

CalSTRS Report, January 30,31, 2019

Summary

- 1.** Denise Bradford, a teacher from Orange County will be replacing Board member Dana Dillon who is retiring from the CalSTRS Board.
- 2.** December 2018 was the worst December on record; fortunately, the market rebounded in January. The CalSTRS fund went from 214.8 billion in December to \$221 billion in January.
- 3.** The 2019 risks are volatility, President's tweets, and Brexit.
- 4.** The Governor's Budget Proposal includes \$5.9 billion in supplemental contributions to CalSTRS. It will decrease the total amount of payroll needed by school districts and by teachers by about 5%.

Board Governance Committee

The Committee heard a presentation on CalSTRS trustee orientation: current practice, trends, and future direction. Of note, under Board member responsibilities-code of conduct, not to allow political interference, follow disclosure and reporting requirements, and consider diversity of experience and opinions. Under education policy the Board has adopted orientation programs, fiduciary education, ethics training.

Next the Committee reviewed the Board Policy Manual and proposed revisions. Board travel and education were discussed. CalSTRS will reimburse members for reasonable travel expenses. Reporting requirements were reviewed. Board does not pay for personal expenses and expenses of family members. Travel is required for any public meeting of the CalSTRS Board and for Board education.

Investment Committee

It was announced that Denise Bradford, a teacher from Orange County will be replacing Board member Dana Dillon who is retiring from the CalSTRS Board.

Chris Ailman, Chief Investment Officer presented an overview of CalSTRS Investment Beliefs. Beliefs of interest were: 1. Investment returns should double contributions, 2. 8.2% return over a 30 year period, 3. Liability has increased because teachers are living longer, 4. Expect volatility, never average, 5. CalSTRS has a 30 year investment policy – don't worry about one year.

There really are not that many stock downturns – '73-74, 2011, 2013. Asset allocation is the most important investment decision. CalSTRS has gone from 1984 asset allocation of 80 fixed income, 20 equities, to 2018 asset allocation of 20 fixed income, 80 equities. In addition there were 7 active teachers for each CalSTRS retiree in 1980. By 2019 CalSTRS has 1 active teacher for 8 retirees.

Next the Committee heard a presentation on the U.S. and international economy by Nancy Lazar, CEO of Cornerstone Macro. Nancy reported that the United States is driving world economic growth (the tanker) while China is volatile (the speed boat). She sees no immediate recession. Monetary and Fiscal Policy are driving the economy. Corporate profits are now 10% or more and capital spending has increased. China's economic policy is volatile as is its economy. Chinese growth is fading.

Don Rissmiller, Chief Economist at Strategas presented his outlook. This has been the longest growth cycle without a recession in U.S. history. However, the U.S. economy is slowing down. However, don't expect a recession soon. The risks are U.S. and China trade, and Brexit. Rissmiller sees the future as positive: small increase in wage growth and employment, an increase in health care spending.

The committee heard a brief overview of the asset classes and liability.

Chris Ailman, CIO gave the 2018 Investment report. December 2018 was the worst December on record; fortunately, the market rebounded in January. The CalSTRS fund went from 214.8 billion in December to \$221 billion in January. The United States stocks were down 5.2% and non-U.S. stocks were down 13.3% for 2018. The 2019 risks are volatility, President's tweets, and Brexit.

Debra Smith presented the annual cost report. Costs have gone up from \$1.5 billion in 2015 to \$1.8 billion in 2017. However, internally managed investments

represent 44% of the dollar amount of the CalSTRS portfolio and have only 3% of the costs. It is much cheaper, other concerns being similar, to internally manage the investments. Based on a comparison with its peers, CalSTRS is a low cost fund. Real Estate and private equity investments have lower returns because it is necessary to share returns with managers.

Scott Chan presented benchmark education. Usually CalSTRS uses markets for benchmarks. But it can use peer group, absolute return, or blended or custom measurements, especially for investments which do not have a large presence in markets.

June Kim gave a report on global equity. For U.S. equity CalSTRS uses the Custom Russell 3000 index. For non-U.S. equity the benchmark is the MSCI All Country World Investable Market Index excluding U.S.

Chris Ailman, Chief Investment Officer, reported on sustainable investment and stewardship strategies. Anne Sheehan has retired and Kirsty Jenkinson is the new director. It is time to review the ESG issues and sustainable development goals.

The next Investment Committee meeting will be on May 8, 2019.

Client Advisory Committee

Joycelyn Marinez-Wade presented legislative updates. At this time legislation is not titled or numbered. The last day for introduction of new legislation is February 22. A proposed Assembly Bill will make changes to the CalSTRS retirement law including-removal of obsolete sections, clarification of beneficiaries' designation, employer certification for refund applications, and remuneration in addition to salary. Another proposed bill will make minor changes to provisions regarding membership in the Defined Benefit Program and Cash Balance Benefit Program.

