

SUBJECT: Performance-Based Incentive Compensation	SECTION: Compensation	HRS POLICY NUMBER: 4.150
EFFECTIVE DATE: March 15, 1985 (Amended by May 20, 2026 board action)	FOR USE BY: All Associates	
CONTACT: Human Resource Services		

Purpose and Philosophy:

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. The System relies on the performance of its investments to supplement member and employer contributions to meet funding objectives including sustainable benefit changes and strengthening the fund. Achieving the System's long-term investment objectives is central to taking steps to adjust benefits while preserving the fiscal integrity of the system as determined by the board's actuary. 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 management talent.

To attempt to compete effectively for investment management talent, STRS Ohio targets a total compensation (base salary and Performance-Based Incentive Compensation ("PBI")) for 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 ("ED") 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.

Allocating a portion of total compensation to PBI properly incentivizes investment performance and creates alignment between investment associates and Ohio's public educators, as Earned PBI denotes investment performance more than benchmarks.

This Performance-Based Incentive Compensation Program ("PBI Program" or the "Program") in conjunction with base salary is designed to attract, incentivize, compensate and retain highly qualified investment associates for achieving and sustaining outstanding investment performance. As STRS Ohio is a long-term investor, the Program is aligned with the System's mission and the achievement of STRS Ohio's overall long-term investment performance.

Board Approval:

The Program and any Performance-Based 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.

Annual Compensation Review:

To ensure competitive compensation for investment professionals, STRS Ohio will conduct an annual review and update of compensation, guided by the investment compensation philosophy in this policy. An external compensation consultant will provide up-to-date market data and trends annually. Additionally, every three years, an external compensation consultant will provide a full market review of data and trends. The Human Resource Services department, with the ED and Deputy Executive Director, Investments / Chief Investment Officer ("CIO") will review the data and make recommendations for adjustments, if any, which will be reviewed by the Retirement Board's Human Resources Committee (with advisement from the Retirement Board's Investment

Committee) and approved by the board. This policy ensures that compensation remains aligned with market standards and internal equity considerations.

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 ("Eligible Associates", each an "Eligible Associate"). The relative degree of value added is reflected in the Percentage of Total Compensation allocated to PBI at each Salary Grade, as outlined in Appendix A. Part-time associates are not eligible to participate in the Program. Eligible Associates must be employed by STRS Ohio on a continuous basis through the date of payment (except in the case of a death that occurs between the fiscal year end and date of payment) in order to be eligible for PBI.

Program Requirements:

- **Quantitative Goals:** Only quantitative goals will be utilized; subjective goals will not be used.
- **Projected PBI:** for board oversight purposes, fiscal year Projected PBI is calculated to equal the Total Achievable PBI (as shown in Appendix B) multiplied by the Trailing 10-Year Average Achievement (as shown in Appendix C), rounded *up* to the nearest whole million dollars. Appendix D calculates a Projected PBI Range, for which lower and upper bounds are calculated as the Total Achievable PBI multiplied by the Trailing 10-Year Average Achievement minus and plus 10%, respectively, each rounded to the nearest whole million dollars.

Total Fund and Asset Class benchmarks and Expected Active Management Net Returns for each Asset Class are determined in advance by the Statement of Investment Objectives and Policy.

The Total Achievable PBI is based on Net Relative Return exceeding Expected Active Management Net Returns (where applicable) for trailing 1-year and 5-year periods for Total Fund and trailing 5-year periods for Asset Classes.

The fiscal year 2027 Projected PBI equals \$12,000,000 with a Projected PBI Range of \$9,000,000 to \$13,000,000 as illustrated in Appendix D. For the avoidance of doubt, Projected PBI for performance earned in a fiscal year will be paid in the subsequent fiscal year (e.g. earned fiscal year 2027 PBI will be paid during fiscal year 2028).

- **Program Administration Guidelines and Procedures:** For purposes of individual incentivization STRS Ohio Human Resource Services ("HRS"), under the direction of the ED, will maintain the associate-level Program Administration Guidelines and Procedures. The CIO will advise HRS of the Individual Portfolios and goals. The following parameters will be incorporated into Program Administration Guidelines and Procedures:
 - Total Fund Net Relative Return: A minimum of 20% of every Eligible Associate's PBI 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 required for full incentive achievement will be based on the board's current Expected Active Management Net Returns as defined in the annual Statement of Investment Objectives and Policy.
 - Asset Class Net Relative Return: A minimum of 20% of every Eligible Associate's PBI will be based on the performance of the Eligible Associate's primary Asset Class, net of expenses.
 - Active management incentive: no more than 60% of every Eligible Associate's PBI will be based on Individual Portfolio performance and the Eligible Associate's individual goals, measured on a gross or net basis, as appropriate.
 - Earned PBI is determined when:

- At the end of an incentive period, the STRS Ohio Finance Department (“Finance”) calculates the performance of the Total Fund, Asset Classes and Individual Portfolios in comparison to benchmarks.
- A third-party performance verification firm confirms performance is calculated and reported in accordance with the Global Investment Performance Standards;
- STRS Ohio Internal Audit and HRS review incentive calculations to verify the Program is in compliance; and
- The ED reviews memos from Finance, Human Resource Services and Internal Audit that affirm completion of the above steps.

