Trader	50%
Securities Trader	50%

General Guidelines for Allocating Incentive Goals

Attachment B

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

The allocation percentages listed below for the one year Asset Class and Total Fund performance represent minimum allocation levels. However, each Associate is generally expected to have on a combined basis, an effective weight on one year performance of at least 25%. The Portfolio/Industry group may include goals related to Individual Portfolios, industry sectors, analyst groups or other appropriate subsets within the relevant Asset Class. Private direct real estate is included in the Portfolio/Industry category for real estate positions. The "Asset Class" category for Fixed Income will include only the Core portfolio. Refer to Attachment D for an example of an incentive calculation and how these allocation percentages are used.

	Incentive Allocation Percentages	
	Assistant Director	All Other PBI Eligible Positions
Portfolio/Industry, if applicable³	50%	60%
1 Year Relative Performance	0%	0%
5 Year Relative Performance	50%	60%
Asset Class	20%	20%
1 Year Relative Performance	0%	0%
5 Year Relative Performance ⁴	20%	20%
Total Fund	30%	20%
1 Year Relative Performance	15%	10%
5 Year Relative Performance	15%	10%
Total Incentive Allocation	100%	100%

Notes:

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

The 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 40% allocation to the 5 year within the Asset Class level; and a 40% allocation to the 5 year within the Portfolio/Industry level. The Managing Director, International Real Estate position has a 30% allocation to the 5 year within the Portfolio/Industry level and a 50% allocation to the 5 year within the asset class level. Real Estate Acquisition positions have a 25% allocation to the 1 year and 35% allocation to the 5 year within the Portfolio/Industry group.

For the liquid asset classes, individuals within 5 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.

New Eligible Associates in the liquid asset classes have a 1 Year Asset Class Relative Performance goal in the first eligible fiscal year, which increases annually 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 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.

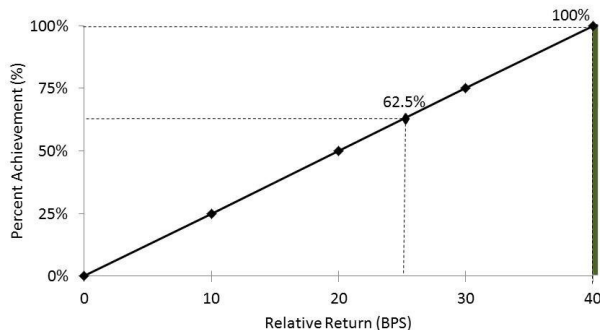
Incentive Compensation: The amount of the incentive payout that is earned by an Eligible Associate.

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 Goal	STRS Actual	Benchmark	Relative Performance	Maximum Incentive Hurdle	Percent Achieved	Associate's Allocation	Percentage Earned
Total Fund - one year	6.40%	5.90%	0.50%	+40 bp	100%	10%	10%
Total Fund - five year	9.00%	8.00%	1.00%	+40 bp	100%	10%	10%
Total Asset Class (Domestic Equities) - five year	12.50%	12.20%	0.30%	+35 bp	85.7%	20%	17%
Mid Cap Portfolio - five year	14.08%	13.70%	0.38%	+50 bp	76.0%	60%	46%
Total Percentage Earned (bp = basis points)						100%	83%
	¹ (C) = (A) / (B). If the result is greater than 100%, the percent of goal achieved is 100%. If the result is less than 100%, the percent of goal achieved is 0%.						
	² (D) is obtained from the Individual Associate PBI Incentive Memo.						
	³ Rounded to one decimal place						

Assume the investment associate is eligible for maximum incentive compensation of 80%. The percentage of incentive earned is calculated as follows:

Maximum Incentive Eligible	80.00%
Percentage Earned (from Chart 1 above)	<u>83.00%</u>
Incentive Earned	66.40%

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	<u>x 66.40%</u>
Incentive Payment	\$ 66,400.00

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. Reduction factor would be $-3.50 \times 4 = -14.00\%$ (per PBI policy).

Incentive Earned	\$66,400.00
Reduction Factor = $14\% \times \$66,400$	<u>\$ (9,296.00)</u>
Total Incentive Payment	\$57,104.00

Example 3 – Negative Absolute Return and SBEP

If the Board’s actuary determines the System does not have at least a de minimis amount available under its Sustainable Benefit Enhancement Plan (SBEP) for the fiscal year during which Incentive Compensation is scheduled for payment, the Incentive Compensation for each Eligible Associate will be reduced by 10%.