AB33 (Bonta) introduced in December will prohibit CalSTRS and CalPERS from making additional investments and to divest in private prison companies> CoreCivic and Geo Group.

The Governor's Budget Proposal includes \$5.9 billion in supplemental contributions to CalSTRS. It will decrease the total amount of payroll needed by school districts and by teachers by about 5%.

The Pension Solution Computer Project is concentrating on employer readiness and training.

Teachers' Retirement Board

The Board meeting calendar for 2019-20 was presented. Board meetings are July 10,11,12; September 11,12,13; November 6,7,8. Board meetings for 2020 are January 29,30,31; March 4,5,6; May 6,7,8.

The Board will adopt the new file format that employers must use when submitting member contributions to the new Pension Solution computer program. The Board will direct the CEO to schedule and hold hearings. CalSTRS will have some flexibility so districts can elect to report directly or through their County Office of Education. Board member Vargas asked CalSTRS to request that the Governor help finance district reporting changes.

Grant Boyken, reported on legislation. AB33 (Bonta) requires divestment from private prisons. Board member Rosenstiel requested that the Board oppose AB33 since the Board does not want the Legislature telling CalSTRS what to do.

CalSTRS funding plan was reviewed. The Committee discussed what to report to the Legislature July 1, 2019. Today, the State contribution rate is higher than projected and the employer rate is projected to be lower long-term. In May the CalSTRS staff will return with a draft of the report for approval.

The Committee heard a report on the strategic plan. Over the next year CalSTRS will interview staff and members with a focus on new items that will influence CalSTRS. The priorities are Financial Governance, Digital Transformation, Member/Employer, and Organizational strength.

Staff reported on the Headquarters Expansion Project. \$300 million is the estimate. Ridge Capital will monitor the building progress and report to the Board.

The Pension Solution Project is in the process of testing the completed project. Employer readiness testing and assessment starts in the fall of 2019 and continues to 2021. The completed project will go live 2020-21.

Jack Ehnes, CEO reported that the Governor's Plan is for the State to contribute \$5.9 billion to the CalSTRS defined benefit program. \$3 billion would reduce the employer portion and \$2.9 billion would reduce the State's portion of the DB program.

CalSTRS Report March 2019

By Pat Geyer, CalRTA representative to CalSTRS

Summary

1. Board and Committee meetings: July 20-12, 2019, September 4-6, 2019, November 2-8, 2019, January 29-31, 2020, March 4-6, 2020, and May 6-8, 2020.
2. Headquarters Expansion Project is on schedule. The plan is to begin construction later this year
3. Asset allocation changes are that the Inflation Sensitive target is increased from 2% to 3%. Global Equity is reduced from 53% to 51%, and Fixed Income will remain at 13% rather than being reduced to 12%.
4. William Prezant has been appointed to the CalSTRS Board by Governor Newsom.
5. Chris Ailman spoke of the need to focus on climate and on China.
6. The CalSTRS fund is \$225.3. It has been a flat year
7. Investment performance for 2017 was -3.2%, closing the year with the worst month of December in history

Compensation Committee

The Committee heard a report on compensation strategies for CEO and CIO transition. The Chief Operating Officer and the Deputy Chief Investment Officer are established to oversee operational functions of CalSTRS and minimize interruptions to the ongoing day-to-day work during any transition period. CalSTRS has also established executive search firm relationships and has contracts to engage such services when one of these two leadership positions becomes vacant. Recruitment information will be addressed at the appropriate future date.

Teachers' Retirement Board

The Board approved the following Board calendar for Board and Committee meetings: July 10-12, 2019, September 4-6, 2019. November 2-8, 2019, January 29-31, 2020, March 4-6, 2020, and May 6-8, 2020.

The Board took action on the following legislation: **AB 181** (Rodriguez) Emerging Managers Report (support); **AB706** (Low) Sick Leave Transfer for Community College Faculty (neutral); **SJR 3 and HR 141** Social Security Offset Repeal and Social Security Fairness Act (support); **H.R. 624** (Walters) Promoting transparent standards for corporate insiders act (support).

Jack Ehnes, CEO reported that the Headquarters Expansion Project is on schedule. The plan is to begin construction later this year.

Audits and Risk Management Committee

The Independent Financial State Auditor's Report was presented. Three deficiencies were reported. (1) Big Data Analytics (Management should continue to strengthen internal control over the completeness and accuracy of member data), (2) Perform a more robust semi-annual risk assessment, (3) Audit Services continue to execute its 2018 audit plan.

Grant Thornton (Deena Mount/Larry Jensen) reported the Enterprise Compliance Risk Assessment Results. Primary focus areas are: (1) Conflicts of Interest, (2) Information Technology, (3) Investments, (4) Pension Funding and (5) Third Parties.

