

New Constitutional Officers Join CalSTRS Board

The [Teachers' Retirement Board](#) is a 12-member body comprised of elected members, governor's appointees and statewide constitutional officers who serve "ex officio" by virtue of their office. Californians elected a new Treasurer and Superintendent of Public Instruction last fall. Both now serve as CalSTRS newest board members.



Fiona Ma is California's 34th State Treasurer. She is the first woman of color and the first woman Certified Public Accountant elected to the position. As California's head banker, she manages \$92 billion in financial assets. Prior to becoming Treasurer, Ms. Ma was an elected member of the California Board of Equalization and a member of the State Assembly. Treasurer Ma sits on the following committees: Audits & Risk Management; Benefits & Services; Board Governance; and Investments.



Superintendent of Public Instruction Tony Thurmond is an educator and social worker who has served the people of California for more than 10 years in elected office. Previously, Superintendent Thurmond served on the Richmond City Council, West Contra Costa Unified School Board, and in the California State Assembly. Mr. Thurmond has 12 years of direct experience in education, teaching life skills classes, after-school programs, and career training. Superintendent Thurmond serves on the following committees: Audits & Risk Management; Benefits & Services; and Investments.

Other ex officio members include State Controller Betty Yee, who was elected to a second term and Director of Finance Keely Bosler, who was reappointed by Governor Gavin Newsom.

Asset Allocation Process Kicks Off

Every four years, the Teachers' Retirement Board embarks on an [Asset Liability Study](#), a critically important process that drives the performance of the investment portfolio for the next four years.

The asset allocation decisions are considered of essential to the fund, since an estimated 93 percent of variation in investment returns over time can be directly attributed to the asset allocation of the fund's portfolio. The process includes deep dives into fund risk and performance, including modeling from internal actuarial and investment staff and third-party consultants.

The board will consider projected future funding levels as well as long-term projections of worldwide investment markets to determine whether changes should be made to the general structure of the CalSTRS \$215 billion investment portfolio. A final decision is expected for late fall.

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Board Member Profiles:



Dana Dillon

K-12 Classroom Teacher

Dana Dillon is the CalSTRS Board Chair and has served on the board since her election in 2003. Ms. Dillon has been active in the California Teachers Association for 36 years, serving as state council representative, chair of CTA's Retirement Committee, and as a member of the CTA Board of Directors. She also served as a director on the National Education Association Board of Directors. Ms. Dillon serves on the following committees: Appeals; Benefits & Services; Board Governance; and Investments. She serves as the chair of the Compensation Committee.



Sharon Hendricks

Community College Instructor

Vice Chair and Benefits & Services Committee Chair Sharon Hendricks is a communications studies professor with the Los Angeles Community College District. She was elected to the Teachers' Retirement Board in 2011. She also serves as treasurer of the American Federation of Teachers, Local 1521, Los Angeles College Faculty Guild. Ms. Hendricks is active in the Community College Council of the California Federation of Teachers.

Dana Dillon

Board Chair

Sharon Hendricks

Vice Chair

Keely Bosler

Ex-Officio Member, Director of Finance

Joy Higa

Public Representative

Harry M. Keiley

K-12 Classroom Teacher

Fiona Ma

Ex-Officio Member, State Treasurer

Paul Rosenstiel

Public Representative

Tony Thurmond

Ex-Officio Member, State Superintendent of Public Instruction

Nora E. Vargas

School Board Representative

Karen Yamamoto

Retiree Representative

Betty Yee

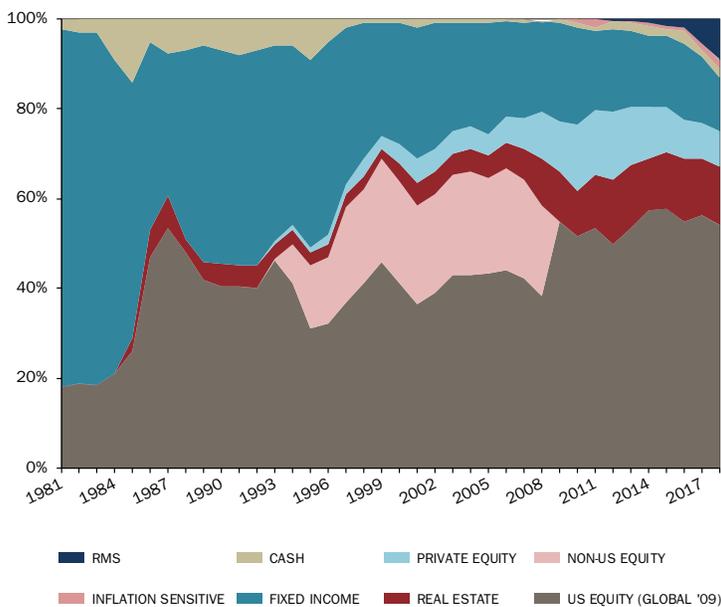
Ex-Officio Member, State Controller

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Asset Allocation Process Kicks Off

A change from the last asset allocation process was the board adoption in 2018 of [CalSTRS Investment Beliefs](#) statement, which will directly guide the board in its decision making. In the previous asset allocation process, the board chose a new asset class, Risk Mitigating Strategies (RMS), which acts as a buffer against market volatility. RMS now makes up approximately 9 percent of the portfolio.

Historical Asset Allocation Mix 1981-2018



This shows how CalSTRS' portfolio asset allocation has evolved over time.

