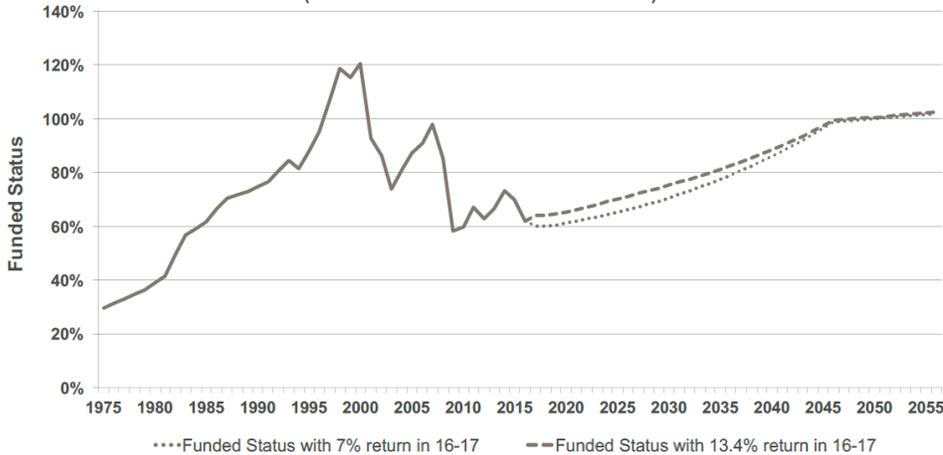


CalSTRS Historical and Projected Funded Status (Based on the Market Value of Assets)



CalSTRS Funding Remains on Track

Ongoing Focus on Managing Risks

According to the [second annual](#) report on CalSTRS' funding levels and risks, the 2014 funding plan (AB 1469, Bonta) has considerably increased the likelihood of CalSTRS reaching full funding while reducing the risk of a low-funded status or even running out of money. To better understand the risks associated with funding the System, the report from CalSTRS actuaries examined a range of potential outcomes, both economic and demographic, that could prevent the System from reaching full funding. However, it is important to emphasize that although improvements could be made, the funding plan as currently implemented is working.

Over the last fiscal year, CalSTRS has taken steps to strengthen the funding of the System by adopting new actuarial assumptions. Financial markets have also provided better than assumed returns, positively impacting projected funding levels and contribution rates. In addition, last April, the Teachers' Retirement Board voted to increase the State's contribution rate by 0.5 percent of payroll. This marked the first time the board exercised its authority granted by the funding plan.

The report finds that the limited rate setting ability provided to the CalSTRS board by the funding plan has considerably reduced the risk of a low-funded status or even depleting the fund. However, there is still the possibility that the board may not be able to adjust contribution rates to levels sufficient to fully fund the benefits by the year 2046. Investment returns significantly below expectations, significant improvements in life expectancies above the current assumption and a decline in membership are factors that could prevent full funding.

Corporate Governance Engagement Plan Adopted

Each year, CalSTRS determines key environmental, social and governance issues it will focus on during its engagement with portfolio companies during the coming year. The issues are chosen based on their relevance as well as the risks they pose within the CalSTRS Global Equity Portfolio. During fiscal year 2017-18, CalSTRS will focus on several key issues including, executive compensation, sustainability risk management, engaging companies

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Board Member Profiles:



Joy Higa

Public Representative

Joy Higa is the vice president, regulatory affairs, for UnitedHealthcare's West Region, where she manages relationships and policy activities with 13 state regulatory agencies. She

previously served as deputy chief of staff to the state controller from 2004-2006 and chief deputy cabinet secretary in the Office of the Governor during 2003. She received her Bachelor of Arts from Cornell University. Joy serves as Vice Chair of the Audits & Risk Management and Benefits and Services Committees and is a member of the Board Governance and Investment committees.



Paul Rosenstiel

Public Representative

Paul Rosenstiel has been involved in financing infrastructure and other capital projects for more than three decades. Most recently, he was a managing director of public finance with Stifel, Nicolaus & Company, Incorporated. Before that, he managed the San Francisco office of De La Rosa & Company for 15 years. From 2007-2009 he was deputy treasurer of the state of California. He received an MBA from Stanford University. Paul serves as Chair of the Audits & Risk Management Committee and sits on the Board Governance, Compensation and Investment committees.

