

Collaborative Model Scope and Methodology

Collaborative Model Scope

The Collaborative Savings Model consists of three components:

- 1) **Private Investments** where CalSTRS has collaborated with external industry partners.
 - *Co-Investments*: Private Equity, Real Estate, Inflation Sensitive and SISS
 - *REOCs¹, Separate Accounts and Joint Ventures*: Real Estate
 - *Managed Accounts*: Inflation Sensitive
 - *Other Collaborative Structures*: to be defined at on-set
- 2) **Internal Management** where CalSTRS has brought specific strategies in-house to leverage internal knowledge and achieve cost savings.
 - *Global Equity (inclusive of SISS) and Fixed Income (inclusive of RMS, Inflation Sensitive, and Currency strategies)*.
- 3) **Relationship Rebate Agreements** where CalSTRS has negotiated rebates based on the size of business across the CalSTRS plan.

Collaborative Savings Methodology

The methodology used in the Collaborative Savings Model is intended to be consistent across components and easily repeatable. It uses standard assumptions across components and investment types with regard to areas like, term of the investment and fee stage, and is therefore an estimate of the savings to the Total Fund. The intent is to provide a conservative savings figure in the first iteration and expand over time.

The methodology focuses on identifying “comparable” investment strategies (comparable) to each of the collaborative investment components (collaborative) and calculating the difference in actual vs. expected fees. The table below provides a hierarchy of the expected fee sourcing and model assumptions. In an effort to provide a reasonable savings figure, the most conservative terms were used. As an example, this means for a public market comparable, the cheapest external manager quote was compared. Many private assets will have a tiered rate structure that lessens in future stages of the investment or a blended rate structure with different rates based on the portion of investments allocated to each strategy. In these cases, the initial fee stage and the highest strategy rate was used in the model. The following describes the variables used to calculate the savings for each of the collaborative components.

Private Investment fee savings are calculated by comparing management fees and carried interest associated with a collaborative investment to a comparable investment’s terms. In many cases, partnership expenses are

¹ Real Estate Operating Companies income to be included in future iterations of the Collaborative Savings Report

reduced in collaborative structures, but for the purposes of this calculation they have not been included. A comparable is identified for each collaborative based on investment type. If a collaborative sells off pieces of the investment and realizes a gain, a net carried interest saved is calculated assuming hurdle rates have been met. The net difference in management fees and carried interest paid is considered the collaborative savings.

Internally Managed Funds fee savings are calculated by generating an average staff rate (cost per dollar) for each asset class, removing that from a comparable management fee, and applying the savings rate to the average monthly Net Asset Value (NAV) used in The Annual Cost Report. The average staff rate includes internal salaries and an estimation of additional expenses incurred by adding internal management staff related to trading & risk systems and licensing fees.

Rebate Agreements fee savings are calculated by obtaining the actual rebate paid to the Total Fund for a given year.

Model Assumptions

- Collaborative investments prior to 2010 were not included unless realized gains were achieved in 2017 – 2020
- Real Estate Joint Ventures and Separate Account fees are often based on Gross Asset Value. For the savings model, State Street reported Market Values were used (which may include Net or Gross Asset Values): Net being a more conservative savings calculation.
- Where Management Fees were not calculated based on GAV or NAV, actual Management Fees incurred were used and removed from the Comparable estimate to calculate savings
- Private Investment fee stage 1 used for rate comparisons

Investment Type	Comparable Fee Source Hierarchy			Impacted Asset Classes
	1	2	3	
Co-Investments	Sponsor Fund Terms	Avg Parent Fund Terms	RCLCO for Commingled RE Funds <i>only</i>	PE, RE, Inflation Sens, SISS
	<i>Mngmt Fee = Sponsor Fee Rate - Co-Inv Fee Rate multiplied by Commitment</i> <i>Carry = Sponsor Carry Rate * any realized cap gain from Co-Invest (adjusted for carry paid by co-invest and only if hurdle rate is achieved), less any carry paid by co-invest</i>			
Joint Ventures - Core Joint Ventures - Opportunistic Joint Ventures - Value Add Separate Accounts - Value Add Separate Accounts - Core	RCLCO Estimates	Avg Parent Fund Terms	N/A	RE
	<i>Mngmt Fee = Sponsor Fee Rate - JV or SA Fee Rate multiplied by Avg NAV</i> <i>Carry = Comparable Carry Rate * any realized cap gain from investment (adjusted for carry paid by investment and only if hurdle rate is achieved), less any carry paid by investment</i>			
Managed Accounts	Meketa Estimates	N/A	N/A	Inflation Sens
	<i>Mngmt Fee = Sponsor Fee Rate - JV or SA Fee Rate multiplied by Avg NAV</i> <i>Carry = Comparable Carry Rate * any realized cap gain from investment (adjusted for carry paid by investment and only if hurdle rate is achieved), less any carry paid by investment</i>			
Internally Managed Funds	Direct Quote	eVestment	CEM Survey	GE, FI (inclusive of internal funds managed for RMS, Inflation Sens, Strat Overlay)
	<i>Quoted fee minus Staff rate</i>	<i>eVestment rate minus staff salary allocation \$</i>	<i>Basis point difference of Internal survey cost vs. External peer survey cost for similar strategies</i>	
Rebate Agreements	Annual Rebate Earned	N/A	N/A	CalSTRS