Source: <http://resources.calstrs.com/publicdocs/Page/Com-monPage.aspx?PageName=DocumentDownload&Id=07ea-90be-5639-46b0-973e-e52ae6fd54e2>

For more information on CalSTRS Asset categories, go here: <https://www.calstrs.com/portfolio-holdings-asset-category>

CalSTRS Cost Report Shows Fund Paid Less Compared to Peers

The CalSTRS annual [Investments Cost Report](#) shows CalSTRS paid less in fees to external asset managers compared to its peers, saving \$132 million in 2017. Cumulatively, investment costs have remained relatively flat over a three-year period for the fund. The report included private asset class costs with 98 percent of managers reporting their costs to CalSTRS.

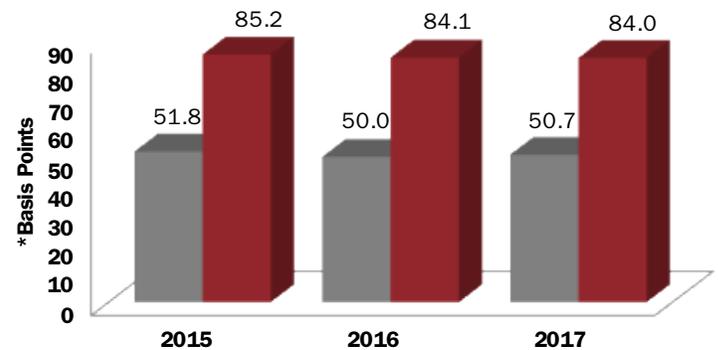
The report shows the importance of in-house management of assets. The analysis showed 44 percent of assets managed internally generated three percent of costs. The report highlights the importance of the CalSTRS Collaborative Investment Model, which seeks to bring more asset management in-house when possible to lower costs.

State Controller Betty Yee thanked the CalSTRS staff “for the comprehensiveness of this report. It’s a really stellar body of work and really a building block for the Collaborative Model.”

Over time, CalSTRS plans to add new positions to the investment office in order to increase the proportion of assets managed in house at lower costs.

CalSTRS will continue to monitor and report costs since the long-term benefits of the savings are integral to the success of the fund. “It’s not just about reducing fees, but it’s also about getting value for the fees we pay,” said board Vice Chair Sharon Hendricks.

3-Year Investment Cost Trends



■ Total Portfolio Costs ■ Total Portfolio Costs w/Carried Interest

* One basis point is equal to one one-hundredth of one percentage point (0.01%). Therefore, 100 basis points would be equivalent to 1%.

Next board meeting dates:

- March 27-29, 2019, West Sacramento
- May 8-10, 2019, West Sacramento

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

Reporting Updates Coming for Employers

The board initiated the rulemaking process to change the file formats employers use to report member and contribution data to CalSTRS. Because the current CalSTRS pension administration system is inflexible and increasingly expensive to maintain, CalSTRS is undertaking a technology upgrade project called Pension Solution that will:

- Increase CalSTRS' ability to respond to customer and business needs.
- Enhance services to members and employers.
- Create long-term operational efficiencies.
- Improve internal controls and accuracy.

Existing law requires employers to submit regular reports to CalSTRS containing key information to administer the plan. These reports must be submitted electronically through encrypted formats to ensure the security of member data. The new system will replace several existing employer reporting files and will contain new fields and values, which will enhance the accuracy of employer reporting and member data. The regulations will include a waiver process

for employers seeking additional time to comply with the new file requirements.

Regulations are needed to implement the new file formats, and the board action clears the way for a required process to solicit public comment.

Proactive communication has been underway via multiple channels, including:

- Direct employer letters, circulars and webinars.
- Web-based communications via the Secure Employer Website.
- Stakeholder briefings.

The Pension Solution project is scheduled to be complete in FY 2022-23. If you have questions, or wish to subscribe to updates, please email Regulations@CalSTRS.com.

TRB Member Representatives Will Serve Through 2023

CalSTRS announced the certification of three member representatives to the Teachers' Retirement Board. The members will each serve a four-year beginning January 1, 2020. The three candidates, two representing pre-kindergarten to 12th grade educators and one representing community college educators, were not opposed.

Current board chair Dana Dillon, an intermediate school teacher from Weed, did not seek re-election and will retire at the end of her term. She will be replaced by:

Denise Bradford, an elementary school teacher in Mission Viejo. She is a new-educator mentor and curriculum leader. Ms. Bradford has served as chair of the California Teachers' Association's Retirement Committee since June 2015. She is also president of the Saddleback Valley Educators Association representing 1,200 educators.

Returning are incumbents:

Harry M. Keiley, a high school teacher in Santa Monica-Malibu. He was first elected to the Teachers' Retirement Board in 2007 and served as vice chair from 2010 to 2014. In 2011 he was elected for a second term. Mr. Keiley served as board chair from 2014 to 2016 and has served as chair of the Investment Committee since 2016. He has served as the president of the Santa Monica-Malibu Classroom Teachers Association.

Sharon Hendricks, a communications studies professor with the Los Angeles Community College District. She was first elected to the Teachers' Retirement Board in 2011. She also serves as treasurer of the American Federation of Teachers, Local 1521 chapter at Los Angeles College Faculty Guild. Ms. Hendricks is active in the Community College Council of the California Federation of Teachers.

