



# Investment Committee

## Item Number 8 – Open Session

**Subject:** Collaborative Model Pillar Update

**Presenter(s):** Chairperson

**Item Type:** Consent Information

**Date & Time:** July 8, 2021 – 0 minutes

---

**Attachment(s):** Attachment 1 – Q3 Pillars Performance Report

**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 \$364 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 \$1.4 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 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**

Unprecedented stimulus from both fiscal and Federal Reserve spending drove global risk assets significantly higher. Along with these tailwinds, the Investments Branch continues to add value by executing the Collaborative Model Investment strategy. As of March 31, 2021, CalSTRS fiscal year return was 20 percent, which exceeded the Policy benchmark by 159 basis points and consequently the excess return goal of 40 basis points above the Policy benchmark. All asset classes beat policy benchmarks thus far and the private markets asset classes (real estate, private equity and inflation sensitive) contributed most significantly to alpha.

While all asset classes are executing on collaborative model strategies, two significant achievements since the last update include: (1) Global Equity funded and began to manage internally an emerging markets portfolio; and (2) Private Equity invested in approximately \$1 billion in co-investments calendar year-to-date and is on track to achieve greater than 20% of NAV in co-investments. The Pillars Project and other business units of CalSTRS continue to provide necessary support in helping the Investments Branch exceed its goals.

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.

At roughly the halfway marker of the project, we are pleased to report the Pillars Project is meeting its planned objectives. **Attachment 1**, highlights that 91.3 percent of overall objectives are on target or accomplished and 95.8 percent of overall deliverables are on target or accomplished. The Pillars Project consists of 27 objectives, 109 deliverables and 596 action items, and 65 percent 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 each Pillar team during the past six months and are listed below:

1. Human Resources
  - a. Recruited/promoted approximately 35 positions over the past six months.
  - b. Real Estate completed the pilot succession planning successfully and now executing with the remaining asset classes.
  - c. Drafted telework plan and discussed flexible working options with Investment leaders.
2. Procurement
  - a. Piloted process improvements in recent Global Equity ASP. Completed process in approximately 5 months which equates to a 45% reduction in processing time.
  - b. Advanced Investments Procurement Bill, AB 539, through Assembly and associated committees; bill is now with the Senate.
  - c. Implemented a Resource Library containing historical procurement documents Business Areas can utilize when drafting RFX documents.
  - d. Collected requirements for an Investments Vendor Database that will support implementation of the post-legislation Investments Procurement Process.
  - e. Finalized to-be process documentation for the RFP and ASP Investments Procurement Processes.
3. Travel
  - a. Successful pilot launch of Concur – Paving the way for an enterprise-wide launch in the near future, drastically improving the pre- and post-travel approval and reimbursement experiences.
  - b. Created draft of new version of Travel Manual.
  - c. First ever CalSTRS Travel Survey conducted (85% response rate!) – The results collected were used to establish the baseline against which we will measure future improvements.
4. Hybrid (Communication, Technology, Legal and Financial)
  - a. Communication
    - i. Completed a new fact sheet for the Collaborative Model Developed communication (presentation, graphics, speaking points) for consistent messaging regarding the Collaborative Model to key audiences.
    - ii. Worked with other pillars to clearly explain cost savings in advance of the BCP.

