



## Regular Meeting

### Item Number 15 – Open Session

**Subject:** CalSTRS Investment Satellite Office

**Presenter(s):** Scott Chan, April Wilcox, Don Palmieri, Rob Ross

**Item Type:** Information

**Date & Time:** January 10, 2024 – 20 minutes

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**Attachment(s):** None

**PowerPoint(s):** Satellite Office Presentation

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#### **Item Purpose**

The purpose of this item is to provide an update to the Board on the establishment of a San Francisco satellite office to expand our available pool of diverse talent for the growth of assets managed by the Investment branch, advancement of CalSTRS' Collaborative Model, and ultimately, increased returns.

#### **Executive Summary**

The Investment branch is in the process of establishing a satellite office by leasing office space in San Francisco, California, one of the top five financial centers globally. The primary benefits of the satellite office in San Francisco include the following:

- **Expanded Talent Pool:** The San Francisco and surrounding Bay Area ('SF Bay Area') attracts a significantly higher amount of financial industry talent compared to the Sacramento region. The SF Bay Area also possesses a diverse talent pool, and we would be able to cast our recruitment net to a broader area that encompasses a well populated investment industry. Opening a regional office in this area allows us to tap into a diverse talent pool and complement the skills of our investment team. Hiring, training, and retaining our team of investment experts is the number one driver for us to achieve the returns to fulfill our mission of securing the retirement future of our California public educators and to continue to advance our investment priorities such as executing the Collaborative Model, the Path to Net Zero and Diversity, Equity, and Inclusion. A San Francisco office will not only help to recruit new talent, but it will also help retain current talent by shortening long commute times for staff residing in the greater Bay Area.

- **Proximity to Financial Institutions:** The location in a major global financial hub enables the investment staff to effectively collaborate and engage with business partners, investment managers, and global leaders. This enhances CalSTRS' presence, reputation, and voice in the financial industry by increasing accessibility and networking opportunities to many industry experts in the area.

To determine the most viable location, the office task force compared each site against a set of criteria including: 1) Opportunity for lower cost, associated with lower demand in the office leasing market; 2) Location within the city; 3) Available space to meet current and future needs; 4) Proximity/access to public transit; 5) Flexibility with leasing needs and requirements for future expansion; 6) Professional atmosphere; and 7) Amenities available to tenants, such as conference room usage.

Several buildings have been identified that meet these criteria. Over the next quarter, the task force will perform due diligence and select a location that meets our needs.

### **Background**

San Francisco's Financial District is one of the top five financial centers around the world with a diverse investment industry workforce talent. Office space in San Francisco opens a gateway to a talent pool with access to high-quality staffing opportunities spanning the Bay Area including Silicon Valley.

Since before the COVID pandemic, the Investment staff began discussions to research a potential satellite office in San Francisco. This was a collaborative effort between Investments, Facilities, Human Resources, Financial Services, General Counsel, as well as some of our real estate partners. After extensive analysis and due diligence, we narrowed the list to several options located in the financial district that meet our requirements. These options include buildings that CalSTRS has ownership interest in. We have concurred with CalSTRS General Counsel that occupying these spaces would not create a conflict of interest.

The satellite office would require about 5,000 square feet, housing a mix of offices, hoteling stations, and small conference areas. Initial staffing plans include approximately twelve manager-level current employees in multiple asset classes, with the estimation of up to 35 staff over the next five years, depending on future recruitment.

The initial costs vary depending on the space available, the length of the lease, the tenant improvements needed, and any other one-time costs such as furniture, signage, network equipment, infrastructure, and information security. The on-going lease is estimated to be \$300,000 per year, with a contract term of 3-5 years. This flexibility will allow time to evaluate utilization.

As a budget consideration, initial funding for this proposal (including tenant improvements, lease enhancements, furniture, office setup, etc.) will be sourced from savings within CalSTRS'

operating budget. The Investment and the Financial Services staff will assess whether an augmentation to the operating budget will be needed for future fiscal years' expenses.

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**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](#)

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