



Investment Committee

Item Number 4b – Open Session

Subject: Collaborative Model Savings

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Item Type: Information

Date & Time: November 1, 2023 – 15 minutes

Attachment(s): Attachment 1 – Scope and Methodology

Attachment 2 – Savings per Asset Class

PowerPoint(s): 2022 Collaborative Model Savings Report

Item Purpose

To provide the Investment Committee cost savings information as of December 31, 2022, from implementing the CalSTRS Collaborative Model.

Executive Summary

This report includes results from 371 investments that contributed to the reported savings. A few key notes to consider while reviewing this report:

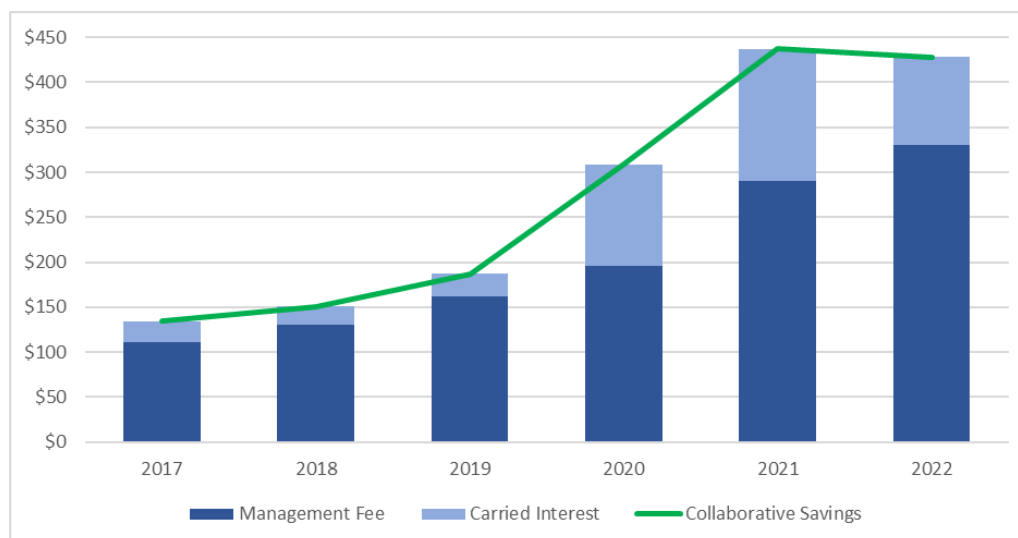
1. Results are presented annually for calendar year 2017 through 2022.
2. The report includes results from 309 collaborative private structures, 60 internally managed funds and 2 rebate agreements.
3. CalSTRS has saved over \$1.6 billion in aggregate since 2017, with an average annual savings of \$273.5 million.

Background

The Collaborative Model is an internally led approach to how CalSTRS engages in the investment marketplace. It is an investment strategy to reduce costs, control risks and increase expected returns through internal management, while leveraging our external partnerships to achieve similar benefits. CalSTRS embraces partnership and collaboration with world-class investment institutions, along with building internal (or ‘direct’) investing capabilities to achieve the benefits of internally managed assets. The Collaborative Model covers a spectrum of different types of

investment strategies and investment ownership structures from simple to very complex. This report aims to quantify the savings achieved from the implementation of this strategy.

Chart 1 – Overall Savings per Year (\$ Millions, since 2017)



(\$ millions)	2017	2018	2019	2020	2021	2022	Total 6 Yr Savings
Collaborative Savings	134.4	150.6	187.2	308.9	434.9	428.0	\$1.64B
Management Fee	110.8	130.2	161.4	195.3	288.9	330.0	
Carried Interest	23.6	20.3	25.8	113.5	146.0	98.0	
Component Count	106	140	167	200	324	371	

Total cost savings in calendar year 2022 was \$428 million. The savings from management fees increased in 2022 while the savings from carried interest decreased, causing a net decrease in cost savings on a year over year basis. Even though the savings on carried interest decreased, the 2022 savings is still relatively large. Private Equity continues to see managers realize profits from the large returns during the previous 5 years. However, since private asset deal flow is decreasing and pacing for private assets are expected to slow, we expect to see these begin to taper off in 2023, leading to a more pronounced decrease in carried interest savings. The overall annual savings number will increase or decrease variably over time based on the amount of realized profits in a given year and the number of collaborative components.