Investment Committee

Chris Ailman reported that there is a change to the asset allocation. The Inflation Sensitive target is increased from 2% to 3%. Global Equity is reduced from 53% to 51%, and Fixed Income will remain at 13% rather than being reduced to 12%.

It was announced that Allan Emkin, formerly Director of PCA (Pension Consulting Alliance) is now with Meketa Investment Group.

William Prezant has been appointed to the CalSTRS Board by Governor Newsom.

The Committee heard the Green Initiative Report. The environmental issues considered include climate change, water supply, pollution abatement, hazardous waste disposal and recycling. The 2018-19 phase for sustainable and green investments will include \$2.5 billion in the Low-Carbon index. This includes \$1. Billion in non-U.S. developed markets and \$200 million in emerging markets. Going forward, Senate Bill 964 will require CalSTRS to report on climate risk every three years and align with California policy. Chris Ailman spoke of the need to focus on climate and on China. Allan Emkin commented that the world has changed and CalSTRS is the leader with the Green Initiative.

Under investment policy, slight changes were made to the Long-term Policy Target and Range. The goal for inflation sensitive investments was increased from 2% to 3%. Global Equity was reduced from 53% to 51%, and Fixed Income was increased from 12% to 13%. Investment is reduced slightly in the traditional categories.

Chris Ailman, Chief Investment Officer, reported that the CalSTRS fund is \$225.3. It has been a flat year. U.S. equities had a choppy year with a sell-off in the fall and a rally in January and February. Non-U.S. equities were lower, and Brexit was the big concern. The yield curve is almost flat (short and long-term yields are the same). Germany and Japan have negative bond returns signaling a possible recession. China sells much more to the United States than it buys – a concern. The United States economy is growing at 2.5% - a positive.

Chris Ailman, CIO suggested that the Committee delegate Asset Class Policy and Policy Benchmarks to staff leaving the Investment Committee with the responsibilities of Asset Allocation and Asset Class/Strategies which cover 93% of the risk.

Under public comment members asked CalSTRS to divest from fossil fuels.

Step two of the 2019 Asset Liability Study was presented. 60% of CalSTRS fund comes from investments and returns generally follow the S & P 500. The Committee will come back in May for adoption of the Capital Market Assumptions. Alan Emkin commented that the challenge is growth vs risk – how

much of each. Chris Ailman remarked that there has been an increase in severity of recessions.

As part of the on-going Asset Liability Study, the Committee reviewed the asset classes. 60% of the returns come from investments, and returns follow the S&P 500 Index. Committee will adopt the Capital Market assumptions at the May meeting. Alan Emkin commented that the challenge is growth vs risk. How much of each. Chris Ailman reported that the challenge is the change in the severity of recessions.

The Sustainable Investment and Stewardship Strategies Report was presented. Investment performance for 2018 was -3.2%, closing the year with the worst month of December in history. Alan Emkin, PCA stated that because CalSTRS invests in equities for better return they are also more volatile. CalSTRS investment portfolio has done better than most.

The Real Estate Semi-annual Report was presented by Ben Maslan and staff from RCLCO. Real estate represents 14% of the total fund had a great return. Offices and apartments are the most common investment. The real estate market is stable.

John Haggerty (Meketa) presented the Private Equity report. The portfolio remains well diversified and value increased by \$1.3 billion. Staff committed \$7 billion in calendar year 2018.

Under statements from the public, representatives from the Pullman Hotel are having continued employer problems. They seek assistance from CalSTRS.

Client Advisory Committee

The members heard an overview of the planned Asset Liability Management Study. Pension benefits equal contributions from teachers plus investment returns minus expenses. Investments are the largest variable. This study will continue through July 2020. In May the Board will adopt Capital Market Assumptions, and in July a model of the possible results will be presented.

Members heard a presentation on the progress of the Pension Solution (new computer program). CalSTRS is now in the employer readiness process with employer education on program. Project should be fully functioning in 2022-23.

Andrew Roth will be leaving CalSTRS. His new position will be the Chief Administrative Officer of the Texas Teachers' Fund.

CalSTRS Report May 8, 9, 10, 2019

By Pat Geyer, CalRTA representative to CalSTRS

Summary

- 1.** CalSTRS funding ratio of the defined benefit program is getting better. In June 2017 CalSTRS was 62% funded. As of June 2018 CalSTRS is 64% funded.
- 2.** The Board approved an addition to the Corporate Governance Principles which included an item in support of carbon pricing to reflect the carbon impact on climate change.
- 3.** The Board authorized the issuance of bonds for the Headquarters Expansion Project. The cost of the total project approved by the board is not to exceed \$300 million.
- 4.** The CalSTRS work plan for 2019-20 includes funding analysis, Pension Solution (computer project) and Long Term Facilities Project (construction of the new building begins August).
- 5.** In 2019-20 CalSTRS plans to add an additional 27 investment positions rather than the originally planned 12 positions. This will enable CalSTRS to bring additional investment “in house” thus saving the expense of hiring outside investment consultants and managers.
- 6.** Two new member service centers were opened: one in Redding (appointment only) and one in Fresno.
- 7.** The CalSTRS fund is \$233.7 billion, an all time high.

