

## CalSTRS Report January 27, 28. 2022

By Pat Geyer, CalRTA Liaison to CalSTRS

### Executive Summary

1. The Private Equity Policy revision was approved. The Committee also approved the Public Equity CalSTRS investment be reduced by 7% and the Private Equity investment be increased by 3%.
2. The CalSTRS fund in now \$315 billion.
3. The 2021 return for CalSTRS was 17%.
4. Generally emerging markets have not moved to developed. The U.S. has outperformed non-U.S. over the last 10 years.
5. 2022 CalSTRS Stewardship Priorities are: accountability, Board effectiveness, low carbon economy, and responsible firearms.
6. The next CalSTRS meetings will be in March
7. The Committee heard the Triennial Health Benefits Study. 60% of active members of CalSTRS, have health benefits support from their employers
8. Since COVID CalSTRS has closed all Member Service Centers
9. The Board/Committee meetings for 2021-22 will be: January 27-28, 2022, March 3-4, 2022, April 6-7, 2022(Offsite), May 4-5, 2022.
10. The new proposed Calendar for 2022-23 is July 7-8; August 31-September 1, October 4-6 (Offsite), November 2-3, 2022, January 25-26, 2023, March 1-2, 2023, April 5-6, 2023 (Offsite), May 3-4, 2023.
11. The CalSTRS Headquarters Expansion Project review was presented. Due to the COVID-19 pandemic and other delays the completion date has been moved to 2022-23.

### Investment Committee

Ken Tang was introduced as the newest CalSTRS Board member.

Next the Committee heard public comments. Rena Stackhand asked CalSTRS not to invest in companies in the Congo which chase out communities and kill people in order to get oil. Darlene from Escondido asked CalSTRS not to invest in Blackstone which drives house prices up as well as apartments. Carla asked CalSTRS not to invest in fossil fuel companies.

The Private Equity policy revision was passed. Policy changes were: 1. Increased delegation of authority for partnerships-a two fold increase, and for co-investments-a three fold increase. 2. Permit co-investing with general partners outside of the CalSTRS portfolio. 3. Expand

permissible terms of co-investments. 4. Provide more flexibility with respect to co-investing and by special mandate managers. 5. Update the diversifications section of the policy. 6. Update the reporting section of the policy.

Discussion followed. Ted Ferguson of Meketa mentioned other co-investment risks. They were more volatility, large size of transaction, and new managers. CalSTRS Board member Harry Keeley asked if it was a big company should not the 2% investment be smaller because of the size of investment. Scott Chan (CalSTRS staff) responded that CalSTRS may want a larger risk because of the size of the fund. Board member, Betty Yee was concerned about CalSTRS getting a bad reputation. Other concerns were (1) getting invested with undesirable partners, diversity and sustainability. Staff replied that these were not problems.

Public comment was (1) against CalSTRS co-investments which companies that were investing in the Congo – clearing forests and running out families. (2) Against investing in Blackstone.

The Private Equity Policy revision was approved. The Committee also approved the Public Equity CalSTRS investment be reduced by 7% and the Private Equity investment be increased by 3%.

Christopher Ailman presented the Chief Investment Officer's Report. Assumptions about growth are low, even as low as 0%. Investment allocation is the most important investment decision. Inflation is commodity related. There is a possibility of an Opportunistic Portfolio but there are concerns about risk. All changes take more time because of the present environment. Non-U.S. stocks have not had as much growth. The next CalSTRS meetings will be in March.

The CalSTRS fund reached \$327 billion in December an all-time high. The 2021 return for CalSTRS was 17%. The CalSTRS fund is now \$315 billion. The Fed has supported the market, perhaps too much. Generally CalSTRS has out-performed the market by 16% over 3 years, and by 12% over 5 years. Key risks are: COVID, Fed Policy, inflation. Possible surprises are: the pandemic, cyber-attack, climate, social unrest. Generally emerging markets have not moved to developed. The U.S. has outperformed non-U.S. over the last 10 years.

