



Regular Meeting

Item Number 6 – Open Session

Subject: Chief Executive Officer Report

Presenter(s): Cassandra Lichnock

Item Type: Information

Date & Time: January 10, 2024 – 15 minutes

Attachment(s): None

PowerPoint(s): 2025 Strategic Plan Timeline

P&I Best Place to Work in Money Management

I am pleased to report CalSTRS Investments has again been awarded the *Pensions and Investments* Best Places to Work in Money Management. CalSTRS Investments has had the pleasure of winning the award nine times! We won in 2013 and 2016-2023. The 2023 news will be released in a special report in the December issue of the newspaper. Awards are determined through a staff survey which include policies, practices, work philosophy and demographics, as well as engagement and satisfaction with the company. For 11 years, CalSTRS Investments has been engaged in the *Pensions & Investments* Best Places to Work in Money Management program. Participation in the program is free and companies must have at least 20 employees in the U.S., at least \$100 million of discretionary, institutional assets under management or advisement and be in business for at least one year.

Christopher Ailman Receives Lifetime Achievement Award

On December 5, 2023, at CIO Magazine's Annual Industry Innovation Awards in New York, Christopher Ailman, our Chief Investment Officer, received the Lifetime Achievement Award in recognition of his many accomplishments and joined his peers in the investment "Hall of Fame." Chris is the longest serving CIO for CalSTRS at more than two decades of service, making his impact on the industry and tenure unparalleled for a public sector CIO. Over this time, Chris helped to form an amazing Investments Branch culture founded on trust, collaboration and empowering the team. He has developed a strong bench of leaders and an incredibly diverse team with both depth and quality. At the awards dinner, Chris thanked his wife Robin, his family and his "other family" - his team, for all his successes. Chris also pointed

to the stability of CalSTRS Board leadership as a key factor in his long tenure and ability to create meaningful value for California public teachers.

Chief Investment Officer magazine also cited the following:

- Strong performance track record over all meaningful time periods.
- Long tenure as CalSTRS CIO (and CIO at Sacramento County Employees' Retirement System and the Washington State Investment Board).
- Higher returns through bringing over 60% of assets to manage in-house with CalSTRS Collaborative Model.
- Well-regarded collaborator with peers.
- Public face of pensions on TV, in news media and conferences, particularly standing out as an advocate for DEI and ESG.

Chris embodies our CalSTRS culture, modeling our strategic goals, most specifically Goal 2: Leading Innovation and Managing Change. The CIO Lifetime Achievement Award focuses on innovation in the investment industry. Importantly, Chief Investment Officer Magazine noted that Chris excelled while always focusing on his most important and primary mandate: "California Educators' well-being." Please join me in congratulating Chris for this honor.

CalSTRS 2025–28 Strategic Plan

We are currently halfway through our three-year strategic planning cycle, guided by the CalSTRS 2022–25 Strategic Plan. As we kick off the new year, we are launching activities related to the 2025–28 Strategic Plan.

We begin by conducting an environmental scan inventorying external and internal forces potentially affecting CalSTRS. We will seek input from staff and stakeholders, and leverage the existing information we collect from members, employers and other constituent groups. We'll also review the current research on trends that affect us. The board's governance consultant, Amy McDuffee of Mosaic Governance Advisors, LLC (Mosaic), will lead the process of gathering input from Teachers' Retirement Board members.

As we do with each strategic planning cycle, we continue to mature the strategic planning process. In support of the board's objective to grow our strategic and innovation mindset under Goal 2, we are incorporating the organization's cost-conscious culture into the strategic plan process. One outcome of that effort will be greater integration of our budgeting and strategic planning processes. We expect this collective effort will strengthen the quality of our overall planning, provide greater transparency and decision useful information to successfully accomplish our strategic priorities.

In January 2025, we'll present the strategic plan for a first reading as an information item. At the following meeting of the board in March, we will engage the board in our first strategic plan costing discussion, and the strategic plan will be presented for adoption should the board feel ready to take action.

Innovation Update

In March 2023 we began our three-year effort to establish a CalSTRS innovation program. The purpose is to advance our strategic plan objective of growing capabilities and culture to support a strategic and innovation mindset.

The innovation project team is wrapping up the design phase, which began in July 2023. During this phase, we developed a playbook codifying the process for launching innovations, and collected and refined a backlog of ideas.

A cross-functional group of CalSTRS innovation practitioners created the playbook in a series of workshops. The group used their expertise and knowledge of CalSTRS culture to identify an operating model, innovation process, governance and metrics that align best with our organization.

In December, Executive Staff held a feedback session with the project team and discussed the playbook recommendations and how to implement them. We are working to staff the innovation function and develop a strategy to allocate funds for prototyping, piloting and scaling innovations.

We are scheduled to begin the implementation phase in January 2024. This phase includes standing up and training the core team, testing and iterating the playbook, implementing the innovation function, soliciting ideas through an organization-wide campaign, and selecting ideas for evaluation and development. This phase is contingent on employing staff to oversee these activities.

Information Security Incident Update

Updates regarding the data security incident affecting PBI Research Services (PBI), a CalSTRS vendor, were previously shared at the July and September board meetings.

On June 8, 2023, PBI confirmed CalSTRS data was involved in the mass exploit of a vulnerability in the secure file transfer system of PBI's MOVEit server. Data of 415,457 CalSTRS retirees and option beneficiaries was involved in this incident. No CalSTRS systems, financial account information, nor information that would allow access to *myCalSTRS* accounts was involved in this incident. Pension payments are not affected by this incident.