Teachers’ Retirement Board

The Board authorized the issuance of bonds for the Headquarters Expansion Project. The total cost of the project is not to exceed \$300 million. The bonds will be named “The California Infrastructure and Economic Development Bank Lease Revenue Bonds (CalSTRS Headquarters Expansion) (Green Bonds). The total cost including interest will be \$584,100,863.

CalSTRS funding ratio of the defined benefit program is getting better. In June 2017 CalSTRS was 62% funded. As of June 2018 CalSTRS is 64% funded. However, both the State’s contribution rate and the employer’s contribution rate will increase as scheduled on June 30, 2018. The total State’s rate will increase from 9.8% of payroll to 10.3% of payroll. (This includes 2.5% to the Supplemental Benefit Members Account). The employer’s total contribution rates will increase from 16% of payroll to 18% of payroll. However, the Governor’s proposed budget

includes supplemental CalSTRS contributions on behalf of employers that would reduce employers' contributions. Members (teachers, etc) contribution rate remains the same at 10.205% (2% at 62) and 10.25% (2% at 60) of payroll.

There will be no changes to the Medicare Premium Payment Program or the Lump Sum Death Benefit. There will be slight increases to the credited interest rates: Defined Benefit Program (1.54% to 2.6%), Cash Balance Benefit Program and Defined Benefit Supplement Program (2.89% to 3.12%).

The Board heard a report on AB 2833 which requires CalSTRS to disclose certain fee and expense information. The report shows that CalSTRS is in compliance with the requirements of AB 2833. Other State Legislation includes AB33 which prohibits investment in private prisons. AB33 has been pulled. AB706 removes the 3-year limit which an employee of a community college district must transfer unused sick leave. AB706 is moving through the legislature. There are numerous bills on Charter Schools, but they do not impact CalSTRS. Legislation on mandatory membership in CalSTRS for all educators is being planned.

The CalSTRS work plan for 2019-20 includes funding analysis, Pension Solution (computer project) and Long Term Facilities Project (construction of the new building begins August).

Also included are the Asset Liability Study, Evaluation of a Risk-based Budget, and Implementing the CalSTRS Collaborative Model.

The Board approved an addition to the Corporate Governance Principles which included an item in support of carbon pricing to reflect the carbon impact on climate change.

Jack Ehnes presented the Chief Executive Officer report.

- (1) The Stanford Longevity Study had 97 entries. The Study topic was bringing generations together. Winners were (1) So you think you know grandmother – story telling and game dynamics, (2) Sharing family history app, 3. Pillow Fight game.
- (2) The STRS Sustainability Report is available. It found that business should include sustainability in their financial reports along with funding, pension preparedness and accountability.
- (3) Customer service is doing well. But there is a large turnover in personnel in the Call Center due to burn out.
- (4) Construction of the New CalSTRS building begins in August. Building plans are on schedule. The CalSTRS building is #1 in sustainability.

- (5) CalSTRS has a good relationship with the City of West Sacramento. May 15 is the meeting with the City for a discussion of CalSTRS building plans. The City plans to build a dock for boats on the west side of the Sacramento River.

The Budget Act of 2018 (Senate Bill 840) gave CalSTRS the authority to add additional investment staff of 55 positions over a period of five years. In 2019-20 CalSTRS plans to add an additional 27 positions rather than the originally planned 12 positions. This will enable CalSTRS to bring additional investment “in house” thus saving the expense of hiring outside investment consultants and managers. The CalSTRS building will be more crowded over the next year until the new building can be completed.

The Board heard a presentation on the CalSavers Retirement Savings Program (formerly “Secure Choice”). The CalSavers board is chaired by the State Treasurer. The Program requires that all employers in the State must have a retirement savings plan or offer CalSavers. The self-employed may individually sign up for CalSavers. Each member may make a maximum contribution of 8% or \$6000 maximum per year.

The Pension Solution (computer project) update was presented. All employers and interested parties were notified of the process: individual emails were sent to superintendents and chancellors. The CalSTRS School Business Officers Symposiums were conducted at six of the CalSTRS member Service Centers. Employers will have two years to adopt the new computer system.

Benefits and Services Committee

Two new member service centers were opened: one in Redding (appointment only) and one in Fresno. This completes the project of delivering CalSTRS services in areas where the members work.

CalSTRS is using the Defined Benefit component for the purpose of recruiting and retaining quality CalSTRS members. There has also been an interest among members in the Financial Awareness and New Member Orientation programs.