Incentive Earned (see example 2 above)	\$ 57,104.00
SBEP Adjustment (57,104.00 x 10%)	<u>\$ (5,710.40)</u>
Total Incentive Payment	\$ 51,393.60

STRS OHIO INCENTIVE PERFORMANCE WORKSHEET
Annualized Returns through June 30, 2022

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018	11/20-6/20
Liquidity Reserve Portfolio							
Liquidity Reserve Actual		0.16%	0.12%	1.47%	2.33%	1.35%	0.06%
90 Day T-Bill		0.17%	0.10%	1.63%	2.31%	1.36%	0.05%
Relative Performance	1 bps	-1	2	-16	2	-1	1

1-Year	5-Year	20-mos	2-Year
0.16%	1.08%	0.13%	0.14%
0.17%	1.11%	0.13%	0.13%
-1	-2	0	1

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018	4/20-6/20
Core Fixed Income							
Total Core Fixed Income Actual		-10.76%	1.90%	7.92%	7.87%	0.00%	4.88%
Barclays US Universal		-10.89%	1.12%	7.88%	8.07%	-0.28%	3.82%
Relative Performance	35 bps	13	78	4	-20	28	106

1-Year	3-Year	5-Year	27-mos
-10.76%	-0.63%	1.14%	-2.08%
-10.89%	-0.94%	0.94%	-2.92%
13	31	20	84

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018	4/20-6/20
Liquid Treasury Portfolio							
Liquid Treasury Actual		-6.30%	-1.16%	7.19%	6.23%	-0.66%	0.57%
Bloomberg Barclays US Intermediate Treasury		-6.35%	-1.18%	7.07%	6.19%	-0.76%	0.54%
Relative Performance	1 bps	5	2	12	4	10	3

1-Year	27-mos	5-Year
-6.30%	-3.11%	0.94%
-6.35%	-3.16%	0.87%
5	5	7

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Total Domestic Equities						
Total Domestic Equities Actual		-14.90%	46.29%	7.87%	8.74%	16.21%
Russell 3000		-13.87%	44.16%	6.53%	8.98%	14.78%
Relative Performance	35 bps	-103	213	134	-24	143

1-Year	2-Year	3-Year	4-Year	5-Year
-14.90%	11.58%	10.33%	9.93%	11.16%
-13.87%	11.43%	9.77%	9.58%	10.60%
-103	15	56	35	56

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Analyst Select Fund						
Russell 1000		-10.56%	43.81%	6.71%	8.29%	9.75%
Relative Performance	50 bps	248	74	-77	-173	-479

1-Year	3-Year	5-Year
-10.56%	11.13%	10.28%
-13.04%	10.17%	11.00%
248	96	-72

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Concentrated Select Fund						
Russell 1000		-10.50%	57.98%	-11.21%	10.09%	10.39%
Relative Performance	50 bps	254	1,491	-1,869	7	-415

1-Year	3-Year	5-Year
-10.50%	7.88%	8.81%
-13.04%	10.17%	11.00%
254	-226	-219

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018	1/19-6/19
Large Cap Growth							
Russell 1000 Growth		-25.83%	42.28%	27.70%	14.13%	25.49%	24.06%
Relative Performance	50 bps	-706	-22	442	257	298	257

1-Year	4-Year	5-Year	42-mos
-25.83%	11.36%	14.05%	15.82%
-18.77%	12.33%	14.29%	17.02%
-706	-97	-24	-120

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Large Cap Value						
Russell 1000 Value		-7.32%	44.38%	-6.39%	8.66%	11.72%
Relative Performance	50 bps	-50	70	245	20	495

1-Year	3-Year	5-Year
-7.32%	7.80%	8.75%
-6.82%	6.87%	7.17%
-50	93	158

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018	1/19-6/19
Mid Cap Growth							
Russell Midcap Growth		-31.94%	40.36%	16.71%	15.24%	24.02%	27.60%
Relative Performance	75 bps	-237	-341	480	130	550	152

1-Year	4-Year	5-Year	42-mos
-31.94%	6.47%	9.77%	10.60%
-29.57%	6.60%	8.88%	10.73%
-237	-13	89	-13

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Mid Cap Value Active						
Russell Midcap Value		-8.87%	55.09%	-9.44%	-1.40%	9.52%
Relative Performance	75 bps	113	203	237	-508	192

1-Year	3-Year	4-Year	5-Year
-8.87%	8.58%	5.99%	6.69%
-10.00%	6.70%	5.94%	6.27%
113	188	5	43

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Small Cap Select						
Russell 2000		-18.72%	56.59%	-6.61%	-9.93%	15.63%
Relative Performance	75 bps	648	-544	-198	-662	-194

1-Year	3-Year	5-Year
-18.72%	5.17%	3.91%
-25.20%	4.21%	5.17%
648	96	-123

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018	5/18-6/18
Quantitative 2000							
Russell 2000		-21.53%	63.70%	-9.89%	-4.67%	20.89%	7.93%
Relative Performance	50 bps	367	167	-326	-136	332	110

