

CalSTRS Report – January 27,28, 2021

By Pat Geyer, CalRTA Liaison to CalSTRS

Executive Summary

1. The Board Governance Committee voted to approve the following Mosaic recommendations: (1) The Compensation Committee be subsumed into the full Board for the remainder of the 21 year
2. The Investment Committee approved the following priorities: 1. Corporate and Market accountability, 2. Board Effectiveness, 3. Low Carbon Transition, 4. Responsible firearms.
3. Speaker Kewsong Lee from the Carlyle Group reported: China is a big market, it has a talented pool of people. However, China has no government safety net. China is now a tech oriented consumer economy, originally it was a producer economy.
4. Brian Bartow presented the Public Comment Regulations.
5. Newsom's budget includes a payment of \$3.9 billion to CalSTRS from the General Fund. In total this is \$583 million more than expected.
6. 2019 had 4,467 teacher retirements and 2020 had 5,544. Challenges related to teaching during COVID-19 are the primary reason.
7. The construction of the CalSTRS Headquarters project is approximately 29% complete. Completion date is August 2022.

Board Governance Committee

The Committee discussed the changes due to the Pandemic. There are more presentations and a shorter meeting on Zoom. The challenges are the lack of personal communication and the challenge of technology. However, some members liked the remote meetings.

A Panel discussion followed presented by McKinsey & Company. Peter Bisson stressed the need to have a chair person to manage and organize communication. The challenge is letting people go who are not needed in the pandemic. Nora Aufreiter said that the Board must be much more active in reorganizing in the time of pandemic. More resources may be needed in the future. Board and Management have new roles.

There are changes to the Board's role in CEO search and successions. Be more precise in strategy. Board may have candidates attend Board meetings. Focus on the team at the top because these people may move up.

There followed a discussion of the Committee structure: Risk Management: increase monitoring, see that management is making plans for risk. ESG: have a discussion about how much information to make public. Make objectives public – especially for foreign employees. Emphasize sustainability.

Suggested Board changes in the time of COVID are to: Increase efficiency in how things are done. Make more phone calls. Have smaller groups which can have informal discussions.

Finally, the Board Governance Committee voted to approve the following Mosaic recommendations: (1) The Compensation Committee be subsumed into the full Board for the remainder of the 21 year. (2) The Board Chair and Vice-Chair appoint two Board members to serve on the ad hoc group to select primary compensation strategist. (3) Determine at the May 2021 meeting if the Compensation Committee should continue to be subsumed for 21/22. (4) Provide direction as to whether to undertake an exploration of the need for a corporate governance or sustainability subcommittee at the May 2021 meeting. Investment Committee

The Committee opened with opportunities for statements from the public. Six speakers asked CalSTRS to divest in fossil fuels. In addition CalSTRS received over 22 emails asking CalSTRS to divest in fossil fuels.

The Investment Committee approved the following Stewardship Priorities: 1. Corporate and Market accountability, 2. Board Effectiveness, 3. Low Carbon Transition, 4. Responsible firearms.

The Committee approved the Corporate Governance Principles on: (1) Board of Directors, (2) Auditors and Audit Related Issues, (3) Executive Compensation, (4) Director Compensation, (5) Employee Stock Purchase Plans, (6) Governance Structure, (7) Sustainability.

The Committee adopted the Global Investment Performance Standards, and the Sustainable Investment and Stewardship Standards. Items of interest are: (1) affordable housing, (2) low carbon processes, (3) renewable energy. The SISS (Sustainable Investment, Stewardship Standards) Portfolio is to be 5% of the total CalSTRS portfolio.

The Committee concluded with speaker Kewsong Lee from the Carlyle Group. The topic is China Risk and Opportunities. Points of Interest from Lee's speech are: China is now a world leader in (1) Consumption and in (2) Innovation. Differences are that China is a one-party state. The State owned enterprises amount to 23% of GDP that used to be 80%. The greater state involvement has been very successful – outperformed the rest of the world.

The risks are that the public markets are not liquid, banks control credit which goes to state owned enterprises, U.S. and China tensions continue. Investment concerns are that foreigners are not invested in China. However, private business is growing. China is a big market, it has a talented pool of people. However, China has no government safety net. China depends on GDP growth. China is now a tech oriented consumer economy, originally it was a producer economy.

Teachers' Retirement Board

Brian Bartow presented the Public Comment Regulations for Board adoption. The following regulations were of interest. Public comment will be limited to agenda items. Each speaker is limited to three minutes. The presiding chair of the board or committee may set, limit, or extend the amount of time allotted to each speaker. Any member of the public may submit comments in writing. A member of the public is encouraged to submit a request with their name, whether they are 18 year of age or older, agenda item and topic they wish to address. The presiding chair may stop a member of the public from public comment if they fail to comply with the regulations.

There was no state or federal legislation of interest to the Board. February 14 is the last day for legislation to be introduced.

Cassandra Lichnock presented a report on CalSTRS Path Forward, 2021 and beyond. Work Environment – staff is encouraged to take their office equipment home to their home office. Meetings in the future will likely be conducted in both remote and onsite locations. Technology will play an important role in this change. Technology – laptops were distributed and Technology Services augmented network access, communication, and new equipment. Conference rooms are being retrofitted with cameras for collaboration with those working from home. The Member Service Center activities have been adapted to serve members remotely and have been able to reach larger audiences. CalSTRS has recognized that the world has changed and the way we do business has shifted. CalSTRS will keep the Board informed of the changes.