Client Advisory Committee

The Committee heard a presentation on the CalSTRS Collaborative Model for Investments. It included a history of the CalSTRS investment program. The presentation included a discussion of the move to manage investments “in house” rather than hiring outside advisors. The purpose is to manage costs and to align financial interests between CalSTRS and financial advisors.

A legislative update was presented. (See Board report)

The research team at CalSTRS is undertaking a Demographic Study of CalSTRS members beginning in May 2019. There will be questions about individual characteristics such as age, gender, race, family, finances, career, education, and retirement preparation and knowledge.

Investment Committee

The Committee had a moment of silence in memory of the children who died in the Colorado gun violence.

The Committee heard the work plan for 2019-20. It includes an Asset Liability Study, evaluation of a Risk-based budget, continued implementing the new CalSTRS Collaborative Model, and a study of a low carbon future and its potential impact on the portfolio.

Next the Committee heard the report to Assembly Bill 2833. The Bill requires that a public pension plan disclose fee and expense information about its investments in any private fund that is an alternative investment vehicle. Included was a list of 180 CalSTRS alternative investments made prior to January 1st 2017 and a list of 64 alternative investments made after that date. Betty Yee, State Controller wants to reduce the cost of the reporting.

The Committee work plan to 2019-20 includes the Asset Liability Study, Evaluation of a Risk-based Budget, reports on the new CalSTRS Collaborative Model, study of a Low Carbon Future. China will also be a future item in the work plan.

A Corporate Governance Principles revision will include language in support of carbon pricing. The Carbon pricing language will be under Appendix A: Statement of Shareowner ESG Responsibility. The Committee wants investments and governments to move to a low carbon future. Betty Yee reported that CalPERS also supports a low carbon future.

The Committee heard a presentation by students asking to stop supporting fossil fuel companies and to work to reduce climate change.

The Private Equity program will be restructured. Originally the Private Equity asset classes were equally listed. Now the asset classes will be grouped under Traditional (Buyout, Venture Capital, Debt Related) and under Non-Traditional (Longer-Term Strategies, Multi-Strategy, Special Mandates). The former Core group has been divided into Longer-term Strategies and Main Strategy.

The traditional asset classes (Public Equity, Private Equity, Real Estate, Inflation Sensitive, Fixed Income, Risk Mitigating Strategies, and Cash) will be organized under Strategic Classes.

The Strategic Classes are: Economic Growth (Public Equity, Private Equity) target 60%;

Real Assets (Real Estate, Inflation Sensitive) target 17%,

Diversifying (Fixed Income, Risk Mitigating, Cash) target 23%

The assumptions and discussion will be continued in July.

Chris Ailman, CIO gave his report. The CalSTRS fund is \$233.7 billion, an all time high. This has been the longest bull market in history (2009-2019). The economic risks are trade wars, Federal Reserve Acts, European Central Bank Acts and BREXIT. However, the economy is good, unemployment is at a 50 year low, and inflation is low. Surprises may be earthquakes or storms, internet disruption, social unrest, a pandemic such as swine flu,

Next was a report on implementing the CalSTRS Collaborative Model. The Model is an internally-led approach to guide the balance between internal and external management of assets. This model builds internal management, increases control of risks to save costs and reduce management fees. CalSTRS has been in the process of increasing staff and expanding with the new CalSTRS building.

CalSTRS Report, July 11-12, 2019

by Pat Geyer, CalRTA Liaison to CalSTRS

Summary

1. The Investment Committee consensus was to plan for a 6.75% or 7% return on investments. The Investment Policy and Management Plan was approved.
2. The Committee heard public comments from members from the Oakland city schools who were concerned with the climate change and requested that CalSTRS divest from fossil fuels.
3. The CalSTRS fund was \$236.9 billion, a record high.
4. The Board heard the Pension Solution computer project update. The cost through the end date of February 2022 is \$304.8 million.
5. Construction on the Headquarters Expansion Project will begin in August, so the next CalSTRS Board meeting will see the beginning of the project.
6. CalSTRS has launched an unclaimed property website for unclaimed teachers' retirement funds- <https://www.calstrs.com/post/unclaimed-property>.

Audits and Risk Management Committee

The Committee heard a progress report on the independent financial statement Auditor's Letter. The letter reported three deficiencies of internal controls. (1) Completeness and accuracy of member data. Management plans to implement the New File Format and penalty and Interest visibility. (2) Enhance the member data risk/control. Management is developing a new approach to member data. The risk management training class is expected to be complete and disseminated by the end of 2019. (3) Audit Services continue to execute its proposed 2918 audit plan. This program is completed. (4) Unfunded Commitments - maintain an unfunded commitment listing. Management considers this completed.