- iii. Created and presented Collaborative Model slide deck and talking points to stakeholders in advance of the BCP.
- b. Technology
  - i. Completed a 12-week intensive Accelerated Visioning project with State Street Bank, IBM, and representatives from all Asset Classes and Investment Services, resulting in a documented data strategy and implementation road map.
  - ii. Completed an impact assessment of user capabilities, identifying and prioritizing capabilities needed to support the complexities of managing a multi-asset class portfolio.
  - iii. In collaboration with Technology Services, completed our formal long-term technology strategy plan, assessed Technology Services capabilities and identified IT services needed to support the Investment Branch.
- c. Legal
  - i. The Office of General Counsel has reorganized and increased the number of Investment Attorneys and administrative staff to provide specialized support to address the changing needs of each asset class as it transitions into the collaborative model. The Investment Attorneys expect to add a permanent support staff member in FY 21-22.
  - ii. The Office of General Counsel is in the process of modernizing and enhancing its technology solutions to streamline workflow and capture data regarding the nature of requests.
  - iii. Investment personnel are increasingly engaging internal counsel earlier in the deal making process and working collaboratively to complete investment transactions in a timely and efficient manner.
  - iv. Utilized CIT to encourage management efforts in directing legal inquiries to one specific location. Thus, improving efficiency, tracking and support of legal requests.
- d. Financial
  - i. Completed a [Multi-Year Internal Investment Management Plan Budget Change Proposal](#), which was ratified by the Administration and the Legislature for inclusion in the Budget Act of 2021.
  - ii. Evaluation of the disbursement process is complete and system enhancements are underway to streamline the payment of Investment invoices.
  - iii. Engaged a third-party consultant to evaluate and document CalSTRS current process of measuring and reporting the fair value of private asset investments and provide recommendation on areas of improvement that will align CalSTRS with industry best practices and US GAAP.

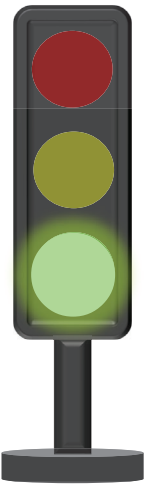
We look forward to answering any questions at the Investment Committee.

The Pillars Project		FY 2019-20		Page	FY 2020-21		
		Q3	Q4		Q1	Q2	Q3
<b>Project Overall</b>							
<b>Human Resources</b>							
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.						
<b>Procurement</b>							
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.						
<b>Travel</b>							
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 11139.8 from Assembly Bill 1887.						
Obj. E	Expand understanding of travel rules and regulations to enhance compliance.						
<b>Technology</b>							
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.						
<b>Communication</b>							
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.						
<b>Legal</b>							
Obj. A	Expand internal and external legal expertise for all asset classes.						
Obj. B	Review legal process workflow in relation to investments.						
<b>Financial</b>							
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

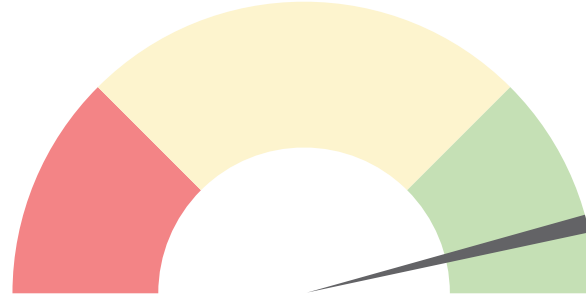
Objectives - Pillar Level: sum of objectives Accomplished or On Target divided by total Pillar Objectives (Accomplished/On Target = 1 pt., Some Setbacks/Unlikely to Accomplish = 0 pt.)  
 Overall Collaborative Model: sum of objectives Accomplished or On Target divided by total Objectives (Accomplished/On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

### Pillars Project Overall

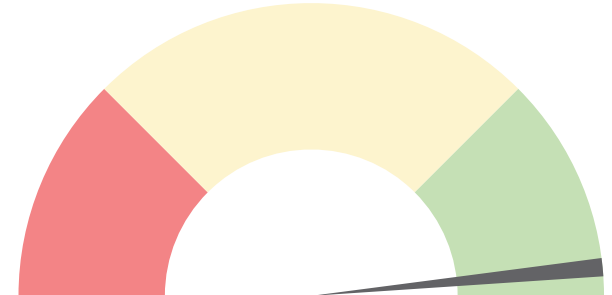


27 Objectives  
109 Deliverables  
596 Action Items

91.3% of Overall Objectives On Target or Accomplished



95.8% of Overall Deliverables On Target or Accomplished



65% of Overall Action Items Completed

