



Investment Committee

Item Number 19 – Open Session

Subject: Collaborative Model – Pillars Status Report

Presenter(s): Scott Chan and Lisa Blatnick

Item Type: Information

Date & Time: January 28, 2021 – 20 minutes

Attachment(s): Attachment 1 – Q2 Pillars Project Performance Report

Attachment 2 – Financial Pillar

PowerPoint(s): Pillars Project Update

POLICY

The CalSTRS Collaborative Model is an investment strategy to manage more assets internally - to reduce costs, control risks and increase expected returns - and leverage our external partnerships to achieve similar benefits. Implementation decisions such as managing assets internally versus externally are delegated to staff subject to the CalSTRS Investment Policy and Management Plan, IPMP. Decisions to provide additional resources and support to the CalSTRS Collaborative Model are not covered under any specific policy, however, if the Investment Committee approves any recommendations or changes that require policy changes, they will be integrated into the IPMP and any other policy document, as appropriate.

HISTORY AND PURPOSE OF THE ITEM

The adoption of the CalSTRS Collaborative Model has led to significant cost savings and excess returns. According to the [2019 Cost Report](#), CalSTRS spent \$1.8 billion (including incentive fees) to manage the investment program in calendar year 2019. Out of this significant expense, our estimated cost is \$54 million for CalSTRS investment staff and all associated costs of operations to manage or oversee 60 percent of assets internally or in Collaborative Model partnerships (including 12 percent in the Hybrid-Private category and 48 percent in the Internal Management category). On the other hand, CalSTRS spent the remainder of the \$1.8 billion or over \$1.7 billion to pay external managers.

To fully capitalize on the benefits of the Collaborative Model, it's paramount the Investments team becomes the "partner of choice", and therefore captures the best investment opportunities globally.

In many cases, CalSTRS competes for investments against larger (greater assets), more well-resourced (large and sophisticated investment teams) and more flexible/nimble organizations. In light of our competition, the vision of the Pillars Project is to move CalSTRS from a best in-class organization to a world leading pension fund. Accomplishing this task is an organization-wide effort that includes ownership by the Investments team, the other business areas of CalSTRS and the Board.

The Pillars Project supports the CalSTRS Collaborative Model investment strategy by creating a formal framework to find efficiencies in current processes so that when the Project concludes the Pillars will continue to enable consistent prioritization, organization-wide support, and internal management of future team projects. The overarching goal of the Pillars Project is to achieve a greater level of nimbleness and efficiency in executing the CalSTRS Collaborative Model investment strategy.

The Pillars Project consists of four Pillars seeking to improve outcomes in Human Resources; Travel; Procurement and a Hybrid category. The Hybrid Pillar is composed of Communication, Technology, Legal and Financial.



The Board requested that staff provide ongoing reporting to monitor progress regarding the Pillars Project. Accordingly, two times per year in the Investment Committee, the Executive Sponsors, Deputy Chief Investment Officer and Chief of Administrative Services, will present and update the Board on the progress of the Pillars Project.

The purpose of this item is to provide a semi-annual update regarding activity for the Pillars Project.

DISCUSSION

Despite the challenges of operating in a fully remote environment, the Investments Branch continues to add value by executing the Collaborative Model investment strategy. As of November 30, 2020, CalSTRS fiscal year 2021 return stood at 12.5 percent, which exceeded the Policy benchmark by 96 basis points and consequently the excess return goal of 40 basis points above the Policy benchmark. While all asset classes helped to drive excess returns thus far, the private markets asset classes (real estate, private equity and inflation sensitive) have contributed most significantly to alpha.

The Pillars and other business units of CalSTRS continue to provide necessary support in helping the Investments Branch exceed its goals while the Pillars Project continues to meet to discuss ways to be more effective in supporting the Collaborative Model efforts. One of the biggest challenges operating in a remote work environment has been communication. The Pillars Project, however, has been an outstanding model of teamwork, and we want to give credit to all of the Pillar teams for achieving this high level of collaboration during a difficult time period.

We are pleased to report the Pillars Project is meeting its planned objectives. The Pillars Project Plan including the vision, objectives, deliverables and action plans serve as the framework to monitor progress. Each action item and deliverable has been designed to be quantifiable such that the Board's report ties directly to the number of action items completed, the percentage of deliverables on target or accomplished and the percentage of objectives on target or accomplished.