The Committee heard a progress report on the 2019 Internal Audit. Staff completed 24 of the 84 audits of school districts. 70 audits are still in progress. The common audit findings are: (1) un-reported post retirement earnings (45% of the audits), (2) misreported earnings (81% of the audits), and (3) misreported unused sick leave/excess sick leave (54% of the audits). CalSTRS continues to work with school districts to help prevent data problems.

Client Advisory Committee

Joycelyn Martinez-Wade presented the Legislative update:

AB33 (Bonta) which prohibits CalSTRS and CalPERS from making additional investments in a private prison company, is held in the Assembly. (CalSTRS opposes AB33).

AB181 and AB462 (Rodriquez) requires CalSTRS and CalPERS to submit annual report on the status of participation of emerging managers within the systems' investment portfolios, is in the rules committee. (CalSTRS supports AB181 and AB 462).

AB 462 (Rodriguez) requires CalSTRS and CalPERS to submit an annual report on status of participation of emerging managers within the investment portfolios. (CalSTRS supports, bill in the Rules Committee).

AB706 (Low) removes the 3-year limit within which an employee of a community college district must transfer unused sick leave to another employer. Bill sent to Governor.

AB1452 (O'Donnell) makes changes to provisions regarding membership in the Defined Benefit Program and Cash Balance Benefit Program. (CalSTRS sponsor) Bill held in the suspense file.

June Kim gave a report on the Investment Workforce which is working to get diversity in Wall Street and to get gender equality in hiring. It holds workshops for high school and college students and also works with investment managers.

Compensation Committee

The following are administrative changes: (1) Innovative Strategies and Risk has been moved to Director of Strategy and Risk rather than under the Director of RMS, Innovation& Risk. (2) Performance criteria and benchmark for Infrastructure has been eliminated. It will be in other Real Assets and measured under Inflation Sensitive. (3) Performance criteria for Engagement will include the Associate Portfolio Manager classification. (4) Private Equity definition has been updated to reflect best measurement for added value.

The Committee heard a discussion of better aligning the Compensation Program with the Collaborative Model. (1) Align better with performance, (2) Emphasis on long-term and beyond 3 years, (3) Include appropriate measures. Chris Ailman explained that costs are more complicated with such investments as real estate. The challenge is how to apply income from investments such as real estate and stocks to CalSTRS staff. Part of staff pay may come from investment returns.

Investment Committee

The Committee heard a report on Asset Allocation. The presentation discussed different investment portfolios, reviewed different returns and the liability implications. The Investment Committee consensus was to plan for a 6.75% or 7% return on investments.

Next the Committee heard a report on the 2019-20 business plans. It is projected that the management costs will increase; however, by bringing more investments “in house” rather than hiring outside managers CalSTRS will keep the cost increases down. Present, 2018-19 CalSTRS investment management costs are approximately \$225,000,000. That is an increase from \$125,000,000 in 2003-4. Discussion followed. Concerns were that by bringing management “in house” CalSTRS might not get some good deals. The CalSTRS Investment Business plan was approved.

The Investment Policy and Management Plan was approved. Generally, wording was brought up-to-date of present policy. In the California Investments Policy the State Law sections were deleted. Chris Ailman, Chief Investment Officer was reluctant to have the State Law sections deleted because one does not know when State Law will change.

The Committee heard public comments from members from the Oakland city schools who were concerned with the climate change and requested that CalSTRS divest from fossil fuels.

The Private Equity Policy’s long term benchmark was changed from the Russell 3000 to the Morgan Stanley Capital International (MSCI) All Country World Index. This better represents the global nature of the Private Equity asset class.

Chris Ailman, Chief Investment Officer reported that the CalSTRS fund was \$236.9 billion, a record high. The CalSTRS fund is “on target” with asset allocation. Returns have been good, but interest rates have been flat – no changes. The key risks are China and U.S. trade.

The 10 student interns working at CalSTRS were introduced. They are from local (mainly) and other major universities.

A proposed Risk Budget was discussed. A risk budget specifies a targeted level of risk or variation relative to a benchmark. It could apply to the total fund or to individual asset classes.

Employees from the Hotel Marriott spoke about their labor relations concerns.

Teachers' Retirement Board

The Board considered amendments to the format for monthly reports (Pension Solution computer project). The following is a summary of the comments received and staff response. (1) Increased cost to school districts and county offices due to the system change. CalSTRS staff recommends an additional waiver period of 6 months for districts to make the change. (2) Leaves of absence requirements unclear. CalSTRS staff affirms that the language does not create additional obligations. When the leave type of absence is unknown put information is "Other Approved Leave of Absence". (3) Annual Total Compensation field had concerns. CalSTRS staff recommends an amendment which affirms that the regulations do not create any additional obligations for employers. (4) The list of Service Types is not complete. Staff recommends clarifying by referencing the Education Code. (5) Duplicative Fields. Staff will clarify the requirements for community college instructors. (6) Expected Pay Periods. Staff will specify an "Intermittent" field value for service that cannot be performed for a full school term.

