

## **CalSTRS Report – January 27,28, 2021**

**By Pat Geyer, CalRTA Liaison to CalSTRS**

### **Executive Summary**

The Board Governance Committee voted to approve the following Mosaic recommendations:  
(1) The Compensation Committee be subsumed into the full Board for the remainder of the 21 year

The Investment Committee approved the following priorities: 1. Corporate and Market accountability, 2. Board Effectiveness, 3. Low Carbon Transition, 4. Responsible firearms.

Speaker Kewsong Lee from the Carlyle Group reported: China is a big market, it has a talented pool of people. However, China has no government safety net. China is now a tech oriented consumer economy, originally it was a producer economy.

Brian Bartow presented the Public Comment Regulations.

Newsom's budget includes a payment of \$3.9 billion to CalSTRS from the General Fund. In total this is \$583 million more than expected.

2019 had 4,467 teacher retirements and 2020 had 5,544. Challenges related to teaching during COVID-19 are the primary reason.

The construction of the CalSTRS Headquarters project is approximately 29% complete. Completion date is August 2022.

### **Board Governance Committee**

The Committee discussed the changes due to the Pandemic. There are more presentations and a shorter meeting on Zoom. The challenges are the lack of personal communication and the challenge of technology. However, some members liked the remote meetings.

A Panel discussion followed presented by McKinsey & Company. Peter Bisson stressed the need to have a chair person to manage and organize communication. The challenge is letting people go who are not needed in the pandemic. Nora Aufreiter said that the Board must be much more active in reorganizing in the time of pandemic. More resources may be needed in the future. Board and Management have new roles.

There are changes to the Board's role in CEO search and successions. Be more precise in strategy. Board may have candidates attend Board meetings. Focus on the team at the top because these people may move up.

There followed a discussion of the Committee structure: Risk  
Management: increase monitoring, see that management is making plans for risk. ESG: have a discussion about how much information to make public. Make objectives public – especially for foreign employees. Emphasize sustainability.

Suggested Board changes in the time of COVID are to: Increase efficiency in how things are done. Make more phone calls. Have smaller groups which can have informal discussions.

Finally, the Board Governance Committee voted to approve the following Mosaic recommendations: (1) The Compensation Committee be subsumed into the full Board for the remainder of the 21 year. (2) The Board Chair and Vice-Chair appoint two Board members to serve on the ad hoc group to select primary compensation strategist. (3) Determine at the May 2021 meeting if the Compensation Committee should continue to be subsumed for 21/22. (4) Provide direction as to whether to undertake an exploration of the need for a corporate governance or sustainability subcommittee at the May 2021 meeting.

#### Investment Committee

The Committee opened with opportunities for statements from the public. Six speakers asked CalSTRS to divest in fossil fuels. In addition CalSTRS received over 22 emails asking CalSTRS to divest in fossil fuels.

The Investment Committee approved the following Stewardship Priorities: 1. Corporate and Market accountability, 2. Board Effectiveness, 3. Low Carbon Transition, 4. Responsible firearms.

The Committee approved the Corporate Governance Principles on: (1) Board of Directors, (2) Auditors and Audit Related Issues, (3) Executive Compensation, (4) Director Compensation, (5) Employee Stock Purchase Plans, (6) Governance Structure, (7) Sustainability.

The Committee adopted the Global Investment Performance Standards, and the Sustainable Investment and Stewardship Standards. Items of interest are: (1) affordable housing, (2) low carbon processes, (3) renewable energy. The SISS (Sustainable Investment, Stewardship Standards) Portfolio is to be 5% of the total CalSTRS portfolio.

The Committee concluded with speaker Kewsong Lee from the Carlyle Group. The topic is China Risk and Opportunities. Points of Interest from Lee's speech are: China is now a world leader in (1) Consumption and in (2) Innovation. Differences are that China is a one-party state. The State owned enterprises amount to 23% of GDP that used to be 80%. The greater state involvement has been very successful – outperformed the rest of the world.

The risks are that the public markets are not liquid, banks control credit which goes to state owned enterprises, U.S. and China tensions continue. Investment concerns are that foreigners are not invested in China. However, private business is growing. China is a big market, it has a talented pool of people. However, China has no government safety net. China depends on GDP growth. China is now a tech oriented consumer economy, originally it was a producer economy.

#### Teachers' Retirement Board

Brian Bartow presented the Public Comment Regulations for Board adoption. The following regulations were of interest. Public comment will be limited to agenda items. Each speaker is limited to three minutes. The presiding chair of the board or committee may set, limit, or extend the amount of time allotted to each speaker. Any member of the public may submit comments in writing. A member of the public is encouraged to submit a request with their name, whether they are 18 year of age or older, agenda item and topic they wish to address. The presiding chair may stop a member of the public from public comment if they fail to comply with the regulations.

There was no state or federal legislation of interest to the Board. February 14 is the last day for legislation to be introduced.

Cassandra Lichnock presented a report on CalSTRS Path Forward, 2021 and beyond. Work Environment – staff is encouraged to take their office equipment home to their home office. Meetings in the future will likely be conducted in both remote and onsite locations. Technology will play an important role in this change. Technology – laptops were distributed and Technology Services augmented network access, communication, and new equipment. Conference rooms are being retrofitted with cameras for collaboration with those working from home. The Member Service Center activities have been adapted to serve members remotely and have been able to reach larger audiences. CalSTRS has recognized that the world has changed and the way we do business has shifted. CalSTRS will keep the Board informed of the changes.

Jack Ehnes gave his CEO Report. Governor Newsom's proposed budget contains a proposal to provide contributions to CalSTRS above the amount expected. Newsom's budget includes a payment of \$3.9 billion to CalSTRS from the General Fund. In total this is \$583 million more than expected. These contributions are an indication of the state's commitment to eliminate its share of the CalSTRS unfunded liability by 2046.

There has been a significant increase in teacher retirements this last six months. 2019 had 4,467 teacher retirements and 2020 had 5,544. Challenges related to teaching during COVID-19 are the primary reason. The CalSTRS 2021-22 Operating Budget has been reduced by \$2.3 million to a total of \$307.4 million. CalSTRS will review the expenditures to ensure that the reduction does not affect overall operations.

The CalSTRS staff and stakeholder partners have agreed to take action to minimize overpayments due to employer reporting errors. The proposal would reduce the overpayment recovery from members to three years, and put greater financial burden on employers for reporting errors. The Board has a goal of a legislative proposal by November 2021. A progress update is expected at the March 2021 Board meeting.

The construction of the CalSTRS Headquarters project is approximately 29% complete. Completion date has moved out seven weeks to August 2022. CalSTRS secured bond financing of \$340.6 million for the project. Construction activities continue. Concrete pours are complete for parking levels and the lobby. Office level construction has begun. COVID-19 costs are estimated to add \$1.33 million to the Headquarters project.

The Pension Solution computer Project is continuing. There have been delays related to COVID-19. Complete rollout of the Project is still scheduled for the winter of 2022.

The next CalSTRS meetings will be in March 2021.