CalSTRS Report  March 2019

By Pat Geyer, CalRTA representative to CalSTRS

Summary

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) Preform 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 that 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.