Attachment 1, highlights that 95.8 percent of overall objectives are on target or accomplished and 97.7 percent of overall deliverables are on target or accomplished. The Pillars Project consists of 27 objectives, 113 deliverables and 635 action items, and 51 percent of the deliverables have already been completed.

The pandemic will have far-reaching effects and changes to our long-term processes. For example, many businesses including CalSTRS, are considering a “hybrid” workforce, incorporating telework more broadly. Pillar teams have appropriately pivoted to new deliverables and priorities to match the shifting landscape, as well as delayed a few action items in the Project where there is a need to operate in-person to accomplish goals. These changes are reflected in the plans of each Pillar.

One of the highlights during the semi-annual period was the development of the Financial Pillar Strategy within the Hybrid Pillar. Because the Financial Pillar provides support to all of the Pillars, it was intended to be created after the other Pillar strategies. The vision of the Financial Pillar is the following:

“Streamlined fiscal processes to support the CalSTRS Collaborative Model to provide efficient and effective services, enhanced financial transparency and accountability while preserving key internal controls.”

The team, vision, and objectives are outlined in **Attachment 2**. The leadership of the Pillar includes Julie Underwood, Chief Financial Officer and April Wilcox, Director of Investment Services as Pillar Sponsors, as well as Shifat Hasan, Art Martinez, Kelly Criss and Lucy Arbuckle as Pillar Leads.

Other highlights include the top accomplishments from each Pillar during the past six months and are listed below:

1. Human Resources
 - a. Board approved new classifications concept.

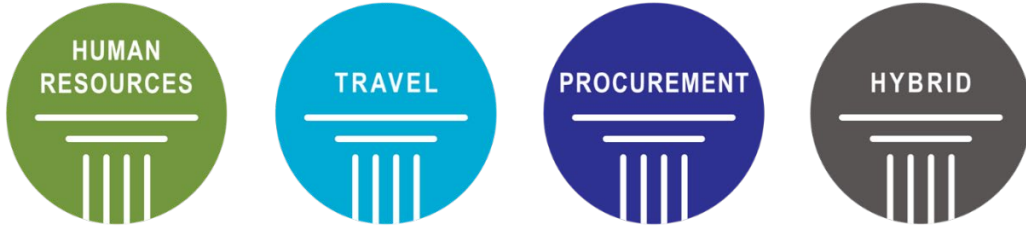
- b. Associate Portfolio Manager and Portfolio Manager exams posted online streamlining grading process.
 - c. Launched succession planning with Real Estate.
 - d. 60% action items completed to date.
2. Procurement
- a. Finalized new ASP process mapping and currently testing in Global Equities. ASP on target for completion by Feb 2021 (target is 120 days vs 12-18 months)
 - b. Procurement Bill projected to be introduced in early 2021.
 - c. Vendor *intake* database will be an internally developed software and serve as an inventory of investment managers and service providers willing to do business with CalSTRS Investments.
3. Travel
- a. Preparing to implement a revamped Concur/ SAP travel booking and expense system to increase automation and efficiencies for travelers and for finance and administration teams.
 - b. Updating CalSTRS Travel Manual to enhance guidance on travel policies and procedures and align with new Concur system.
4. Hybrid (Communication, Technology, Legal and Financial)
- a. Communication
 - i. Provided information on the goals and benefits of the Collaborative Model to multiple CalSTRS stakeholders including CAC- Client Advisory Committee, CalRTA – California Retired Teachers Association and ACSA -Association of California School Administrators; CTA – California Teachers Association presentation is forthcoming.
 - ii. Developed communication (presentation, graphics, speaking points) for consistent messaging regarding the Collaborative Model to key audiences.
 - iii. Updating Collaborative Model factsheet.
 - b. Technology
 - i. DocuSign implemented in private markets to streamline authorization process.
 - ii. Private markets implementing DealCloud to manage partnerships.
 - iii. Working with external consultant to assist in data solutions vision and path.
 - c. Legal
 - i. Developed and began executing on staffing plan to support Collaborative Model.

We look forward to answering any questions at the January Investment Committee.

