CALSTRS

Regular Meeting

Item number 8b – Open session

Subject: Disclosure of Incentives for Statutory Positions for the 2025-26 Plan Year

Presenter(s): Chairperson

Item type: Consent information

Date and time: November 5, 2026 0 minutes

Attachment(s): Incentive Award Disclosure

PowerPoint presentation(s): None

Item 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 6, Compensation Policy for Designated Executive Management and Investment Staff for FY 2025-26.

Executive Summary

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

Participants within the incentive pay plan are eligible for maximum incentive opportunities based on quantitative and qualitative measures which vary by position and associated responsibility. The board's compensation principles incorporate a clear direction that quantitative incentives are only earned when investment performance is above identified benchmarks. As a defined benefit pension system, our investment outlook is long-term. Quantitative measures are based on three-year returns of the total portfolio and asset classes. In FY 2025-26, the three-year return for the total portfolio exceeded the target benchmark. This resulted in incentives being awarded for that component, which range from 15-50 percent of the total opportunity based on position. Qualitative measures are focused on the current plan year and include personal evaluation components.

At its September 2026 meeting, the board conducted annual performance appraisals of the Chief Executive Officer (CEO) and Chief Investment Officer (CIO) for the 2025-26 performance year and determined the amount of the CEO's and CIOs annual incentive award.

The specific evaluation criteria and weightings used to determine the incentive award for the CEO are Long Range Strategic Planning (40 percent), Total Investment Portfolio Performance (30 percent) and Personal Performance (30 percent). The maximum incentive opportunity for the CEO is 150 percent of the base salary for 2025-26 fiscal year. The incentive metric for Total Investment Portfolio Performance (3-year returns) generated an incentive award of $225,010. Based on the board's assessment of the remaining two measures, the CEO's 2025-26 incentive award is calculated to be $750,035. This represents an award of 149.25 percent of the base salary of $502,536 for the 2025-26 fiscal year.

The specific evaluation criteria and weightings used to determine the incentive award for the CIO are Average of Asset Class Performance (25 percent), Total Investment Portfolio Performance (50 percent) and Personal Performance (25 percent). The maximum incentive opportunity for the CIO is 200 percent of the base salary for the 2025-26 fiscal year. The incentive metric for Total Investment Portfolio Performance (3-year returns) generated an incentive award of $503,115. The portion of the incentive weighted towards the Average of Asset Class Performance generated an award amount of $251,558. Based on the board's assessment of the CIO's personal performance, the CIO's 2025-26 total incentive award is calculated to be $1,006,231. This represents an award of 176.19 percent of the base salary of $571,104 for the 2025-26 fiscal year.

The CEO reviews and approves the incentive awards for all other incentive plan participants. All awards were made in compliance with and disclosed per the board's Compensation Policy and its Administrative Procedures.

An annual report summarizing incentives awarded to all eligible incentive plan participants is provided in Attachment 1. This report identifies the staff person'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 that are subject to the board's compensation setting policy. In addition, the report includes Investment Officer IIIs and IIs, 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 the board's compensation consultant, Mercer.

Per board policy, the actual compensation awards are calibrated to represent a very small portion of the above-benchmark value that staff could create. As of the fiscal year ending June 30, 2026, the 3-year returns for Total Fund, Fixed Income, Private Equity, Global Equity, Collaborative Strategies Innovation, Risk Mitigating Strategies, and Inflation Sensitive outperformed their benchmarks and contributed to the overall alpha of the Total Fund. The 3-year return of the Total Fund's outperformance equates to approximately $5.2 billion in income for CalSTRS based upon

specific staff decisions (net of fees). The incentive payments for this fiscal year, totaling $21.8 million, represent 0.42 percent of the value added from those specific investment decisions.

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

Strategic Plan linkage: Goal 1: Trusted Stewards with Objective A: Achieve full funding of the Defined Benefit Program by June 30, 2046.

Board Policy linkage: The Teachers' Retirement Board's Governance Manual, Section 6, Compensation Policy for Designated Executive Management and Investment Staff and its Administrative Procedures.