



## Regular Meeting

### Item Number 6 – Open Session

**Subject:** Annual GRI Sustainability Report

**Presenter(s):** Jack Ehnes / Cassandra Lichnock

**Item Type:** Information

**Date & Time:** March 5, 2021 – 15 minutes

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**Attachment(s):** None

**PowerPoint(s):** Sustainability at CalSTRS

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#### PURPOSE

Share with the board CalSTRS' sustainability performance for July 1, 2019, through June 30, 2020.

#### DISCUSSION/SUMMARY

##### **Global Stewardship at Work**

We prepare a series of reports under the umbrella **Global Stewardship at Work**, united by long-term value creation, transparency, and disclosure: *Sustainability Report*, *CalSTRS Comprehensive Annual Financial Report/Popular Annual Financial Report*, and the *Green Initiative Task Force Report*.

CalSTRS released our seventh annual *Sustainability Report* in March 2021 documenting our corporate sustainability approach, engagement and data for the 2019–20 fiscal year.

This year's report reflects our approach to sustainability and business continuity during an extraordinary time.

CalSTRS was the first U.S. public pension fund to release this type and level of reporting in 2015. The report was prepared in accordance with the Global Reporting Initiative (GRI) Standards.



GRI guidelines have evolved since 1997 and are recognized as global best practices for corporate sustainability reporting. According to *The KPMG Survey of Sustainability Reporting 2020*, 80% of companies worldwide now report on sustainability. Nearly all (96%) of the largest 250 companies report on their sustainability performance, and approximately three-quarters use the GRI reporting framework.

### **Sustainability report features**

The report includes disclosures about our organization, financial performance, membership and stakeholder engagement. We focus on key topics related to economic, environmental and social sustainable development.

This year we added topics on CalSTRS management of risk in response to the pandemic, the transition to a low-carbon economy, and diversity and inclusion.

### **Financial performance and membership statistics**

As of June 30, 2020, the total net position of the State Teachers' Retirement Plan was \$248.3 billion. For the 2019–20 fiscal year, CalSTRS paid \$15.9 billion in benefit payments, including service retirement, disability and survivor benefits and purchasing power supplemental payments. The average age of those retiring was 63.3 with an average of 24.3 years of member service credit. The average monthly member-only benefit for those retiring in 2019–20 was \$4,614.

### **Organization and key topics**

CalSTRS engages a wide range of stakeholders in conversations related to fund and organizational sustainability. We developed the report's key topics using input from CalSTRS executives and our Corporate Sustainability advisory team. This team is composed of representation from all branches at the senior level and uses the Ceres Roadmap and GRI Standards as a framework for corporate sustainability. Data from our "Perform to Sustain" map is reported regularly to senior leadership at Operation Performance Reviews.

Corporate sustainability requires balancing stability with predicting and reacting to unexpected shifts. Our report accounts for the pandemic's effects on our operations during the final quarter of the fiscal year, and how our plans ensured continuity of core business functions. The key topics reflect our approach to corporate sustainability and long-term organizational stability.

### **Managing enterprise risk**

In 2020, nearly every organization worldwide faced its own sustainability crisis because of the COVID-19 pandemic. Ongoing management of enterprise risk readied CalSTRS against impacts of the pandemic; business continuity plans, technological readiness, information security practices, and a strong culture of ethics and integrity helped ensure core business functions performed continuously.

With the additional risk mitigation strategies in place due to the COVID-19 pandemic, CalSTRS' risk profile remains stable.

### **Path to full funding**

State, member and employer contributions comprise approximately 40% of the projected funding source. Investment returns are projected to make up the remaining 60% of the resources necessary to fund CalSTRS benefits.

In November 2019 the board approved long-term asset allocation targets. This is one of the board's most important functions and is key to achieving full funding.

The *Sustainability Report* discusses the impact of the pandemic on our investment return and path to full funding. The State of California redirected supplemental payments previously intended to provide employer rate relief to address long-term liability, to instead help school districts and contributions in the short term.

The state contribution rate will remain at the 2019–20 level through the 2020–21 fiscal year. The state transferred \$297 million of Proposition 2 revenues to CalSTRS, which is more than the missed contributions from freezing the state contribution rate.

Additionally, CalSTRS experienced cost savings from the Collaborative Model over the past two years, and the Risk Mitigation Strategies asset class performed as expected during the sudden market drop in March 2020.

The next few years will be critical for the CalSTRS Funding Plan. Continuous monitoring of funding plan risks is key to identifying trends that could impact the long-term funding of the system. CalSTRS is financially stronger and better positioned than 10 years ago to react to a potential recession and achieve full funding, thanks to the adoption of the funding plan through AB 1469.

### **Member retirement preparedness**

CalSTRS members are expected to live longer than the average U.S. retiree and longer than the average CalPERS member. As of June 30, 2020, CalSTRS had 410 members over 100 years of age, a 13% increase over the prior year.

As life expectancies increase, we continue to educate members about their defined benefit and supplemental savings options. The report highlights Pension2® investment options, our new educator onboarding and retention toolkit, the impact of members' demographics on their confidence to live comfortably throughout their retirement years, and CalSTRS' transition to serving members remotely during the pandemic.

## **Transition to a low-carbon economy**

CalSTRS views climate change as a significant risk faced by investors and recognizes that society is transitioning away from fossil fuels and toward renewable energy sources. The report addresses the CalSTRS Low-Carbon Transition Work Plan, Investment Belief 9 adopted in January 2020, our perspective on fossil fuel divestment, and the value of engagements.

In 2019 CalSTRS published its 13th-annual *Green Initiative Task Force* report highlighting our environmentally focused investment efforts. In response to California Senate Bill 964 (Allen) (Chapter 731, Statutes of 2018), the *Green Initiative Task Force* report detailed analysis of our climate-related financial risks and how we are mitigating them. The reporting structure is aligned with the guidance of the Task Force on Climate-Related financial disclosures.

## **Diversity and inclusion**

We choose not to ignore intricate and complex topics. Diversity and inclusion are fundamental to CalSTRS culture, reflected in our Core Values: Strength and Respect. We have a robust diversity and inclusion effort, including discussions, educational webinars and internal leadership forums focused on building relationships and communication skills critical to an inclusive and safe working environment.

We are proud of our long-standing support of diversity, equity and inclusion in corporations and the investment profession. Our corporate governance program challenges companies to strengthen diversity in senior management and on boards of directors.

## **Additional sustainability efforts**

The report includes information on how we lead in the direction of sustainable finance. CalSTRS executives and senior-level staff provide leadership to vital organizations that drive strategic direction of corporate sustainability and responsible long-term investing.

We also feature our stewardship of natural resources through our Headquarters' environmental performance, including a LEED v4.1 Operations and Maintenance Platinum certification and an Energy Star rating of 98 out of 100.

The report was prepared using in-depth, balanced and transparent observations of CalSTRS operations related to standard disclosures and material topics. CalSTRS strives to provide accurate, transparent information regarding our performance. CalSTRS' Audit Services team performed an independent and objective review of the information submitted in this report and has provided a limited level of assurance over measurable statements and facts.



2019-20 Sustainability Report link and QR Code

<https://www.calstrs.com/2019-20-sustainability-report>