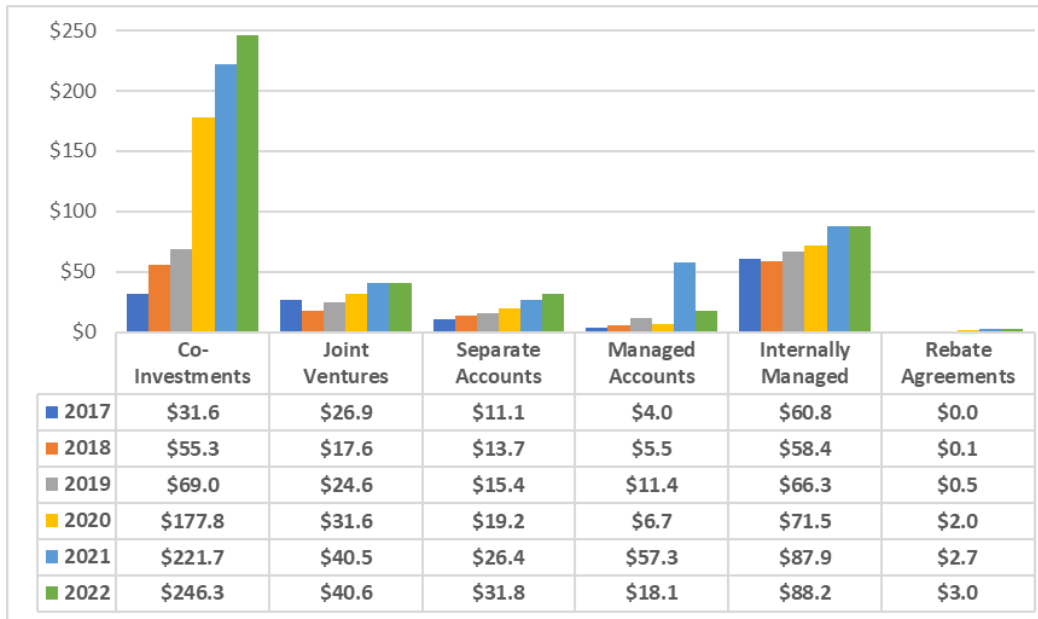
The Collaborative Savings Model tracked 371 components in 2022. The collaborative components were outlined in the model’s scope (see attachment 1). Their savings are generated from different combinations of management fees and carried interest. Joint Ventures, Separate Accounts and Managed Accounts often have reduced fee and carried interest expenses. Co-investments predominantly have zero management fees and carried interest. Internally managed public funds generate their savings from the elimination of management fees.

Of the tracked components, 244 of them generated savings in 2022 (vs. 239 in 2021). Those that didn’t generate savings include investments that are currently unfunded, investments that have entered the exit stage of their life cycle, and investments where comparable fees were not available.

Out of the tracked components, the number of investments that generated savings flattened. This slowing trend is expected to continue moving forward as the deal flow (opportunity set) has

decreased and the pacing for private asset deals has slowed. As older vintage year investments are exited, the effect on future savings estimates could be significant if the opportunity for deals with similar savings structures are not available to replace the exited investments.

