TEACHERS' RETIREMENT BOARD

COMPENSATION COMMITTEE

SUBJECT: Disclosure of Incentives for Statutory Posit 2012-13 Plan Year	tions for the ITEM NUMBER: 4
CONSENT: X	ATTACHMENT(S): 1
ACTION: D	ATE OF MEETING: November 6, 2013
INFORMATION:	PRESENTER(S): <u>Cassandra Lichnock</u>

PURPOSE

The purpose of this item is to disclose to the board a summary report of incentive awards for participants covered under the board's policy, Section 700 C, Compensation Policies and Procedures for Designated Executive Management and Investment staff (Compensation Policy), for FY 2012-13.

DISCUSSION

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

Participants within the incentive pay plan are eligible for maximum incentive opportunities based on quantitative and qualitative measures which vary by position and associated The board's compensation principles incorporate a clear direction that responsibility. quantitative incentives are only earned when investment performance is above identified benchmarks. Those benchmarks are delineated by the board's Compensation Committee with the assistance of its compensation consultant, as well as its overall investment consultant, and are regularly reviewed and updated as necessary. As a defined benefit pension system, our investment outlook is long-term. Quantitative measures are based on three-year average returns of the total portfolio and asset classes. During FY 2012-13, the three-year average for the total portfolio return did not exceed the target benchmark. This resulted in no incentives being awarded for that component of the incentive, which ranges from 30-50 percent of the total opportunity based on position. Qualitative measures are focused on the current plan year and include personal evaluation components. In some cases where there was no incentive being awarded for total portfolio or asset class performance, an award could be made for the qualitative components.

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An annual report summarizing incentives awarded to eligible staff is provided in Attachment 1. This report catalogs staff's annual base salary, the maximum incentive award percentage opportunity, the actual incentive percentage achieved, and the resulting dollar amount of the incentive awarded for those subject to the board's compensation setting policy. In addition, the report includes Investment Officer IIIs, whose compensation and incentive parameters are set by the State's collective bargaining process and administered in alignment with the board's Compensation Policy. The quantitative elements of the incentive awards were reviewed and verified by an independent investment consultant, Hewitt EnnisKnupp, Inc. All of the awards were made in compliance and disclosed per the board's Compensation Policy.

Per board policy, the actual compensation awards are calibrated to represent a very small portion of the above-benchmark value that staff could create. During FY 2012-13 Global Equity, Corporate Governance and Fixed Income each outperformed their benchmarks, equating to an additional \$390 million in income for CalSTRS based upon specific staff decisions (net of fees). The incentive payments for this fiscal year, totaling \$ 1.87 million, represent 0.48 percent of the value added from those specific investment decisions.

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

FY 2012-13 Disclosure

		Max Incentive % Allowed	Actual Incentive % Achieved	*Annual Salary for Incentive Calculation	** Award	Notes		
EXECUTIVES								
Jack Ehnes	Chief Executive Officer	80%	42.67%	\$315,000	\$134,400			
Christopher Ailman	Chief Investment Officer	100%	36.65%	\$365,004	\$133,773			
DIRECTORS								
Michelle Cunningham	Acting Deputy CIO	75%	25.49%	\$240,000	\$61,164			
Michelle Cunningham	Acting Deputy CIO	30%	30.00%	\$240,000	\$72,000	Acting DCIO Pay Differential		
Anne Sheehan	Corporate Governance	75%	52.50%	\$210,000	\$110,250			
Trish Taniguchi	Global Equity	75%	25.13%	\$86,197	\$21,657	Retired - Pro-rata (5 mos)		
Steven Tong	Innovation & Risk	75%	32.48%	\$219,996	\$71,444			
Debra Smith	Operations	30%	13.59%	\$134,196	\$18,233			
Margot Wirth	Private Equity	75%	15.00%	\$204,756	\$30,713			
Mike DiRe	Real Estate	75%	10.50%	\$240,000	\$25,200			
PORTFOLIO MANAGERS								
Janice H-Amey	Corporate Governance	75%	47.55%	\$169,980	\$80,825			
Brian Rice	Corporate Governance	40%	26.96%	\$144,996	\$39,091	Appointed 7/1/12 1st year under plan		
Deborah Contini	Fixed Income	75%	49.95%	\$169,512	\$84,671	1		
Glenn Hosokawa	Fixed Income	75%	52.50%	\$195,386	\$102,578	Salary includes Acting Dir Pay (7/1/12 - 06/30/13)		
R. Lucchesini-Jack	Fixed Income	60%	39.96%	\$144,996	\$57,940	2nd year under plan		
Margaret Morris	Fixed Income	75%	52.50%	\$167,844	\$88,118			
John Perez	Fixed Income	75%	49.35%	\$169,512	\$83,654			
Paul Shantic	Fixed Income	75%	52.50%	\$195,386	\$102,578	Salary includes Acting Dir Pay (7/1/12 - 06/30/13)		
David Castillo	Global Equity	75%	27.38%	\$177,976	\$48,721	Salary includes Acting Dir Pay (12/29/12 - 06/30/13)		
David Murphy	Global Equity	75%	27.37%	\$159,914	\$43,776	Salary includes Acting Dir Pay (12/29/12 - 06/30/13)		
Diloshini Seneviratne	Infrastructure	75%	37.50%	\$162,132	\$60,800			
Glen Blacet	Innovation & Risk	75%	28.42%	\$167,832	\$47,706			
Carrie Lo	Innovation & Risk	60%	25.98%	\$152,244	\$39,553	2nd year under plan		
Solange Brooks	Private Equity	75%	12.00%	\$170,328	\$20,439			
Seth Hall	Private Equity	75%	12.45%	\$169,512	\$21,104			
Mahboob Hossain	Private Equity	40%	6.00%	\$116,802	\$7,008	Appointed 9/11/12 1st year under plan (9.67 mos)		
Richard Rose	Private Equity	75%	12.75%	\$172,560	\$22,001			
Deanna Winter	Private Equity	75%	11.70%	\$167,844	\$19,638			
Greg Nyland	Real Estate	75%	15.00%	\$172,560	\$25,884			
Henry Thomas	Real Estate	75%	12.30%	\$177,624	\$21,848			
Mike Thompson	Real Estate	75%	12.75%	\$172,560	\$22,001			
				Sub Total	\$1,718,768			