Jack Ehnes gave his CEO Report. Governor Newsom's proposed budget contains a proposal to provide contributions to CalSTRS above the amount expected. Newsom's budget includes a payment of \$3.9 billion to CalSTRS from the General Fund. In total this is \$583 million more than expected. These contributions are an indication of the state's commitment to eliminate its share of the CalSTRS unfunded liability by 2046.

There has been a significant increase in teacher retirements this last six months. 2019 had

4,467 teacher retirements and 2020 had 5,544. Challenges related to teaching during COVID-19 are the primary reason. The CalSTRS 2021-22 Operating Budget has been reduced by \$2.3 million to a total of \$307.4 million. CalSTRS will review the expenditures to ensure that the reduction does not affect overall operations.

The CalSTRS staff and stakeholder partners have agreed to take action to minimize overpayments due to employer reporting errors. The proposal would reduce the overpayment recovery from members to three years, and put greater financial burden on employers for reporting errors. The Board has a goal of a legislative proposal by November 2021. A progress update is expected at the March 2021 Board meeting.

The construction of the CalSTRS Headquarters project is approximately 29% complete. Completion date has moved out seven weeks to August 2022. CalSTRS secured bond financing of \$340.6 million for the project. Construction activities continue. Concrete pours are complete for parking levels and the lobby. Office level construction has begun. COVID-19 costs are estimated to add \$1.33 million to the Headquarters project.

The Pension Solution computer Project is continuing. There have been delays related to COVID19. Complete rollout of the Project is still scheduled for the winter of 2022.

The next CalSTRS meetings will be in March 2021.

CalSTRS Report, March 4,5, 2021

By Pat Geyer, CalRTA Liaison

Client Advisory Committee

Jack Ehnes reported that the State supports CalSTRS extra funding. As long as CalSTRS investments continue CalSTRS funding status is great. Progress has been made with Exxon and climate change. CalSTRS has lost some staff to COVID. There have been changes in financial services due to changes in technology.

Diane Alsup reported that Service Retirements are up but no more than 2.6% over last year. When retirees were asked why they retired early most said it was because of COVID. This may be the largest retirement year.

Pension Solution introduced their new system. They will have an employer website and offer computer training on the new system.

Joycelyn Martinez-Wade gave the legislative update. CalSTRS sponsored legislation is AB539 (Cooley) Investment Procurement, AB551 (Rodriguez) CalSTRS IRA, and SB634 CalSTRS housekeeping bill.

Other legislation of interest is:

AB845 a COVID bill for disability retirement,

AB1019 and SNB457 a Turkish Divestment which CalSTRS opposes.

SB294 elected officer service, credit limit removed. CalSTRS is neutral on SB294.

SB449 on climate risk will be reviewed by CalSTRS in May.

HR82 is the legislation for WEP and GP offset repeal.

Investment Committee

Jennifer Urdan was introduced as a new CalSTRS Board member.

The Committee reviewed the Sustainable Investment and Stewardship Strategies (SISS) Program. (1) Clarify language, (2) Include a reference to Innovative Strategies in addition to its Private Equity, Real Estate, Inflation Sensitive, (3) Private Portfolio have a blended performance benchmark comprised of the underlying strategies and their benchmarks. (4) Remove Geographic Parameters for Diversification. (5) Include additional reporting.

The Committee reviewed the Risk Mitigating Strategies. A second reading of the Risk Mitigating Strategies will be heard in May.

The Committee reviewed the Semi-Annual Performance Report for Real Estate and Private Equity. Meketa reported that CalSTRS has outperformed its peers by some 20 basis points over the last 10 years. At the present time there are low interest rates, but Real Estate is not now an active market.

Chris Ailman gave the CIO Report. There is a decline in demand for office buildings because so many employees enjoy working from home and will continue. This brings into question the need for the new CalSTRS building.

Teachers' Retirement Board

Jocelyn Martinez-Wade reported on SB 294 which removes the limitation for service credit for elected officials. Board position is neutral. HR 82 eliminates the Government Pension offset. Board supports. Positions on future bills will be voted on in the May meeting.

Board reviewed the Long Term Incentive Plan for CalSTRS staff. This is an annual award which will pay out after 4 years – an incentive for retention. Recommended plan changes will be brought to the Board at a future meeting.

The Pension Solution (computer) Project staff is working from home. The Employer Readiness tests are 99% completed. Data conversion is on schedule. COVID has had a small impact on the project. The Project is scheduled to go live in the fall or winter of 2022.

The Board hears the Enterprise Risk Management Report. (1) Pension Fund Investments had no change, (2) Pension Funding – Actuarial increase by 1 point, (3) Pension Fund – Contribution Rate, Pension Administration, Pension Reform, Information Security, Operational, and Reputational had no change. (10) Transformational Change increased due to delays in testing and a higher number of defects.

Jack Ehnes presented the Annual GRI Sustainability Report. CalSTRS members live longer than average. CalSTRS has 410 members over 100 years a 13% increase.