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.

APPENDICES:

A – PBI Percentage of Total Compensation by Salary Grade

B – Total Achievable PBI

C – Trailing 10-Year Average Achievement

D – Fiscal Year 2027 Projected PBI and Projected PBI Range

E – Definitions

APPENDIX A

Percentage of Total Compensation Allocated to PBI by Salary Grade

Grade	Percentage of Total Compensation
T1	33%
T2	33%
T3	43%
I1	20%
I2	33%
I3	38%
I4	43%
I5	44%
I6	50%
I7	50%
I8	52%
I9	55%

APPENDIX B

Total Achievable PBI

Asset Class	Benchmark	Expected Active Management Net Returns (%)	Achievable PBI (Min)	Achievable PBI (Max)	Percent of Total (Max)
Domestic Equity	Russell 3000 Index	0.13	\$0	\$ 4,303,120	21%
International Equity	International Blended Benchmark	0.5	\$0	\$ 2,800,142	14%
Private Equity	Cambridge Associates Private Equity & Venture Capital Index		\$0	\$ 1,241,356	6%
Private Credit	Cambridge Associates Private Credit Index		\$0	\$ 1,163,420	6%
Liquid Alternatives	SG Multi Alternative Risk Premia Index	0.3	\$0	\$ 638,132	3%
Fixed Income			\$0	\$ 1,258,820	6%
-Core Plus Fixed Income -Liquid Treasury -Long Treasury -Liquidity Reserves	Bloomberg U.S. Universal Index Bloomberg U.S. Intermediate Treasury Index Bloomberg U.S. Long Treasury Index 90-Day Treasury Bill	0.28			
Real Estate	Real Estate Blended Benchmark		\$0	\$ 4,039,162	20%
Total Fund 1-Year	Total Fund	0.3	\$0	\$ 2,148,560	11%
Total Fund 5-Year	Total Fund	0.3	\$0	\$ 2,766,685	14%
Total Achievable PBI		0.3	\$0	\$ 20,359,397	100%

APPENDIX C

Trailing 10-Year Average Achievement

Fiscal Year	(A) Earned PBI (\$)	(B) Total Achievable PBI (\$)	(A) / (B) Achievement (%)
2025	6,370,137	12,530,600	51%
2024	7,306,826	12,916,891	57%
2023	8,579,100	15,694,594	55%
2022	9,655,708	14,629,861	66%
2021	6,689,501	14,715,136	45%
2020	7,259,183	14,781,477	49%
2019	7,780,238	14,482,945	54%
2018	8,886,078	14,603,250	61%
2017	9,222,061	13,926,398	66%
2016	7,372,751	13,461,295	55%
Trailing 10-Year Average Achievement			56%

APPENDIX D

Fiscal Year 2027 Projected PBI and Projected PBI Range

Projected PBI (at 56%)	\$12,000,000
Projected PBI Lower Bound	46%
	\$9,000,000
Projected PBI Upper Bound	66%
	\$13,000,000

APPENDIX E

Definitions

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 fixed income (including core plus fixed income, liquid treasury portfolio, long treasury portfolio, liquidity reserves), domestic equity, international equity, real estate, private equity, private credit and liquid alternatives. Asset Classes can be used as components of both primary Asset Class and Individual Portfolio goals.

Earned PBI: The amount of the incentive payout that is earned by Eligible Associates.

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.

Maximum Eligible PBI: This is the highest performance-based incentive percentage that can be earned by an Eligible Associate and is based on full 100% achievement of the Eligible Associate's incentive goals.

Net Relative Return: The return that is achieved over a period of time compared to a benchmark over the same period of time after all investment management costs have been deducted. Investment management costs include external manager fees, investment department salaries, PBI, benefits and the allocation of ITS costs and other expenses. The investment management costs are calculated by Finance throughout the fiscal year and reported annually on a calendar year basis by CEM Benchmarking Inc. Total Fund and Asset Class Net Relative Returns are measured.

Percentage of Total Compensation Allocated to PBI: The proportion of an Eligible Associate's total compensation that can be earned through the PBI Program.

Projected PBI: A single point estimate of PBI for a fiscal year calculated by multiplying Total Achievable PBI by Trailing 10-Year Average Achievement rounded *up* to the nearest whole million dollars.

Projected PBI Range: Total Achievable PBI multiplied by the Trailing 10-Year Average Achievement minus and plus 10%, respectively, each rounded to the nearest whole million dollars.

Salary Grade: A structured level within the compensation system that defines the minimum and maximum pay range for a specific group of jobs with similar responsibilities and skills.

Trailing 10-Year Average Achievement: For the trailing 10-year period, the aggregate of Earned PBI divided by the aggregate of Total Achievable PBI.

Total Achievable PBI: The aggregate of all Eligible Associate's Maximum Eligible PBI's.

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. For PBI purposes, seven primary Asset Classes make up this composite and both internally and externally managed accounts are used.