1-Year	5-Year	50 Months
-21.53%	5.93%	4.28%
-25.20%	5.17%	3.82%
367	76	46

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Total Equities						
Total Equity Actual		-13.49%	40.98%	1.79%	6.08%	11.99%
Total Equity Blended Benchmark ¹		-13.89%	39.20%	1.89%	6.17%	11.65%
Relative Performance	50 bps	40	178	-10	-9	34

1-Year	5-Year	4-Year
-13.49%		
-13.89%		
40		

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Global Quantitative						
MSCI All Country World Index		-16.48%	41.64%	-3.43%	4.17%	8.14%
Relative Performance	75 bps	-73	237	-564	-157	-259

1-Year	5-Year
-16.48%	5.17%
-15.75%	7.00%
-73	-183

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018
Total International Equities						
Total International Actual		-11.80%	34.39%	-5.17%	2.85%	7.15%
International Blended Benchmark ²		-14.09%	33.23%	-3.63%	2.70%	7.87%
Relative Performance	100 bps	229	116	-154	15	-72

1-Year	3-Year	4-Year	5-Year
-11.80%	3.97%	3.69%	4.37%
-14.09%	3.32%	3.17%	4.09%
229	65	52	28

STRS OHIO INCENTIVE PERFORMANCE WORKSHEET
Annualized Returns through June 30, 2022

	Maximum Incentive Hurdle	2022	2021	2020	2019	2018	9/18 - 6/19	5/19 - 6/19		1-Year	4-Year	5-Year	46 Months	38 Months
Internal Active Combined														
MSCI Emerging Markets ²		-19.60%	43.16%	-8.62%	6.70%	2.90%	4.69%	-0.03%		-19.60%	2.93%	2.92%	2.54%	1.60%
Relative Performance	100 bps	-25.29%	40.91%	-3.39%	1.21%	8.20%	1.78%	-1.47%		-25.29%	0.73%	2.18%	0.91%	0.07%
		569	225	-523	549	-530	291	144		569	220	74	163	153
International Value														
International Blended Benchmark ²		-7.74%	34.27%	-5.43%	3.76%	5.67%	2.92%	-0.47%	-5.47%	-7.74%	5.00%	5.13%	5.00%	4.97%
Relative Performance	100 bps	-14.09%	33.23%	-3.63%	2.70%	7.87%	2.12%	0.03%	-3.24%	-14.09%	3.17%	4.09%	3.15%	3.15%
		635	104	-180	106	-220	80	-50	-223	635	183	104	188	183
Structured EAFE														
MSCI World Ex US 50% Hedged		-10.58%	31.26%	-3.48%	3.51%	7.69%				-10.58%	4.78%			
Relative Performance	30 bps	-11.12%	31.13%	-3.79%	3.02%	7.68%				-11.12%	4.46%			
		54	13	31	49	1				54	32			
Quantitative EAFE Composite														
MSCI World Ex US 50% Hedged		-8.15%	32.70%	-10.27%	-1.64%	6.82%				-8.15%	2.82%			
Relative Performance	100 bps	-11.12%	31.13%	-3.79%	3.02%	7.68%				-11.12%	4.46%			
		297	157	-648	-466	-86				297	-164			
Emerging Quantitative														
MSCI Emerging Markets		-24.69%	42.59%	-10.10%	3.50%	6.49%				-24.69%	1.25%			
Relative Performance	100 bps	-25.29%	40.91%	-3.39%	1.21%	8.20%				-25.29%	2.18%			
		60	168	-671	229	-171				60	-93			
Total Real Estate														
Total Real Estate Actual		21.96%	8.01%	2.28%	7.60%	9.08%				21.96%	9.60%			
Real Estate Blended Benchmark ³		17.30%	11.64%	0.91%	7.37%	6.74%				17.30%	8.66%			
Relative Performance	100 bps	466	-363	137	23	234				466	94			
Direct Real Estate														
Direct Real Estate Actual		27.91%	3.10%	4.95%	6.16%	9.51%				27.91%	9.98%			
NPI		21.45%	7.37%	2.69%	6.51%	7.19%				21.45%	8.86%			
Relative Performance	100 bps	646	-427	226	-35	232				646	112			
International Real Estate														
International Real Estate Actual		17.92%	-0.05%	0.73%	12.91%	14.06%				17.92%	8.86%			
NPI		21.45%	7.37%	2.69%	6.51%	7.19%				21.45%	8.86%			
Relative Performance		-353	-742	-196	640	687				-353	0			
Custom Opportunistic Real Estate														
Custom Opportunistic Real Estate Actual		39.80%	9.79%	-1.18%	7.83%	13.98%				39.80%	13.27%			
NPI		21.45%	7.37%	2.69%	6.51%	7.19%				21.45%	8.86%			
Relative Performance		1,835	242	-387	132	679				1,835	441			
Alternative Investments														
Total Alternative Investments Actual		18.36%	44.99%	-1.03%	8.30%	13.59%				18.36%	15.27%			
AI Blended Benchmark ⁴		13.59%	43.92%	6.34%	8.86%	14.76%				13.59%	17.59%			
Relative Performance		477	107	-737	-56	-117				477	-232			
- or -														
Total Alternative Investments Actual			44.99%	-1.03%	8.30%	13.59%				0.00%	15.27%			
Alternative Investment policy return ⁷			7.09%	7.09%	7.09%	7.09%				0.00%	7.09%			
Absolute Achievement			3,790	-812	121	650				0	818			
Private Equity														
Private Equity Actual		23.21%	64.49%	6.26%	14.36%	19.69%				23.21%	24.37%			
Private Equity Benchmark ⁸		21.31%	45.57%	7.60%	10.07%	15.92%				21.31%	18.90%			
Relative Performance		190	1,892	-134	429	377				190	547			
- or -														
Private Equity Actual			64.49%	6.26%	14.36%	19.69%				0.00%	24.37%			
Private Equity policy return ⁷			8.15%	8.15%	8.15%	8.15%				0.00%	8.15%			
Absolute Achievement			5,634	-189	621	1,154				0	1,622			
Opportunistic/Diversified														
Opportunistic/Diversified Actual		11.80%	24.07%	-7.49%	2.72%	8.11%				11.80%	6.25%			
Opportunistic/Diversified Benchmark ⁹		8.29%	42.77%	5.47%	7.91%	13.65%				8.29%	16.57%			
Relative Performance		351	-1,870	-1,296	-519	-554				351	-1,032			
- or -														
Opportunistic/Diversified Actual			24.07%	-7.49%	2.72%	8.11%				0.00%	6.25%			
Opportunistic/Diversified policy return ⁷			6.35%	6.35%	6.35%	6.35%				0.00%	6.35%			
Absolute Achievement			1,772	-1,384	-363	176				0	-10			
Total Fund														
Total Fund Actual		-3.61%	29.28%	3.14%	7.13%	9.57%				-3.61%	8.57%			
Total Fund Blended Benchmark ⁴		-5.62%	27.98%	3.07%	7.30%	8.94%				-5.62%	7.79%			
Relative Performance		2.01%	1.30%	0.07%	-0.17%	0.63%				2.01%	0.78%			
Costs not reflected in Total Fund Actual		-0.12%	-0.12%	-0.13%	-0.14%	-0.14%				-0.12%	-0.13%			
Relative Performance, net of fees	40 bps	189	118	-6	-31	-49				189	65			