Under the CEO Report Jack Ehnes reported that CalSTRS had 250 COVID related member deaths through January 2021. Progress on the new building is within budget. September 16 is the date for completion. There are now ads for the rental of building space, but we do not know how COVID will affect working. Teachers are retiring earlier because of the challenges of COVID.

Audits and Risk Management Committee

The Committee heard a progress report on the recommendations to improve control over financial reporting. Challenges are (1) reporting fair value of certain Private Equity co-investments, (2) accurate and complete member data, (3) Medicare Premium completeness and accuracy of data, (4) Completeness and accuracy of financial statements.

Crowe LLP is to perform 3 audits by June 2021 - (1) Basic Financial Statements, (2) Other Pension Information, (3) Other Postemployment Benefits. The audit final is scheduled for November 2021.

Under employer audits the percentage for audit errors declined except for reporting of employer earnings. More than half of the employers audited had at least one systemic finding. Present audits will be of limited scope because of the COVID crisis.

CalSTRS Report, June 9-11, 2021

By Pat Geyer, CalRTA Liaison

Executive Summary

1. An additional earnings credit of 3.38% will be awarded to the Cash Balance Benefit program.
2. An additional earnings credit of 3.88% will be credited to active and inactive member Defined Benefit Supplement accounts.
3. The Compensation Committee approved two new positions in Investments, the Senior Director level and the Senior Portfolio Manager level, in support of the Collaborative Model.
4. The Compensation Committee approved the recommended salary range for the General Counsel position.
5. The headquarters expansion is planned to open in October 2022.
6. Jack Ehnes, CEO will be retiring. A final retirement reception will be held on June 23, 2021
7. Disability and Survivor Benefits branch has seen the largest strain due to continued computer testing; processing time has increased by 17 days.
8. As of June 2021, the CalSTRS fund stands at \$307 billion up from \$225 billion in March 2020 and \$300 Billion in April 2021. Risks are moderate and the inflation forecast is 2.6% (low).

Regular Meeting

The Teachers' Retirement Board reviewed State and Federal legislation:

CalSTRS-sponsored bills (state):

- AB 539 (Cooley) – Investment Procurement
- SB 634 – Housekeeping Bill

Divestment bills (state):

- AB 1019 (Holden) and SB 457 (Portantino and Wilk) – Turkish Divestment and Turkish Divestment Option for employers – Oppose

Other bills with a board position:

- California AB 845 (Rodriguez) – COVID-19 Presumption for Disability Retirement – Creates the presumption that disability retirements due to COVID-19 arose out of the member’s employment. – Neutral, if amended
- California AB 890 (Cervantes) – Emerging Managers Report – Requires CalSTRS to submit an annual report to the Legislature on the participation of emerging or diverse asset managers in CalSTRS investment portfolios. – Neutral
- California AJR 9 (Cooper) – Resolution for Repeal of WEP/GPO – Support
- Federal Legislation H.R. 82 (Davis-IL) Repeal of WEP (windfall elimination) and GPO (government pension offset) – Support
- Federal Legislation S. 588 (Feinstein-CA) and H.R. 1549 (Casten-IL) – Addressing Climate Financial Risk Act – Establishes a permanent Climate Risk Advisory committee on the Financial Stability Oversight Council. – Support

The Board re-elected Harry Keiley as chair and Sharon Hendricks as vice chair for the 2021–22 term. The Board approved the Chair and Committee assignments. Denise Bradford is Chair of the Appeals Committee. Joy Higa is chair of the Investment Committee. William Prezant is Chair of the Board Governance Committee. Karen Yamamoto is Chair of the Benefits & Services Committee. Betty Yee is Chair of the Audits & Risk Management Committee.

The Board received the results of the actuarial valuation of the Defined Benefit Program as of June 30, 2020. The funded ratio increased from 66.0% to 67.1%. The increase in the funded ratio was primarily due to state and employer contributions to pay down the unfunded actuarial obligations. Although the funding levels improved between 2019 and 2020, the unfunded actuarial obligation increased slightly from \$105.7 billion to \$105.9 billion. The main reason for this increase is that the contributions received during the 2019–20 fiscal year were not enough to cover the 7% interest rate at which the amount grows annually. Another item of interest is that CalSTRS active member numbers have declined from 451,429 to 448,419. Total benefit recipients increased from 308,639 to 314,518. These numbers are from June 30, 2019 and June 30, 2020.

Next the Board heard a report on the Defined Benefit Supplement Program. The DBS program has a funded ratio of 125.8% and a surplus of nearly \$3 billion. The Board voted to issue additional earnings credits of 3.88% to active and inactive member accounts consistent with their policy.

The Cash Balance Benefit Program is also overfunded by \$67 million. It is also assumed that funding levels will continue to improve. Therefore, an additional earnings credit of 3.38% will be awarded to the Cash Balance Benefit program.

The board unanimously approved a 1.7% increase to CalSTRS members' lump-sum death benefit payments, effective July 1, 2021. With the 1.7% increase, the payment following the death of a retired member will be \$6,480 (up from \$6,372). For a death prior to retirement, the payment for Coverage A members will also be \$6,480, while the payment for Coverage B members will now be \$25,920 (up from \$25,488).

Next CalSTRS Board members heard a report on compensation and proposed changes. CalSTRS' base salary midpoints for executive positions are generally aligned with the competitive market except for the Deputy Chief Investment Officer and the General Counsel.