2022 CalSTRS Stewardship Priorities are: accountability, Board effectiveness, low carbon economy, and responsible firearms.

## **Benefits and Services Committee**

The Committee heard the Triennial Health Benefits Study. 60% of active members of CalSTRS, have health benefits support from their employers. About 50% of retirees receive health benefits from former employers. For the 2019-20 school year active members paid on average

\$6,000 for health benefits, while the average for retired members eligible for Medicare the cost was less than \$5,500. Over 60% of employers supported retired members until age 65. Only 8% of employers supported retirees after age 65.

In conclusion, CalSTRS K-12 members appear well covered healthcare until Medicare coverage begins. Once retired, CalSTRS members mostly find medical costs manageable. Community college faculty receive less employer support.

Since COVID CalSTRS has closed all Member Service Centers. CalSTRS transitioned to individual sessions by telephone and Zoom. Attendance has increased by 104% in the last year. CalSTRS has lowered administrative costs along with efficient and effective member services. However, members served through CalSTRS services have dropped from approximately 65,000 in 20-21 to 36,000 in 21-22. The Retirement Readiness team has started traveling in August 2021 and has participated in conferences and events.

## **Board Governance Committee**

The Committee held 6 regular meetings and one offsite meeting. The Committee reviewed the Board Operating Principles. Suggestions were to add flexibility by (1) Options for meeting format and materials, (2) Possible changes in materials, (3) Possibly adding virtual meetings.

## **Teachers' Retirement Board**

Cassandra Lichnock presented the CEO report. CalSTRS decided to postpone a return to blended environment (return to building) until April 1, 2022. The City of West Sacramento is improving the river walk. CalSTRS member deaths peaked from December 2020 to February 2021. CalSTRS member COVID deaths for actives were 33 females and 48 males. Among CalSTRS retirees deaths were 360 for females and 346 for males. (The proportion of retiree deaths was split 50/50 female and male, because there are more female retirees.)

The Headquarters Expansion Construction project is 50% complete. The new completion date is January 31, 2023. The HEC project will require additional funding. The final cost is expected to be \$318,500,000, up \$18,500,000. The project team requests that the Board approve the additional funding.

Other items of interest were that the mileage rate will increase. It will be 58.5 cents per mile up from 56 cents per mile in 2021. Governor Newsom released the proposed budget. The budget includes \$3.7 billion for the annual state contribution to CalSTRS. CalSTRS Board will be setting the 2022-23 state contribution rate at the May meeting. For the past three years the

State has provided CalSTRS will additional contributions; the State is not proposing additional contributions this year.

The Board reviewed the valuation policy for the Defined Benefit Program. The Education Code require that the valuation be done every six years, but the Board performs the valuation annually. Education Code specifies that the State is responsible for the unfunded obligation. The employers are responsible for unfunded associated with changes made to the Program. No changes to the valuation policy are recommended.

It is recommended that the Board adopt the following revisions: (1) Eliminate the 2025 review, (2) Limit the decreases in the state supplemental contribution rate to .5% of payroll, (3) State supplemental contribution rate be set to 0% of payroll once its unfunded obligation is eliminated. (4) Delete a provision which could result in the employer rate increasing when the state rate is not sufficient.

The Board reviewed the Long-Term Incentive Plan for executive management and investment staff. Human Resources recommends that the LTIP eligibility be for the Chief Executive Officer and Investment staff. Additional features and recommendations will be brought to the Board at a future meeting.

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The CalSTRS Strategic Plan for 2022-25 was presented. The Strategic Plan is characterized by assessing organizational readiness and building capabilities.

Meketa presented the Benchmarking Review Project. The performance objectives are divided into (1) overall investment Portfolio, (2) each asset class, (3) individual investment managers within each asset class. The performance objectives will be used as a measure in determining annual incentive compensation.

The CalSTRS Headquarters Expansion Project review was presented. Due to the COVID-19 pandemic and other delays the completion date has been moved to 2022-23. Additional costs are due to the delay. The Contract amount of \$950,400 has been increased to \$1,468,800.