CalSTRS Report for January 2020
By Pat Geyer, CalRTA Representative to CalSTRS

Executive Summary

1. Denise Bradford is the new CalSTRS Board member replacing Dana Dillion and representing active teachers.
2. The Sustainable Investment and Stewardship plan’s 2020 priorities are: Corporate and Market Accountability, Board Effectiveness, Low-Carbon Transition, and Responsible Firearms.
3. The CalSTRS fund is $254 billion, its highest ever.
4. CalSTRS fund concerns are: Brexit, possible trade war, Corona virus.
5. CalSTRS will be interviewing for a custodian, private equity position, and a diversity officer.
6. The Pension Solution (computer) Project will go live in October 2021.
7. A CalSTRS Employer Information Circular clarifying Leave of Absence was presented. Client Advisory Committee is against the proposal as presented.
8. There will be no change to the key economic assumptions.
9. The State’s contribution rate to retirement will increase .46% of payroll and the employers contribution rate increase .03% of payroll. There will be no change to the employee’s contribution rate.
10. Loretta Toggenburger, UTLA is attending her last CalSTRS meeting at the age of 93.
11. Construction has begun on the new Headquarters Expansion Building. Plans are to complete the building in two years.

Investment Committee

The meeting opened with public comment by teachers, students, and other concerned adults asking CalSTRS to divest in fossil fuels.

Denise Bradford was introduced. Denise is the new CalSTRS Board member replacing Dana Dillion and representing active teachers.
In the November meeting the Board selected new long-term asset allocation targets. This agenda will put the targets into the Investment Policy and approve a management plan. Under economic growth Public Equity changes from 59% to 42%; Private Equity changes from 9.4% to 13%. Under real assets Real Estate changes from 13.9% to 15%; Inflation Sensitive changes from 2.7% to 6%. Under Diversifying Risk Mitigating Strategies changes from 9.4% to 10%; Fixed Income changes from 12.6% to 12%, and Cash remains at 2%.

The Sustainable Investment & Stewardship Strategies (Corporate Governance) Program Policy is divided into two parts - the first is the Program and includes all the activities; the second is the Policy related to the Sustainable Investment & Stewardship Strategies (SISS) Portfolio Policy. The emphasis is on engagement. The Stewardship’s plan for 2020 priorities are: Corporate and Market Accountability, Board effectiveness, Low-Carbon Transition, and Responsible Firearms. The Plan was approved and will be publicized on the CalSTRS website.

The Green Initiative Task Force Report was presented. It has an analysis of the climate-related financial risks of the public market portfolio. California Senate Bill 9964 requires an analysis of climate-related financial risks to the CalSTRS portfolio every three years. CalSTRS is looking to work with the demanders of energy as well as the producers of energy. Again, many speakers spoke asking CalSTRS to divest in fossil fuels.

Chief Investment Officer, Chris Ailman gave his report. The CalSTRS fund is $254 billion, its highest ever. It had a return of 18.4%. The fund had a return of 7% over the last two years and a return of 10% over the last three years. This has been the longest bull market in history. Concerns are: Brexit, possible trade war, Corona virus.

CalSTRS will be interviewing for a custodian. State Street has been the custodian for 10 years. In addition, Meketa’s Private Equity contract ends in September. CalSTRS will be looking at interviewing for the Private Equity contract position. CalSTRS is also looking at diversity on private boards as well as public company boards. CalSTRS will be hiring a diversity officer for both internal and external demands.

The Collaborative Model is an investment strategy to manage more assets internally to save costs, control risk, and increase investment returns. The Pillars Project will support the Collaborative Model by providing a governance framework. It seeks to improve four key processes: human resources, travel, procurement, and a hybrid category (financial services, legal services, technology and communication).

The Committee heard an update on the active risk budget and how it might be implemented.

Board Governance Committee

The Committee met during the Client Advisory Committee meeting so Pat Geyer was unable to attend. According to the Committee agenda the Committee reviewed revisions to the
Teachers’ Retirement Board Policy Manual, and heard updates to the Trustee Onboarding Program.

**Client Advisory Committee**

Joycelyn Marinez-Wade presented legislative updates. AB 33 (Bonta) prohibits CalSTRS from investing in private prison companies. (CalSTRS opposes). AB 462 (Rodriguez) requires CalSTRS Board to submit an annual report to the Legislature on the status of objectives regarding participation of emerging managers within retirement systems’ investment portfolios. (CalSTRS supports).

Jeff Zimmer reported the Pension Solution Project update. CalSTRS is getting information on the project out to employers. October 2021 is when the project will go live.

Other proposed legislation was included in the written summary. Of interest, was a proposal to credit overpayment of contributions, penalties, and interest to the employer’s account rather than a refund of the overpayment.

A CalSTRS Employer Information Circular clarifying Leave of Absence was presented. Examples of “leave of absence” that are encompassed by the definition include pregnancy-related leave, leave to serve as an elected officer of a local school district or a community college district, and leave for travel or study if beneficial to the students and schools of the district. Therefore, if an employee is placed on paid administrative and that leave is not otherwise expressly authorized up the Education Code, pay received for that leave of absence does not constitute creditable compensation for CalSTRS. Members Ed Foglia and Jennifer Baker expressed concerns and wanted further clarification. Client Advisory Committee is against the proposal as presented.

**Regular Meeting**

The CalSTRS Board heard a review of the actuarial assumptions. There will be no change to the key economic assumptions; however, if growth is lower is may be necessary to lower these assumptions. Mortality rates have changed the most due to improvements in life expectancies.

Of the key demographic assumptions two changes are recommended. (1) Lower termination rates to reflect lower than expected teachers leaving and (2) slight increase in both state and employer contribution rates. The State’s contribution rate will increase .46% of payroll in 2023-24 and the employers contribution rate increase .03% of payroll in 2021-22. There will be no change to the employee’s contribution rate.

The State Department of Finance sees a potential decrease of 0.4% in K-12 students per year. The risks are investment change, longevity change, and change in number of participants.

Changes to the Medicare Premium Payment Plan will be minimal.
Brian Bartow, CalSTRS staff presented regulations for public comment. Staff will initiate the rulemaking and hold a public hearing to coincide with the May board meeting. A list of 12 rules was proposed.

Loretta Toggenburger, UTLA is attending her last CalSTRS meeting at the age of 93. She has 34 years of service as a teacher and has attended CalSTRS meetings for 30 years. Loretta was recognized with a standing ovation by staff and members. Loretta, we will miss you.

The Pension Solution Computer Project completed Rollout #1 (a webinar series informing Employers how to schedule visits, obtain access to environment, initiate training and begin testing their contributions and files). Full implementation of the Project will be in the fall of 2021.

The Committee heard a review of fiduciary insurance.