A report on Committee work plans was presented. All Committees have adjusted to working at home, but now are beginning to transition back to working at the office. The construction of the new Headquarters is going as expected. A detailed report will be presented at the next meeting. The risks are the challenges of COVID and getting the final permits on the new building. The headquarters expansion is planned to open in October 2022.

Jack Ehnes, CEO will be retiring. A final retirement reception will be held on June 23, 2021.

Benefits and Services Committee

The Pension Solution (computer) project is continuing but has impacted service levels due to the project's need for testers. The Disability and Survivor Benefits division has seen the largest strain. Disability application average processing time has increased by 17 days (from 97 days to 114 days). The Service Retirement division continues to pay 98% of initial service retirement benefits within 30 days of the benefit effective date or date the application is received (whichever is later). The Benefits and Services branch established 25 backfill positions across the five divisions to support ongoing project tasks. Training continues. The project schedule may need to be adjusted.

CalSTRS has seen an increase in staff and teacher retirements because of the pandemic. Staff has seen challenges because of the pandemic and uncertainty of daycare and schools for staff's children. Service Retirement and Disability and Survivor Benefits have also added part-time student resources to process forms and mitigate the risk of workload backlogs.

Investment Committee

Staff reported that they had received 74 letters and 1,972 emails urging CalSTRS to divest from fossil fuels as well as an oil pipeline called Enbridge. Next the committee heard public comment from 13 callers. Six speakers asked CalSTRS to divest from fossil fuels and also in the company that was building the pipeline. Four callers spoke about rental and landlord issues in a property managed by a company CalSTRS has ownership in. Kevin Welch (CTA), Ed Foglia and Jennifer Baker spoke against divestment because it would hurt teacher pensions.

The Committee approved the hiring of a private equity consultant.

The Committee approved the work plan for 2021-22. The plan includes collaborative model investments and action steps toward the low carbon future. The Green Initiative Task Force Report is published on the CalSTRS website.

Policy revisions for Risk Mitigating Strategies, Real Estate and Global Equity were heard.

Chris Ailman, Chief Investment Officer gave the CIO Report. As of June 2021, the CalSTRS fund stands at \$307 billion up from \$225 billion in March 2020 and \$300 Billion in April 2021. Risks are moderate and the inflation forecast is 2.6% (low). The risks are COVID, virus mutation, and public unrest. Possible surprises include Pandemic, Climate, Internet disruptions/cyber attacks, North Korea aggression, China and Russia aggression, Earthquakes.

Board Governance Committee

The Committee heard a panel discussion on Governance of Sustainability and ESG (Environmental, Social and Governance). Climate change was the primary issue. Other issues were diversity in employment, ESG (Environmental, Social, Governance), gender equality, human rights, and the pandemic.

The Committee work plan included a discussion of Board Governance Policy. Bill Prezant will be the next Chair of the Board Governance Committee. The next Committee meeting will be November 2021.

CalSTRS Report, July 8 – 9, 2021

By Pat Geyer, CalRTA Liaison to CalSTRS

Executive Summary

1. The CalSTRS fund closed above \$308 billion as of June 30, an all-time record high.
2. The CalSTRS staff continues to work remotely. However, after September 7 staff will be able and encouraged to return for 1-5 days in the office.
3. The Board approved a policy revision to establish a Risk Budget range of 10 to 60 basis points in the Fixed Income Portfolio and add private credit up to a maximum of 5%. Discussion of Benchmarks will continue at the offsite meeting in October.
4. CalSTRS staff reported that CalSTRS member COVID deaths through May 15, 2021 totaled 638. Only 25 were active females and 31 were active males. The rest were retirees.

Investment Committee

The Committee reviewed the Real Estate Policy. The objectives of the Real Estate Policy are: (1) generate enhanced yield, (2) provide a stable cash flow, (3) hedge against inflation, (4) provide diversification. Portfolio includes Core (50-75%), Value Added (10% to 30%) and Opportunistic (10% to 30%).

The Global Equity Policy will be consolidated into one Global Equity Index replacing the Separate U.S. and Non-U.S. indices.

The Committee reviewed Investment Committee Charter.

The Committee reviewed and approved the Investment Work Plan. Details will come later. Committee discussed reducing the carbon footprint.

Next the Committee reviewed and approved the 21-22 Investments Business Plan. This includes a 10-year budget plan assuming status quo and a second plan featuring a conservative implementation of the Collaborative Model. Another feature is Succession Planning for CalSTRS leaders as well as asset class staff. Chris Ailman asked for more diversity in staff.

Investment policy and management plan revisions reflect a 2% reduction in Public Equity, a 1% reduction in Fixed Income, a 1% increase in Private Equity, a 1% increase in Inflation Sensitive assets, a 1% increase in Risk Mitigating Strategies. These revisions are part of the

transition to the long-term target allocations approved by the board at the November 2019 investment committee.

Chris Ailman, CIO reported that the CalSTRS fund closed above \$308 billion, an all-time record high. The CalSTRS staff continues to work remotely. However after September 7 staff will be asked to return for 1-5 days in the office. October 31 to December 25 will be a different schedule. When in office each staff person will have a separate cube. By early 2022 CalSTRS staff plans to work in office.

