



Investment Committee

Item Number 5 – Open Session

Subject: Collaborative Model Pillars Project Update

Presenter(s): Chairperson

Item Type: Consent Information

Date & Time: March 3, 2022 – 0 minutes

Attachment(s): Attachment 1 - Q2 Pillars Project Review and Stoplight Chart

PowerPoint(s): None

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.

DISCUSSION

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

As outlined in the 2020 Collaborative Model Savings Report, it's estimated that CalSTRS has achieved greater than \$780 million in cost savings over the last four years. In calendar year 2020 alone, the Collaborative Model produced roughly \$309 million in cost savings. The Pillars Project provides necessary support in assisting the Investments Branch to continue to exceed its goals.

With less than a year remaining in the project, we are pleased to report the Pillars Project is meeting its planned objectives. **Attachment 1** highlights that 86.9 % of overall objectives are on target or accomplished and 95.1 % of overall deliverables are on target or accomplished. The Pillars Project consists of 27 objectives, 113 deliverables and 612 action items, and 85 % of the deliverables have already been completed. Each Pillar team deserves high marks for all the remarkable accomplishments and ongoing collaboration. The top accomplishments from the Pillar Project during the past six months and are listed below:

1. Procurement
 - a. AB 539 signed by the governor on October 7, 2021.
 - b. Received center stage recognition for successful completion of procurement pillar objective A: *Establish an expedient and efficient procurement process.*
 - c. Created a workgroup to develop the governance structure and new software for objective B.

2. Human Resources
 - a. New Investment Management Classification series submitted to CalHR for approval.
 - b. Completed another objective: Strengthen the professional, ethical, and collaborative team environment and employee experience. Two of the pillars seven objectives are complete.
 - c. Succession planning has been rolled out across the branch to all asset classes and is on target.

3. Hybrid (Communication, Technology, Legal and Financial)
 - a. Technology
 - i. Revised Technology Pillar plan to include additional tasks to support the objectives and the additional work identified in the Accelerated Visioning Project.
 - ii. Began implementation of Solovis through our relationship with State Street, which will replace our existing performance platform and is expected to enhance our multi-asset and total portfolio analysis capabilities.
 - iii. Data Governance Framework complete. We will begin recruiting for two leadership positions in Investments to oversee and develop the investment data and analytics solutions roadmap.
 - b. Legal
 - i. General Counsel's office is currently onboarding an administrative staff person who will provide assistance to the Investment Attorneys, including Investment-related procurements and Public Records Act requests.
 - ii. General Counsel's office is piloting a new legal service request intake process that will provide additional tracking capabilities.
 - iii. Investment Attorneys are working with external counsel to provide additional support and efficiency for co-investment transactions.
 - c. Financial
 - i. The third-party consultant engaged to evaluate and document CalSTRS current process of measuring and reporting the fair value of private asset investments conducted interviews with Investments and Financial Services staff and delivered initial drafts of their current state and gap analyses for CalSTRS review, which is currently in progress.
 - ii. Completed an effort to streamline the disbursement process to more effectively support the Collaborative Model.
 - iii. Completed an effort to determine and forecast budgetary and staffing resources needed to support the CalSTRS Collaborative Model.

The Pillars Project has been an outstanding model of teamwork providing a framework for communication and collaboration despite the challenge of a fully remote work environment during more than half of the project's life. We believe the greatest enduring benefit of the project will be the relationships built across the business units, laying the groundwork for future collaboration. As the project sunsets, the Pillar teams will be focused on embedding the new processes created during the Pillars Project as part of ongoing daily operations. As plans evolve, we will keep the board informed in future Pillar updates.

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

Appendix 1: History of the Item

In order to 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 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.

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 Operating Officer, will update the board on the progress of the Pillars Project.