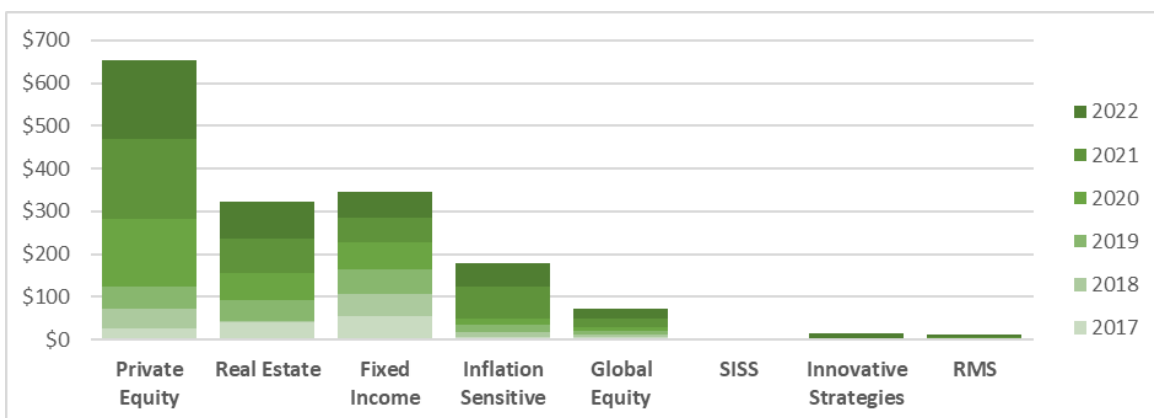
Chart 2 – Savings per Investment Type (\$ Millions)



Co-investments have provided the greatest amount of savings for the model. In 2022, co-investments across the private asset classes saved \$246.3 million, with \$89.6 million coming from not having to pay carried interest. Co-investments, with their aggressively reduced fee structures (often zero fees and carry), will often reflect the greatest amount of savings in periods after bull markets when profits are realized without having to share profits with a General Partner (carried interest savings).

Internally managed funds have contributed the second most to the model with savings of \$88.2 million in 2022. They are compared against public managers with low fee structures, so the savings is derived from the amount of assets managed in-house and reflected as management fee savings.

Chart 3 – Savings per Asset Class (\$ Millions, since 2017)



2022	PE	RE	FI	IS	GE	SISS	Inn Strat	RMS
Fee	\$120.8 m	\$72.8 m	\$59.4 m	\$35.6 m	\$20.8 m	\$0.4 m	\$11.6 m	\$6.0 m
Carry	\$64.7 m	\$14.0 m	\$0.0 m	\$18.8 m	\$0.0 m	\$0.0 m	\$0.0 m	\$0.0 m

Chart 3 reflects the contributed savings per asset class over the last six years (see Attachment 2 for a complete dollar breakdown). Over the 6-year period, Private Equity has contributed the most savings, with Fixed Income internally managed funds having contributed the second most savings over this time.

Table 1 - Collaborative Savings Impact on 2022 Returns (\$ Millions)

Asset Class		Net Dollars Earned	Collaborative Dollars Saved	2022 Return	Return with Savings Removed	Excess Return Added
Total Portfolio		-\$21,899.4	\$428.0	-6.74%	-6.87%	0.13%
Growth	Global Equity	-24,583.2	20.8	-18.06%	-18.07%	0.02%
	Private Equity	-269.2	185.5	-0.48%	-0.81%	0.33%
	SISS	-2,228.5	0.4	-19.89%	-19.89%	0.00%
Real Assets	Real Estate	8,945.8	86.8	20.89%	20.69%	0.20%
	Inflation Sensitive	2,197.9	54.4	6.33%	6.17%	0.16%
Diversifying	Fixed Income	-4,544.0	59.4	-12.59%	-12.75%	0.16%
	RMS	302.6	6.0	0.58%	0.57%	0.01%
	Innovative Strategies	225.9	11.6	7.20%	6.83%	0.37%

Table 1 estimates the impact the Collaborative Model had on each of the asset classes listed. The savings earned by reducing costs had a direct impact to the dollars earned (dollar return) over 2022. Removing this savings from the dollar return reduced each asset class return as shown in the table below.

In 2022, the Collaborative Model saved the Total Fund roughly \$428 million, adding an estimated 0.13% (13 basis points) to the 2022 net return.

Strategic Plan Linkage: Goal 1 of the [Strategic Plan](#). Trusted stewards – Ensuring a well-governed, financially sound trust fund.

Board Policy Linkage: [CalSTRS Investment Policies](#)
