



About CalSTRS

The California State Teachers' Retirement System provides retirement, disability and survivor benefits for California public school educators. The fund has approximately 914,000 members and \$202 billion in assets under management as of February 2017. CalSTRS is the largest educator-only pension fund in the world and the second largest pension fund in the United States.



The **CalSTRS Board** consists of twelve members representing current educators, retired educators and employer representatives:

- Three member-elected positions representing current educators;
- One retired CalSTRS member appointed by the Governor of California and confirmed by the Senate;
- Three appointed public representatives appointed by the Governor and confirmed by the Senate;
- One school board representative appointed by the Governor and confirmed by the Senate;
- Four ex-officio members: Director of Finance, State Controller, State Treasurer, State Superintendent of Public Instruction.

The decisions taken by the board are implemented by the CalSTRS team, which is composed of over 1,000 staff. As of June 2016, CalSTRS managed 46 percent of its assets in-house while the remainder was delegated to external asset managers. The fund's asset mix is composed of investments in fixed income, global equities, real estate, private equity, inflation sensitive investments (e.g. infrastructure), absolute return (e.g. hedge funds) and cash.

The Mission of CalSTRS is "securing the financial future and sustaining the trust of California's educators."

An Interview with Sharon Hendricks

Sharon Hendricks is Vice-Chair of the CalSTRS Board of Trustees. She holds a member-elected position as a community college instructor representing current educators.

1. Why were you interested in becoming a pension trustee?

Quite frankly, I was never interested! I was mentored into the role. I think my experience speaks to the fact that we need to develop a deeper bench of trustee leaders. I was a young union leader in Los Angeles and a board member asked if I'd be interested in attending board meetings as a stakeholder. I started going and saw that the meetings attracted global leaders in finance and politics. I saw how critical the decisions board members made were and how important it was to have good leaders.

What motivated me to run in the election was seeing the strategic nature of workers' capital: This was teachers' money, CalSTRS is the largest teachers' pension fund in the world, and it seemed like an important role. I felt I would do a good job listening to faculty concerns and I care about finance. I was in the right place at the right time with the right people, and I felt really lucky to be elected by California's community college educators into this important leadership role.

2. How do the board decisions on ESG/responsible investment reflect the values of the beneficiaries it represents?

The challenge of a trustee is that you're a fiduciary of the system. You may care about the values of the members of the system, but our members don't share one set of values. You can talk to one teacher who says "I'm glad we got out of tobacco" and another who says "you lost \$2 billion. Why did you do that?" At the end of the day, you (as a trustee) are the steward of a fund and your decisions must make sure that it grows financially.

The CWC Trustee Profile Series features interviews with union-nominated pension fund trustees and touches on the role of individual board members in driving innovation around responsible investment at their funds.

trustee profile

In 2016, CalSTRS committed \$2.5 billion to a low-carbon index

Graphic: http://www.calstrs.com/sites/main/files/file-attachments/green_report_2016.pdf, p.8



We have an ESG policy that's part of our investment policy. In the last few years, the board has taken language around ESG and made sure it's inclusive of all of our asset classes. We've also asked our staff to engage with our external managers to ensure that they share the same values as CalSTRS on ESG.

We've started an investment belief conversation at the board level. It's been a challenge to get everyone on board because different trustees have different beliefs around how ESG issues connect to our fiduciary duty. There's been conflict about whether ESG should be part of our investment beliefs. I believe it's integral to who we have been, who we are and who we are going to be. I am happy to report that in our April 2017 board meeting, we did include valuing ESG principles in our investment beliefs.

In the last few years, the board has broadened its engagement with different stakeholders. In addition to beneficiaries, we've welcomed civil society organizations like 350.org to board meetings. It's a challenge to figure out how to allow stakeholders to have a voice, how to be responsive to our members, what's best for the fund, and how to be a good fiduciary. How to thread this needle is the million dollar question and something that I'm grappling with. These are the types of issues that I like to discuss with trustee networks.

3. How do you reconcile the values of the beneficiaries, your personal values and the need to generate financial returns when you make decisions?

To me it always comes down to my mandate as a fiduciary - to create value for the fund. We listen to presentations, give feedback, and discuss among ourselves as a board. We spend a lot of time hashing through things. We've had conflicts, disagreements and issues come up as we process things. Every person on the board has a different perspective and - to be honest - we are appointed by people who have different perspectives! Although we all have our different views and experiences, we are usually able to get to a place where everyone's been heard because we have a collegial, smart, and engaged board.

I'm passionate about trustee leadership. For a fund our size, it's easy to have our staff prepare all the materials and have trustees go through the process and rubber stamp everything. But good trustees don't do things that way. We help craft the agenda. We make sure our voices are heard and that we're leading the conversation.

4. What are the key elements that empower you to consider ESG/responsible investment in the development of board policies?