		Max Incentive	Actual Incentive	*Annual Salary for	**	
		%	%	Incentive	Award	
		Allowed	Achieved	Calculation		Notes
INVESTMENT OFF	ICER IIIs					
Philip Larrieu	Corporate Governance	15%	10.50%	\$108,276	\$11,369	
Aeisha Mastagni	Corporate Governance	15%	10.50%	\$108,276	\$11,369	
Geetha Arani	Fixed Income	15%	10.02%	\$98,617	\$9,881	
Roy Clothier	Fixed Income	15%	9.96%	\$108,276	\$10,784	
Dan Depner	Fixed Income	15%	9.84%	\$93,918	\$9,242	
Catherine Di Salvo	Fixed Income	15%	10.02%	\$95,868	\$9,606	
Ian McCarty	Fixed Income	15%	10.50%	\$103,116	\$10,827	
April Wilcox	Fixed Income	15%	9.99%	\$93,918	\$9,382	
Jason Crawford	Global Equity	15%	5.02%	\$102,298	\$5,140	
Wilson Yee	Global Equity	15%	5.03%	\$108,276	\$5,441	
Wayne Yim	Global Equity	15%	5.15%	\$11,894	\$612	Moved from Operations 05/22/13 (1.32 mos)
Melissa DaRonco	Operations	15%	6.79%	\$93,918	\$6,380	
Deborah Kanner	Operations	15%	6.43%	\$105,696	\$6,800	
Kimberly McDonnell	Operations	15%	6.79%	\$99,026	\$6,727	
Wayne Yim	Operations	15%	6.46%	\$96,382	\$6,230	Moved to Global Equity 5/22/13 (10.68 mos)
Matthew Schroeder	Operations	15%	6.40%	\$91,757	\$5,876	Appointed 7/9/12 (11.8 mos)
Haytham Sharief	Operations	15%	6.40%	\$91,757	\$5,876	Appointed 7/9/12 (11.8 mos)
Mahboob Hossain	Private Equity	15%	2.55%	\$21,054	\$537	Promoted to PM 9/11/12 (2.33 mos)
Delfina Palomo	Private Equity	15%	2.61%	\$100,662	\$2,627	
Jean Kushida-Uda	Private Equity	15%	1.95%	\$108,276	\$2,111	
Kathleen Williams	Private Equity	15%	2.52%	\$108,276	\$2,729	
Daniel Clark	Real Estate	15%	2.55%	\$93,918	\$2,395	
Bruce Deutsch	Real Estate	15%	2.46%	\$106,126	\$2,611	
Don Palmieri	Real Estate	15%	3.00%	\$108,276	\$3,248	
		•		Sub Total	\$147,800	

Total Incentive Awards: \$1,866,568

Total incentive comp as a % of salary: 23.3% (sum of awards/sum of salaries)

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

^{*} Annual salary for incentive calculation does not reflect furlough or Personal Leave Program 2012/13 reduction.

^{**}Award is rounded to the nearest whole dollar.