The Board heard a policy revision to establish a Risk Budget(1%) range of 10 to 60 basis points in the Fixed Income Portfolio and add Private Credit up to a maximum of 5% of Fixed Income assets. Discussion of the benchmarks will possibly continue at the CalSTRS offsite meeting in October.

The Committee heard a report on Diversity in the Management of Investments. This effort began in 1989 with the emerging managers program. As of 2019 the CalSTRS Investments Branch is 32%Asian, 5% Black, 10% Hispanic, 2% Pacific Islander and 49% white.

Audits and Risk Management Committee

The Committee heard the Independent Auditor's Report on Internal Control Over Financial Reporting. There were four deficiencies of internal control and recommendations for improvement. #1 Internal Control over Reporting Fair Value and Fair Value Hierarchy (Level) of Certain Private Equity Co-Investments. Management continues to evaluate current policies for fair value measurement. #2 Active Member Data-Completeness and Accuracy. Employees took computer-based training and complete 18 webinars. Employer Services Training developed 10 job aids located on the Employer Support Portal. Topics include: Pay Rates, Benefit Structures, Cash Balance Benefit Program, Creditable Compensation, Creditable Service and Working after Retirement. #3 Medicare Premium Payment completeness and accuracy of all "eligible participants". #4 Precision of Financial Statement Review.

The Committee heard the 2021 Internal Audit Plan Mid-Year Progress Report. Staff completed 57 of the 106 Employer audits. 103 audits are in progress. 61 audits had findings which included special compensation. CalSTRS Member Account Services will assist Employers to correctly report the items that were found to be misreported. Most of the audit findings are in K-12 and Charter Schools and include incorrectly reported compensation.

Types of risk are: (1) depreciation and asset retirements posted to the incorrect fund, (2) Delivery addresses may be entered/modified versus pulled from an approved list, (3) incorrect general ledger entries, (4) Duplicate invoices may accidentally be paid.

Audit Services appreciates the review and concurs with the observations. Audit Services will develop a plan for improvement and will report progress during regular reporting.

The next Audits and Risk Management Committee meeting will be November 2021.

Teachers' Retirement Board

The Board heard a summary of the 2021-22 Board/Committee Work Plans. The Board heard a summary of CalSTRS 2021-22 Annual Business Plans. Goal 1 is Financial/Governance. The first objective under this goal is to achieve full funding. Also of interest under this goal was the initiative to support the Collaborative Model of Investments which would involve a blended investment workforce with new technologies, operational processes and infrastructure in the hybrid work environment. Goal 2 is digital transformation – new technology. Goal 3 is to strengthen partnerships and services to members, employers, and stakeholders. Goal 4 is organizational strength – efficiency and growth in a changing business environment.

CalSTRS has an operating budget of \$307,382,375. CalSTRS has 1,361 authorized positions.

State and Federal Legislation of interest to CalSTRS was presented. CalSTRS has two sponsored bills, AB539 (Cooley) expands the Collaborative Model to include managing more assets internally and leveraging external partnerships. AB551 (Rodriquez) authorizes CalSTRS to offer a traditional (tax deferred) Individual Retirement Account (IRA).

CalSTRS also supports H.R. (Davis) to eliminate the GPO and WEB, and S.558 (Feinstein) to establish a permanent Climate Risk Advisory Committee.

The Board heard an update on the Pension Solution IT Project. Staff is working to mitigate the impacts of COVID-19. Staff working at home has had impacts (Personal Leave Program). So far training activities has been successfully conducted virtually. Staff continues to monitor the impact on employers and partners due to their pandemic-induced challenges. Challenges are (1) Testing activities delayed, (2) Higher staff turnover, (3) User Acceptance Testing and Training impacted due to staff working remotely. As of now, the Pension Solution IT Project is expecting a go-live delay of 18 – 24 months.

Cassandra Lichnock gave the CEO report. CalSTRS is modifying how the staff works together (the Hybrid Model). Most staff are still working remotely with hopes of starting to bring staff back to the office in September.

The new CalSTRS building finish date is December 2022. But there is a schedule delay and concern about increased costs. One present concern is the lack of cooperation of the Fire Marshall.

CalSTRS staff reported that CalSTRS member COVID deaths through May 15, 2021 totaled 638. Only 25 were active females and 31 were active males. The rest were retirees.

The next CalSTRS Board and Committee meetings will be in September 1-2, 2021.

CalSTRS Report, October 5-6, 2021

By Pat Geyer, CalRTA Liaison to CalSTRS

Executive Summary

1. CalSTRS goals: (1.) Trusted Steward, (2) Business, Customer Service innovator, (3) Sustainable (diversity, organized, good employer, adaptability, ESG principles)
2. Retirement Board goals are earnings of 8.7% or more with a focus on China
3. Predictions for 2021-22 are a GNP growth of 5% and inflation of 4%. This business cycle will last for three years and maybe longer

Teachers Retirement Board 10/5

Harry Keeley, CalSTRS Board member presented his goals for CalSTRS. They are (1) Change – Be prepared for change in leadership. (2) Curiosity – What can CalSTRS become? (3) Compassion – show kindness. (4) Collaboration. And (5) Consensus.

Cassandra Lichnock gave an update. CalSTRS is making plans to come back to the office. CalSTRS will start back-in-office from September to November. Staff is happy to start meeting in-person. However, CalSTRS plans to contact members virtually and to continue with the virtual working environment. The new building construction is moving forward as planned. Challenges are: (1) changes due to COVID, (2) funding and investment. CalSTRS will continue to focus on operation and service.