The elements that help us consider ESG issues don't come from up high - they're from relationships with other partners and leadership among trustees themselves.

One of the key elements is trustee networks. There's a trustee network in California and there's also the Trustee Leadership Forum, which meets every year at Harvard that has helped shape my thinking.

A governance issue I'm passionate about is women/diversity on corporate boards. We recently partnered with State Street Global Advisors (SSgA) to organise a series of workshops called "Beyond Talk" with the aim of bringing more women into C-Suite positions in the financial industry and corporate America. This is an example of where I feel we've leveraged a partnership. If you look at the tech companies in the Silicon Valley, most of these boards tend towards white men - and it's 2017! CalSTRS plays an important role in this discussion because we have relationships with these companies.

5. What are the key elements that limit your ability to consider ESG/responsible investment in the development of board policies?

We always have to link everything with ESG back to value. When I say value, obviously monetary value is number one. But we are a long term investor, and so when we decided to commit capital to a low-carbon index, for example, we agreed to assess value over the long-term. Even five years seems like a short amount of time.

I know some trustees disagree with me, but I feel that if we don't know how ESG issues are going to add value to the system, it's hard to convince the board and staff.

6. As a trade union nominated trustee, what consideration do you give to trade unions calls for action around ESG issues?

I listen to them, I meet with them, and many are my friends. We had a lot of union input on the responsible contractor policy. But at end of day, I make the lines really clear: The board makes decisions and approves the policy. It's important to cultivate relationships but it's also important to lead. To be in my role, I need to have the respect of the rest of the board. I can't be a spokesperson for the union. That being said, I also just try to be myself.

We recently hired a staff person who interfaces with stakeholders on behalf of our investment staff. Now staff decides whether the board needs to know about something on a case by case basis, depending on how big it is or how it's impacting the fund. We're supposed to be policy makers; we can't be addressing every specific issue.

I would like to get to a place where we don't have to highlight ESG issues because they're part of good investing. And we can get there faster if we have more trustees leading the agenda.

7. What is your most memorable instance discussing and debating an ESG issue at your board?

I'm really proud of a recent decision we took to allocate \$2.5 billion to a low-carbon index. I thought we made a prudent decision that we could defend. It was indicative of the fact that we are responsive to the key issues of our time, but that we want to do this thoughtfully, deliberately and gradually.

8. What were some of the challenges you encountered when trying to make progress on the issue?

The low-carbon index fund was a by-product of the conversations we'd been having for two years on whether ESG is part of our fiduciary duty. A big component of that debate was whether to be more explicit around ESG issues or to do what we always do - which is to have a policy.

Like other ESG discussions, the low-carbon index can be distilled down to one issue that comes up all the time: Some trustees don't believe that ESG factors are part of our fiduciary duty. They think they're important and care about the issues, but they don't think the data indicates clear value creation. Many don't think ESG factors really impact the bottom line of our fund.

9. How did you resolve the issue?

We have a fiduciary counsel who answers our questions about whether something is part of our fiduciary duty. We had lots of education. To be honest, the low carbon index allocation was a compromise we were willing to try. As a board, we were ready to dip our toes in the water with a vehicle that will hopefully give us more information down the road.

Notions of fiduciary duty depend on whether the lawyers you talk to have a narrow or broad definition. Ultimately, what I want to know is what brings value to our fund: What helps our fund grow monetarily and in reputation as an institutional investor that is a global leader?

I would like to get to a place where we don't have to highlight ESG issues because they're just part of good investing. And we can get there faster if we have more trustees that are leading this agenda.

10. What are some of the emerging ESG issues facing pension trustees?

Fossil fuels are the elephant in room. Most institutional investors invest in fossil fuels and lots of voices are pushing us to get out. We have to figure out how to navigate that world. How do we deal with the fossil fuel divestment issue while being forward-thinking about clean energy and capitalizing on opportunities in our portfolios?

We're having a lot more stakeholder engagement at our board meetings and members are more vocal about how our staff are investing their capital. This is a challenge and an opportunity for us to build good communication with our members.

11. What is one piece of advice you would give to an individual trustee who is interested in improving the ESG policies at his fund?

Network with other trustees. Don't be afraid to ask questions. Ask trustees in other funds what they're doing. Being a trustee is an intimidating job – there are people who spend 24 hours a day thinking about investments while it's one of two or three jobs most of us hold. But the staff, consultants and other investment professionals aren't fiduciaries in the same way we are. I always tell people that as a trustee, you have one vote just like each other board member and you have to do your homework. There are great networks and places where people are trying to get together, so there's no excuse to not talk to other trustees. And be a good listener. Listen to peoples' opinions and different points of view.



With over 300 participants from 25 different countries, the Committee on Workers' Capital is an international labour union network for dialogue and action on the responsible investment of workers capital.