The Board heard the Pension Solution computer project update. The cost through the end date of February 2022 is \$304.8 million. Next the Board heard the requirements of AB 2052 requiring all employers to submit payments by electronic funds transfer. AB 2052 only impacts 92 employers. 42 of those are already making payments electronically. Staff will work with the remaining 50 employers that have not made the transition.

The Board heard a summary of State and Federal legislation affecting CalSTRS.

1. AB 181 and AB 462 which require CalSTRS and CalPERS boards to submit annual reports are now two-year bills. (CalSTRS supports)
2. AB 644 the CalSTRS bill making technical changes is on the Governor's desk.
3. AB706 which removes the 3-year limit for an employee of a community college district to transfer unused sick leave to another employer is on the Governor's desk.

The Board heard a presentation of the Annual Business Plan for 2019-20. The goals are: (1) Ensure a well-governed, financially sound trust fund, (2) Digital transformation – Pension Solution Computer Project, (3) Strengthen services to members, employers, stakeholders – the new building, (4) Organizational Strength – the new computer program.

Jack Ehnes, CEO introduced the 13 winners of the 2019 Virtuoso awards. These individuals have delivered superior, sustained performance. They are Cassandra Mallett-Beck, Gabriel Portugal, Dale Coffey, Gabriel Gandara, Jennifer Ellis, Kathleen Holiday, Melissa Wiese, Minday Selby, Nicole Snyder, Patricia Falloon, Paul Rios, Rosie Rodriquez, Santie Moller,

Construction on the Headquarters Expansion Project will begin in August, so the next CalSTRS Board meeting will see the beginning of the project. The open parking lot will be closed, so entrance will have to be through the garage.

CalSTRS has launched an unclaimed property website for unclaimed teachers' retirement funds- <https://www.calstrs.com/post/unclaimed-property>. The next meeting of the CalSTRS Board and Committees will be September 4, 5, 6.

CalSTRS Report, September 2019

By Pat Geyer, CalRTA representative to CalSTRS

Executive Summary

1. CalSTRS will increase the rate paid by the association from \$.04 to \$.08 for dues collection, and increase the rate paid by the insurer for insurance collection from \$.07 to \$.16
2. The CalSTRS Asset Liability Management Study (ALM) recommended allocation would reduce investment in Public Equity from 47% to 42%. Increase Real Estate and Inflation Sensitive allocations by 2%. Increase Risk Mitigating Strategies by 1%
3. The Board heard public comment on Divesting from Fossil Fuel Companies and on labor disputes. Board discussion followed regarding developing regulations regarding public comments.
4. The Semi-Annual Performance Report stated that all asset classes met or out-performed their policy benchmarks for the 1, 3, and 5-year periods. For the 10-year performance, private equity and real estate underperformed relative to their policy benchmark.
5. The Pension Solution computer project continues and at the end of the year employers will get the dates when they will begin testing the new pension administration system.
6. CalSTRS staff presented proposals regarding regulating public comment so that the Committee can conduct their business in a timely manner
7. Staff presented a preliminary operating budget of \$361.7 million for 2020-21. The budget reflects a total net increase of \$71 million or 25%. The largest change was Capital Projects.

Benefits and Services Committee

CalSTRS makes a service charge for collecting dues and insurance. They will be increasing the rate paid by the associations from \$.04 to \$.08 for dues collection, and will be increasing the rate paid by the insurer for insurance collection from \$.07 to \$.16. The Benefits and Services Committee Charter was approved.

Client Advisory Committee

Joycelyn Martinez-Wade presented the Legislative update. AB33 which restricts CalSTRS investments in private prison companies is held in committee. CalSTRS opposes AB33.

AB 181 and AB 462 (Rodriquez) require CalSTRS and CalPERS to submit an annual report to the Legislature of status of achieving appropriate objectives. CalSTRS supports these.

AB 1320 (Nazarian) requires CalSTRS and CalPERS to divest in investments in Turkey. AB 1320 is in the suspense file.

The Committee heard presentations on the Retirement Readiness program and the Dues and Insurance Deductions Program Update.

Susie Chow will be the UTLA-Retired representative to the CalSTRS Board replacing Loretta Toggenberger.

Investment Committee

The Committee heard a report on Asset Allocation which is part of the on-going Asset Liability Study. In July, the board directed staff to propose portfolios with expected returns between 6.75% and 7.2%. If selected, the recommended model would reduce investment in Public Equity from 47% to 42%. Increase Real Estate and Inflation Sensitive allocations by 2%. Increase Risk Mitigating Strategies by 1%. The recommended portfolio has an expected long-term return of 7.1%. Committee Chair Keeley is concerned that the Board is careful and gets good Real Estate investments. It may be necessary to take time to make good investments.