Two separate letters were mailed to members, the first in late-June and second in mid-September. Initially, CalSTRS offered 12 months of credit monitoring using Experian® IdentityWorks Credit 3B with a September 30, 2023, deadline to enroll. The second letter to members included an extension of the enrollment deadline to October 31, 2023, and notification that credit monitoring services would be extended an additional 12 months for members who enrolled.

While the incident was unexpected, the Customer Service division took quick action to prepare and support members. Our Contact Center staff assisted over 26,000 members, who contacted CalSTRS either by phone or secured online message, to ask questions or to voice concerns over the security of their information and their retirement benefit.

In total, over 93,000 enrolled in credit monitoring services CalSTRS offered its members, with more than 10,200 enrollments (11%) occurring in the month of October. Experian has confirmed all enrolled members have received an additional 12 months of credit monitoring at no cost to them.

Following the incident, CalSTRS and PBI worked together to implement additional security encryption protections on top of those already in place. The additional encryption ensures that a cyber-attack, like the type PBI experienced, would no longer yield confidential data.

CalSTRS reviews its business processes and partner relationships periodically for operational need, security, and cost, and makes adjustments as necessary. We have engaged a cross-functional team to ensure the minimum amount of member data is shared with vendors only for the purposes of pension administration, as necessary. The team is also tasked with evaluating the data transfer methods to validate that they meet the appropriate security standards.

Financial Statement Reports

The CalSTRS Annual Comprehensive Financial Report (ACFR) is published annually to provide a detailed review of CalSTRS' financial, investment and actuarial related activities for a given fiscal year. The ACFR for the year ended June 30, 2023 is now available online at [CalSTRS.com](https://www.calstrs.com) and was submitted to the Government Finance Officers Association for the Certificate of Achievement for Excellence in Financial Reporting program.

CalSTRS also published a Popular Annual Financial Report (PAFR), which provides a summary of the information found in the Annual Comprehensive Financial Report. The PAFR for the year ended June 30, 2023, is now available online at [CalSTRS.com](https://www.calstrs.com) and was submitted to the Government Finance Officers Association for the PAFR Award program.

Emerging and Existential Risks Update

At the September 2023 board meeting, the Enterprise Risk Management (ERM) team presented the board with the semi-annual enterprise risk management report that included the Emerging Risk Universe Map. The map reflects emerging and existential risks that management are actively monitoring. See [here](#) to view the board item.

For this update, the risks shown in the Emerging Risk Universe Map have not changed since the September board meeting. However, staff continue to explore alternatives for how best to communicate, evaluate and update the Emerging Risk Universe Map to reflect recent events or risks that come up in the news that may have an adverse effect on CalSTRS and that would require immediate discussion and mitigation. For example, the emergence of Generative AI, such

as ChatGPT, is being explored to better understand the risks and benefits of this new technology on CalSTRS operations. These types of imminent risks are monitored and mitigated by the affected business areas as part of our normal course of business, including recognition of the risk(s) in our enterprise risk matrix when appropriate.

The emerging and existential risks that management are actively monitoring, which are included in the Emerging Risk Universe Map, are grouped into the two categories below:

- **Evaluate:** Requires additional investigation to determine if any further risk mitigations are needed.
- **Monitor:** Understand significant changes that may occur that would require a shift in risk approach beyond the significant activity or risk mitigations that are already in place.

Evaluate	
Emerging Risks	Fraud Risk Vulnerability
	Human Capital
	Generative Artificial Intelligence
	Change Management Fatigue
Existential Risks	Shift to Alternative Education
	Artificial Intelligence

Monitor	
Emerging Risks	Ungoverned Software as a Service
	Evolving Sociopolitical Expectations
	Geopolitical Disruptions
	Cyber Insurance Availability
Existential Risks	Comprehensive Pension Reform
	Cybersecurity Event
	Demographic Shift
	Hyperinflation
	Shift in Pension Fund Investment Management

The Enterprise Risk Management team continues to regularly evaluate emerging and existential risks to determine whether these risks require active mitigations, revision to existing mitigations, active monitoring for future consideration or no action needed until the next identification cycle. As events continue to unfold and our understanding of these emerging risks continue to evolve, staff will modify the map accordingly.

Enterprise Compliance Services Update

Web Accessibility Working Group

At the November 2023 Executive Risk and Compliance committee meeting, the Enterprise Compliance Services (ECS) team presented an update on the CalSTRS Accessibility Working Group. CalSTRS created the Accessibility Working Group to support the organization's commitment to accessibility and inclusion by partnering with stakeholders to ensure compliance with Web Content Accessibility Guidelines (WCAG.)

The scope of this working group is aimed at addressing webpages and digital content maintained on the CalSTRS intranet (Central), CalSTRS' external internet website (calstrs.com) and web apps associated with it, and the creation, revision, and implementation of any internal policies, standards, staff training, communications, budgets, and other resources needed to ensure individuals with disabilities receive equal and seamless access to said webpages and content.

The members of this group span multiple business areas including Legal Services, Communications, ECS and Technology Services. ECS is currently acting as project manager and will support the working group to promote and monitor compliance with web accessibility across the organization.

Risk and Compliance Education

Throughout 2023, the Enterprise Risk Management (ERM) and Enterprise Compliance Services (ECS) teams coordinated to offer presentations to CalSTRS leaders and staff on risk, compliance and ethical responsibilities. ERM and ECS received several requests for the presentations and have conducted three presentations per quarter across the organization, including two sessions with Member Service Center locations. The presentations addressed key areas, including the significance of risk management, roles and responsibilities in risk and compliance, compliance policies, emerging risks and how staff can anonymously report risks and ethical concerns.

The Annual Risk and Compliance Training planned for Spring of 2024 will focus on employee responsibilities for maintaining a strong risk and compliance culture and highlight the Code of Ethics and Business Conduct.