Next the Committee discussed Strategic Planning, 2019-22. CalSTRS will look at the current environment and then plan for the next three years. (CEO and staff, virtual meetings, risks, evaluation) First, look at the current environment – S (strengths), W (weaknesses), O (opportunities), T (threats).

Harry Keeley expresses current concerns: How do we get people back? How has technology changed? How will things change in 5 to 10 years? Jennifer Baker opined that teaching might be changing. The collaborative model has changed. Relationships with other state governments and the public has changed. Will CalSTRS staff continue to work remotely? Harry Keeley wants CalSTRS to consider technology changes and changes to longevity, health care, and retirement. CalSTRS will bring in more experts and get more people involved.

CalSTRS needs to think about preparing to get people back. How to do it?

To learn new ways to interact both internal and external.

To be aware of the generation gap.

To see the changing workforce

To be more flexible

Chris Ailman reported that other states are looking at Defined Benefit Plans and the fact that other employees don't have that benefit. States talk about closing Defined Benefit Plans.

CalSTRS goals: (1) Trusted Steward, (2) Business, Customer Service innovator, (3) Sustainable (diversity, organized, good employer, adaptability, ESG principles) CalSTRS is a model for others and an influence over time.

The Strategic Plan Goals: (1) Financial/governance, (2) Digital, (3) Member/Employer, (4) Organization Strength.

A draft of the plan will be developed with the first reading January 2022 and implementation by July 2022.

Teachers' Retirement Board 10/6

Board goals are: earnings of 8.7% or more and a focus on China.

Byron Wien from Blackstone discussed the Investment Environment. The market is fully priced and the economy is favorable. The Corona Virus is under control. In New York half of the employees are back working in the office. Predictions for 2021-22 are a GNP growth of 5% and inflation of 4%. This business cycle will last for three years and maybe longer. Predictions for the years after 2021-22 are: Growth of 2-3% and inflation of 3-4%.

The world economy is favorable. Economic outlooks for Europe and China are good. Potential challenges are U.S.-China relations, rising interest rates, and inflation.

Life Lessons are: (1) Concentrate on the Big Idea in your career. (2) Network, (3) Trust new people, be friends. (4) Read, (5) Sleep, (6) Evolve – do different things. (7) Travel - see growing middle class in 3rd world. (8) Try to help with poverty, disease, etc. (9) Don't take short cuts. (10) Be creative – take jobs you want. (11) Try something new. (12) Never retire.

The European Union will hold together. Their social policies are better. U.S. will have faster growth than Europe. The Big question is the Future of Democracy – Democracy is being challenged because of a lack of social policies.

Areas of possible progress:

1. Education costs decrease - increase of remote learning and tech help.
2. Generation of electricity – increase in nuclear generation – fission and fusion
3. Technology will improve human life. Need to get the rest of the world to decrease pollution.
4. Inequality will still be an issue: growth does not help, poor people do not have the skills to be successful. They need education.
5. Internet has improved the quality of life. Need to regulate social media.
6. Technology is the way to the future.

Ian Bremmer discussed the future of institutional investing. China has benefited from cheap labor and the rest of the world's willingness to co-operate and trade. This has changed. Cheaper labor is not needed and the Chinese economy is not changing like before. However 90% of U.S. business is steady and may be expanding in China.

There is no trust between the governments of the United States and China even though they have economic dependence. They will not go to war, but there is less cooperation. The United States and China will each turn more inwards. For example: No co-operation on the corona virus. U.S. leaves Afghanistan and China turns inward also. China wants control of technology not innovation and not collaboration. U.S. Allies are angry because now Afghanistan is a problem for them. They can't rely on U.S. commitment.

Ian Bremmer continued. The big question is the U.S. investment policy in China. China is a repressive regime, but that does not stop investments. China is a middle income country. Its population is still growing but by the end of the century China will begin losing population. China wants control and human rights will be a problem. China will become the largest economy in the world, but investments may be complicated – no free market.

Challenges for the United States are:

1. Debt Ceiling. (The debt ceiling is not a worry to Ian Bremmer)
2. Democracy. Democrats see democracy breaking because of Trump. Democracy is eroding because of corruption in business, no agreement about the role of society.
3. What is happening in the United States including: Economic inequality, Racism, Social Media's greater influence. Growing inequality (gated communities, private banks), private schools, service to the 1%.

4. Lack of cooperation between countries – costs of climate change, poverty levels increasing.

There was one Public Comment: the Terminal Warehouses in New York have labor problems. The caller asked CalSTRS to look into these problems.