The Collaborative Model under way; it will build greater capacity in private markets which is expected to increase investment returns, control risk and expand investment opportunities.

Additional responsibility was added to the Program Component of the Corporate Governance Policy. Tasks managed by the Strategic Relations Management team (renamed Stakeholder Engagement Team) will be integrated into the Sustainable Investment and Stewardship Strategies team. The policy revisions were approved.

The Board heard from the Hotel Workers on their labor disputes specifically with the Pullman Hotel in the San Francisco area. Board discussion followed regarding developing additional rules regarding public comments.

Next the Board heard public comment on Divesting in Fossil Fuel Companies. Over 50 school children and adults spoke for divestment. These comments were limited to 30 minutes total.

The Semi-Annual Performance Report stated that all asset classes out-performed their policy benchmarks for the 1, 3, and 5-year periods. For the 10-year performance, private equity and real estate underperformed relative to their policy benchmark. Experts predict increased volatility. However, the United States domestic investments should do well. World issues are conflict in Hong Kong, Argentine default, Pakistan and India disputes over Kashmir, and Brexit.

Teachers' Retirement Board Regular Meeting

Grant Boyken reported on the amended format for the Pension Solution reporting. These are the final regulations and are identical to what was reported to the Board in July.

The Pension Solution project team has been renamed Transformation Readiness. The team has two sub teams: Change Management and Learning and Development. The Change Management team will be developing plans for training and change activities in the late fall. CalSTRS will also consult with payroll vendors. In November/December two employers will try out the new system. At the end of the year employers will get the dates when they will begin testing the new system. The CalSTRS staff has been trained to help the employers (school districts and county offices).

Brian Bartow and Grant Boyken, CalSTRS staff presented proposals regarding regulating public comment so that Committees can conduct their business in a timely manner. Some suggestions were time limits, limits on number of speakers, speaker request forms, limits on pre-recorded audio-visual materials, requiring comments be germane to subject matter.

Staff presented a preliminary operating budget of \$361.7 million for 2020-21. The budget reflects a total net increase of \$71 million or 25%. The largest change was Capital Projects which amount to \$47 million or 66%. State mandates are \$14 million or 20%; service contracts are \$5.4 million or 8%; and workload management is \$4.5 million or 6%. Final action on the budget will be in November.

Staff presented legislation of interest (see legislation under Client Advisory). New legislation for next year will be discussed in November.

Jack Ehnes, CEO presented his report. He noted that there is ongoing construction. Presently they are working in the garage. He sees no unexpected changes. The sale of bonds relating to construction will occur in December. CalSTRS has developed two member surveys. The goal is to achieve more communication with members under 49. The most popular message has been "plan for the future".

An updated list of the 2017- 18 incentive award amounts was presented. The next CalSTRS Board and Committee meetings will be November 6-8, 2019.

CalSTRS Report on Appeals Committee meeting, December 5, 2019

By Pat Geyer, CalRTA Liaison to CalSTRS

The Committee heard an overview of the top 5 issues in Appeals. They are:

- (1) compensation (9 cases),
- (2) creditable compensation (bonus, vehicle compensation) (8 cases),
- (3) errors (7 cases)
- (4) disability (6 cases)
- (5) compensation for extra duties (5 cases) Other issues are time of retirement and number of years worked.

The Walnut Creek School District reported one-time compensation to the Defined Benefit Account when it should have been reported to the Defined Benefit Supplement Account. This decision was made on March 29, 2019. This decision has been designated a Precedential Decision; it is binding on future administrative adjudications unless rescinded by the Appeals Committee.

Next the Committee heard the following appeals cases:

- (1) Mrs. Farnam of the Santa Clara Office of Education worked 210 days rather than the 185 days typical of the school year because she was teaching in special education. She requested that 210 days of payment should go to the Defined Benefit Account rather than just 185 days to defined benefit account and the remainder to the defined benefit supplement account.
- (2) Julia Ramirez requested that her husband's member only benefit should have been a joint benefit. Therefore when Mr. Ramirez died Julia Ramirez, his widow should have continued to receive the CalSTRS benefits.
- (3) Ms. Hilton last day of compensation was November 22, 2016. Later on August 22, 2017 she submitted an application for disability benefits.
- (4) Patricia Hogan-Johnson requested that her extra duties with the Del Paso School District should be included in her Defined Benefit Account rather than her Defined Benefit Supplement Account. CalSTRS did not discover this error until later.

In cases 2,3, and 4 the Appeals Committee adopted the decisions. Case 1, Mrs. Farnam, of the Santa Clara Office of Education, will be decided by the committee later.

Pat Geyer was on vacation in Sicily during the other CalSTRS meetings in November, so she will be unable to give a report on them.