STRS OHIO INCENTIVE PERFORMANCE WORKSHEET
Annualized Returns through June 30, 2022

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 2022 are as follows:

Benchmark	Jun 30, 2021	Asset Class
Russell 3000	28	Domestic Equities
International Blended Benchmark	23	International Equities
Fixed Income Blended Benchmark	21	Fixed Income
Bloomberg Barclays U.S. Universal	16	Core Fixed Income
Bloomberg Barclays US Intermediate Treasury	5	Liquid Treasury Portfolio
Real Estate Blended Benchmark	10	Real Estate
Alternative Investments Actual Return ⁵	17	Alternative Investments
Private Equity	7	Private Equity
Opportunistic/Diversified	10	Opportunistic/Diversified
90 Day T-Bill	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.



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Memo

To: Portfolio Manager, Equities
From: Executive Director
Date: July 1, 2023
Subject: Investment Department Associate Incentive Program

You are eligible to participate in the Performance Based Incentive Program (“Program”) for fiscal year 2024, which was approved by the Board on August 18, 2023 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 80% of your annual base salary.

Annual incentive payment is subject to Total Fund Absolute Return and SBEP adjustment as outlined in the PBI policy.

Your incentive goals for fiscal 2024:

Earned	Allocation	Goal
%	10%	STRS Ohio Total Fund performance (one year)
%	10%	STRS Ohio Total Fund performance (five years)
%	20%	Total Domestic Equities Asset Class Performance (five years)
%	60%	Mid Cap Value Portfolio Performance (five years)
%	100%	TOTAL

↓

$$\frac{\text{(Earned)}}{\text{(Maximum Eligible Compensation)}} \times \frac{\text{(Absolute Return Reduction Factor)}}{\text{(SBEP Factor)}} = \text{(Incentive Payable)}$$

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.