The Pillars Project		FY 2019-20		FY 2020-21	
		Q3	Q4	Q1	Q2
Project Overall					
Human Resources					
Obj. A	Establish strong partnerships between HR and Investments to grow quality investment talent.				
Obj. B	Strengthen professional, ethical, and collaborative team environment and employee experience.				
Obj. C	Enhance recruitment process to ensure positive candidate experience.				
Obj. D	Streamline hiring processes (time- to- fill) to avoid rework for business area and HR.				
Obj. E	Plan for succession readiness.				
Obj. F	Develop classification and compensation strategy plan to support the CalSTRS Collaborative Model.				
Obj. G	Implement a flexible workforce environment for the Investment Branch.				
Procurement					
Obj. A	Establish an expedient and efficient procurement process.				
Obj. B	Negotiate legislation to amend Teachers' Retirement Law to grant the board authority over the investment procurement process, effective July 1, 2021.				
Travel					
Obj. A	Improve travel expense process by identifying areas of inefficiency.				
Obj. B	Improve traveler productivity and satisfaction by increasing focus on traveler time and efficiency to maximize effectiveness when carrying out CalSTRS business.				
Obj. C	Establish guiding principles that allow for a reasonable policy exception when warranted.				
Obj. D	Explore solutions to address Government Code 11.139.8 from Assembly Bill 1887.				
Obj. E	Expand understanding of travel rules and regulations to enhance compliance.				
Technology					
Obj. A	Develop a recommendation for a single data platform for all asset classes supporting a total fund view.				
Obj. B	Implement technology solution(s) that streamline the complexities of managing multi-asset class portfolios and address the needs of the Investment Branch.				
Obj. C	Develop collaborative communication framework supporting investment technology service needed to effectively and efficiently manage the fund.				
Obj. D	Provide effective delivery of IT services to improve investment stakeholder experience and satisfaction.				
Communication					
Obj. A	Communicate a clear and comprehensive definition of the CalSTRS Collaborative Model for internal and external audiences.				
Obj. B	Strengthen trusted investment-related reputation with stakeholders.				
Obj. C	Enhance partnership between Public Affairs and Investments to support and advance the CalSTRS Collaborative Model.				
Obj. D	Strengthen Investment Brand to be competitive in the marketplace.				
Legal					
Obj. A	Expand internal and external legal expertise for all asset classes.				
Obj. B	Review legal process workflow in relation to Investments.				
Financial					
Obj. A	Streamline the disbursement processes to provide the most efficient and effective services.				
Obj. B	Evaluate and enhance financial reports to support financial transparency and accountability.				
Obj. C	Evaluate organizational needs and reporting to determine and forecast budgetary and staffing resources needed to support the CalSTRS Collaborative Model.				

Unlikely to Accomplish
 Some Setbacks
 On Target to Accomplish
 Accomplished

Objectives - Pillar Level: sum of objectives Accomplished or On Target divided by total Pillar Objectives
 (Accomplished/On Target = 1 pt., Some Setbacks/Unlikely to Accomplish = 0 pt.)
 Overall Collaborative Model: sum of objectives Accomplished or On Target divided by total Objectives
 (Accomplished/On Target = 1 pt., Some Setbacks/Unlikely to Accomplish = 0 pt.)
 Color formatting based on 25/50/25 - R/Y/G



Financial

The Financial Pillar is incorporated in the fourth Pillar, under Hybrid. Since our last update, the Financial Pillar has finalized their vision and objectives.

Vision:

Streamlined fiscal processes to support the CalSTRS Collaborative Model to provide efficient and effective services, enhanced financial transparency and accountability while preserving key internal controls.

Objective A: Streamline the disbursement processes to provide the most efficient and effective services.

Objective B: Evaluate and enhance financial reports to support financial transparency and accountability.

Objective C: Evaluate organizational needs and reporting to determine and forecast budgetary and staffing resources needed to support the CalSTRS Collaborative Model.

<p>Pillar Sponsors: April Wilcox Julie Underwood</p>	<p>Pillar Leaders: Art Martinez Kelly Criss Lucy Arbuckle Shifat Hasan</p>
<p>Working Group INVESTMENTS: April Uyematsu Chris Moore David Munoz Delfina Paloma Diego Sanchez Jake O’Hagan Harmony Lu</p>	<p>INVESTMENTS: Haytham Sharief Lisa Kashiwamura Mike Dunigan Michael Carlson Pedro Ferrer De Morais Ron Leu Sandra Teague</p>
<p>ESM: Andy Flores Jan Spano Laurie Hinkson Zak Sousa</p>	<p>OPERATIONS: Bankole Fatunla Conrad Paterno Daniel Garzon Dick Schroeder Hong Chieng Melissa Roth Pritpal Bains Tim Smith</p>