CalSTRS Report November 4,5, 2021

By Pat Geyer, CalRTA Liaison to CalSTRS

Executive Summary

1. As of September 2021, the total fund was \$321 billion, slightly up from August which ended at \$318 billion.
2. The Collaborative model is working. CalSTRS estimates that in 2020 the collaborative model saved the fund \$309 million.
3. Service Retirement, Disability, and Survivor Benefit modifications were down in number from 2018 to 2021.
4. Cassandra Lichnock gave the Chief Executive Officer report.
5. Lisa Blatnick is the new Chief Operating Officer, the position vacated by Cassandra Lichnock.
6. Melissa Norcia was appointed at CalSTRS' Chief Administrative Officer, the position vacated by Lisa Blatnick. She was formerly director of Human Resources.
7. Kristel Turko is CalSTRS Director of Human Resources replacing Melissa Norcia who became Chief Administrative Officer.
8. Mark Gini assumed the role of Ombuds following Tom Barrett's retirement. Christina Nguyen took over as Ombuds Coordinator after Patty Clark retired.
9. The Headquarters expansion project is approximately 47% complete as of September 30, 2021. The completion date is scheduled for December 2022.
10. The proposed CalSTRS total 2022-23 operating budget is \$687.9 million and includes 1293 positions (an increase of 61 positions). This represents an increase of \$62.2 million or about 10%.

Investment Committee

The Committee began with hearing statements from the public. Alex Day, a teacher asked CalSTRS to divest from fossil fuels. Joan, Paula, and Lyn retired teachers also called in to ask CalSTRS to divest in fossil fuels.

The Committee heard the GIPS (Global Investment Performance Standards) performance report. The report stated that the One-Year Returns as of June 30, 2021 were 27.11%. CalSTRS went from \$246 to \$306 billion.

Chris Ailman, CIO presented the CIO Report: As of September 2021, the total fund was \$321 billion, slightly up from August which ended at \$318 billion. The CalSTRS fund is 76% invested in the United States, 1.5% invested in China. The most common public equity is in technology such as Apple, Microsoft, Alphabet, Facebook. Risks are inflation, unemployment. Surprises could be Chinese aggression against Taiwan or North Korea.

Kelly Criss is the new head of Investment Operations.

The stock market is at a high. The Federal Reserve is at risk because of the change in leadership. CalSTRS returns tend to follow the market and the market is dominated by technology. Will COVID testing requirements cause employee dissention? Employees are leaving. One does not know how this will affect the market.

The Collaborative model is working. CalSTRS estimates that in 2020 the collaborative model saved the fund \$309 million. CalSTRS is the partner of choice which can be an advantage. CalSTRS plans to hire 91 new employees over the next three years, but CalSTRS still will depend on external managers. There is a possibility of a branch office in investments, possibly San Francisco or Los Angeles. Challenges for CalSTRS are the need for more resources (add employees with talents),

The Annual Investment Cost Report was presented. 2020 costs increased in carried interest. Management fees increased because there were more assets, and external managers are more expensive. However, CalSTRS is a low cost fund compared to its peers. The Collaborative Model, bringing investment in house has resulted in savings - \$781 million in savings the last four years. \$309 million in savings in 2020.

Audits & Risk Management Committee

The Committee heard the annual report on benefit payment increases and decreases. Service retirement changes were the most common, with 15,806 members seeing a benefit payment decrease (total value \$64,632,019) and 26,128 members seeing a benefit payment increase (total value \$12,564,229) in 2020-21. The amount of the benefit decrease on average was much larger than the benefit increase change.

Service Retirement, Disability, and Survivor Benefit modifications were down in number from 2018 to 2021.

Staff completed 96 out of 106 employer audits. 81% of the employers had at least one finding. Staff is working with employers to resolve the findings (103 of the findings are resolved, 138 findings are not resolved). Most employer audits have to do with actives. The

focus was on unused sick leave, post-retirement earnings, and special compensation. The independent auditors' reports were accepted.

Two internal audits are in progress: Production Data & Application Deployment and Third Party Vendor: Genesys Telecommunications Laboratories, Inc.

The 2021 Management Letter was presented by Larry Jensen & Julie Underwood. A deficiency in internal controls exists. Control does not allow staff to prevent or detect and correct misstatements on a timely basis. CalSTRS is working on the problem.

The 2022 Enterprise Compliance Services Plan was presented: (1) Governance: structure the program with clearly defined roles and responsibilities, (2) Culture: ethical and compliant behavior embedded in the foundation and daily operations, (3) Risk Assessment: periodic assessment of risk exposure related to misconduct or noncompliance with laws, regulations, policies and standards, (4) Policies and Standards: defined guidance to support organizational ethical expectations and compliance with applicable laws and regulations, (5) Training and Communications: appropriately tailor subject matter topics to support understanding of compliance and ethics, (6) Confidential Reporting: efficient and effective mechanism that allows anonymous reporting, (7) Case Management & Response: system and process to effectively and efficiently manage, investigate and resolve hotline reports, (8) Monitoring: system for routine monitoring of organizational compliance risk, controls and behaviors, (9) Third Party Compliance Management: risk-based application of due diligence over third-party relationships, and (10) Program Management: defined structure to manage, measure and evaluate program effectiveness.

The 2022 Internal Audit Plan was presented. The proposed 2022 audits are:

1. Financial/Governance (Financial Statements, Real Estate, Currency and Performance Management, Securities, Benefit Payment modifications)
2. Digital Transformation (Pension Solution, Information Security, Software Management, Disaster Recovery, Cloud Security, Software Development Cycle)
3. Member/Employer (Survivor Benefits, Death Benefits)
4. Organizational Strength (Travel and Contract Management, Mail, Strategic & Business Planning, Global Reporting Initiative)

The 2022 CalSTRS audit plan is for 120 employer audits.