Dana Dillon

Board Chair

Sharon Hendricks

Vice Chair

John Chiang

Ex-Officio Member, State Treasurer

Michael Cohen

Ex-Officio Member, Director of Finance

Joy Higa

Public Representative

Harry M. Keiley

K-12 Classroom Teacher

Paul Rosenstiel

Public Representative

Tom Torlakson

Ex-Officio Member, State Superintendent of Public Instruction

Thomas Unterman

Public Representative

Nora E. Vargas

School Board Representative

Karen Yamamoto

Retiree Representative

Betty Yee

Ex-Officio Member, State Controller

Members Consistently Report High Levels of Satisfaction with CalSTRS

For the past 14 years, CalSTRS has conducted an [Annual Member Survey](#) to gain insight into members' experiences with the delivery of benefits and services. The information gathered from the anonymous responses is used for strategic planning to enhance member satisfaction and identify areas for improvement.

Similar to previous years, the 2017 member survey assessed active and retired members' overall satisfaction; CalSTRS staff/service performance; engagement attributes; and interaction methods. Additionally, the survey measured member awareness of the importance of planning for retirement with questions pertaining to supplemental savings options, such as [CalSTRS Pension2](#), as well as measuring if members understand that they may need income in addition to their CalSTRS defined benefit to meet their financial goals in retirement.

A total of 33,770 surveys were emailed to a sample of active and retired members: 1,879 responded. This represents a response rate of approximately 6 percent, which is consistent with previous survey response rates.

Similar to the trend over the past five years, members reported high levels of overall satisfaction with CalSTRS. The top three reasons reported for high satisfaction ratings include:

- Good information from printed materials, websites and workshops
- Timely issuing of checks and automatic deposits
- No problems with CalSTRS

While survey results confirm that CalSTRS continues to meet member needs, the data also provides insight into improvement opportunities and areas of focus to enhance member satisfaction, including: easy to understand information, ease of reaching a representative and consistency of information across multiple CalSTRS sources. For more information and complete survey results, [click here to download the board item.](#)

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Corporate Governance Engagement Plan Adopted

in the healthcare industry, human capital management, and diversity of corporate boards within CalSTRS portfolio companies.

Sustainable risk management strategies will include engaging portfolio companies on how they are managing the environmental risks associated with their operations and how climate-related considerations are being incorporated into business planning. CalSTRS will also engage companies that are found to not be recognizing or mitigating water risks and will continue its ongoing effort with companies in the Oil & Gas and Utility sectors on their methane emissions risk management programs.

On executive compensation, staff will continue to focus on how regulatory and litigation costs affect compensation by ensuring robust clawback policies are enforced and that changes are included when calculating financial metrics.

CalSTRS has been a leader on the issue of corporate board diversity and this year will continue with new efforts. CalSTRS will vote against the Nominating and Corporate Governance Committee members if companies have not yet moved on improving board diversity and/or in adopting more robust board refreshment processes within their charters and principles; as well as voting against directors on said committee, and possibly the full board, if, after engagement, no action has been taken to address the lack of board diversity. [Click here to download the board item.](#)

CalSTRS to Study Divesting from Weapons Retailers

Following the October 1, 2017 mass shooting in Las Vegas, State Treasurer John Chiang asked CalSTRS to divest from certain investments regarding weapons retailers. Consistent with CalSTRS investment policy, staff will research the Treasurer's request and come back to the board with recommendations, most likely in the first half of 2018. Meanwhile, CalSTRS staff will also engage with as yet undefined wholesalers and retailers in an effort to bring about change in the way they do business. CalSTRS has found that by engaging directly with companies in our portfolio, we can leverage our power as a large investor to influence positive, lasting change. CalSTRS was touched personally by the tragic loss of life that occurred in Las Vegas—specifically the loss of three CalSTRS members—young teachers who dedicated their careers to the service of youth and whose lives were cut short by unspeakable violence. CalSTRS was the first pension fund in the nation to divest of makers of firearms illegal for sale and possession in California in the wake of the 2012 Sandy Hook massacre.

Next board meeting dates: February 7-9, 2018 West Sacramento

For board [minutes](#), [full items](#) and [video archives](#) of past meetings, go [here](#).



CALSTRS

California State Teachers' Retirement System | P.O. Box 15275 | Sacramento, CA 95851-0275

For more information on board meeting items and video archives, visit www.CalSTRS.com/teachers-retirement-board