Board Governance Committee

The Committee discussed the revised work plan. Issues were: How to take advantage of the hybrid meeting format, and how can meeting materials be enhanced to support the delivery of information. The law allows public meetings to be virtual, but this must be approved by the State in January.

The Committee discussed a revision to the Board Governance Manual. Under Section 4, subsection G (7) Staff recommends keeping the current sanction and adding sanctions that would allow CalSTRS discretion to immediately terminate the contract/agreement and/or withhold payments for entities in violation of policy. This will allow the Board to act immediately. CalSTRS has only had 1 violation in the last three years. However, many companies have had problems and this revision will give CalSTRS more clout.

Teachers' Retirement Board

Cassandra Lichnock, CEO gave the Chief Executive Officer report. Melissa Norcia was appointed as CalSTRS' Chief Administrative Officer. She was formerly director of Human Resources. Kristel Turko is CalSTRS Director of Human Resources replacing Melissa Norcia who became Chief Administrative Officer. Lisa Blatnick is the new Chief Operating Officer.

Mark Gini assumed the role of Ombuds following Tom Barrett's retirement. Christina Nguyen took over as Ombuds Coordinator after Patty Clark retired. The majority of cases come from those receiving a benefit, specifically receiving a service retirement benefit. Other inquiries related primarily to survivor benefits and employer reporting. The Ombuds office heard 288 cases down from an average of 328 to 370 cases a year.

The Headquarters expansion project is approximately 47% complete as of September 30, 2021. The completion date is scheduled for December 2022. Projects completed this month were the placement of the bridge which will connect the two buildings at the 4th floor. Additional activities were: 1. Beams at office levels 3 and 4, 2. Framing , 3. Penthouse structure, and 4.Lobby stair cases. Costs relating to the building delay are 5 to 7% of the original budget of \$15 to 21 million.

Lisa Blatnick, COO, discussed the Headquarters Occupancy and Tower Leasing Plans. CalSTRS plans to continue with a blended workforce: work at home 1 to 2 days a week, in office 3 or 4 days. This will require a reconfiguration of office plans including a 20% reduction in desk purchases. Benefits and Services, Financial Services, Administrative

Services and Audit Services will move to the new building. There is a lack of quality office space in Sacramento, and CalSTRS is optimistic about leasing space in the new building.

The Pension Solution Project (computers) plans to go live by October 2023. There will be an update at the CalSTRS January Board meeting.

Rick Reed and Davis Lamoureux reviewed CalSTRS funding levels and risks. Key findings are: 1. The state's share of the funding obligation will end by June 2023, ahead of schedule. 2. Long term contribution levels for employers are expected to be higher. 3. Anticipated decrease in enrollment in K-12 could lead to future declines in the size of active membership, resulting in lower than anticipated payroll growth. 4. CalSTRS largest risk remains investment-related. 5. Full funding is dependent on CalSTRS meeting its actuarial assumptions. Last year's CalSTRS portfolio performance was good.

CalSTRS sponsored 3 State Legislative Bills. They are:

AB539 (Cooley) to expand CalSTRS Collaborative model. (Chaptered)

Ab551 (Rodriguez) offers a traditional (tax deferred) IRA in addition to the Roth IRA. (Inactive File)

SB634 (L,PE&R) Makes various minor changes to the Teachers' Retirement Law. (Chaptered)

Other legislation of interest is:

AB845 (Rodriguez) creates disability retirement due to a COVID-19 related illness if the disability arose out of the member's employment and sunsets January 1, 2023 (Chaptered)

H.R. 82 Eliminates and GPO and WEP from the Social Security Act (House Committee)

AB890 (Cervantes) requires the boards of CalSTRS and CalPERS to submit an annual report regarding participation of emerging or diverse asset managers in the systems' investment portfolios. (Chaptered)

AJR9 (Cooper) to repeal the Government Pension Offset (GPO) and Windfall Elimination (WEP)

John Stanton gave a virtual presentation on Federal legislation. He is encouraged by a Democratic Party President and a Democratic Party Legislature. He anticipates legislation on climate risk, investor protection, and infrastructure.

Next was a review of the CalSTRS Basic Financial Statements as of June 30, 2021. CalSTRS had no significant change. Total net investments were \$341 billion. Total Liabilities were \$40.7 billion. There was a \$64 billion increase in assets for the year.

The proposed CalSTRS operating budget for 2022-23 is \$374.5 million. The estimated net increase for the fiscal year 2022-23 is \$48.6 billion.

The proposed CalSTRS total 2022-23 budget is \$687.9 million and includes 1293 positions (an increase of 61 positions). Of this amount \$313.4 million is for External Investment Management and \$374.5 million is for the proposed operating budget. This represents an increase of \$62.2 million or 10%. The annual incentive award for the Chief Investment Officer is \$1,103,094. Including the proposed awards for the Chief Executive Officer and the Chief Investment Officer, the incentive payments for all plan participants for this fiscal year, totaling \$16.9 million, represent 0.25% of the value added from those specific investment decisions.

Members of the public spoke. David Walrath, CalRTA said that no retiree should be held liable for mistakes others make. Keven, CTA Retirement Committee Chair said don't punish employees for employer error. Mary Kay Scheid asked STRS to not impact retirees for employer system error. Two other members of the public asked CalSTRS to divest in fossil fuels.