Investment Committee

Item number 7 – Open session

Subject: 2025 Annual Cost & Collaborative Model Savings Report

Presenter(s): April Wilcox, Mike Dunigan, and Monica Robinson

Item type: Information

Date and time: November 4, 2026 – 20 minutes

Attachment(s): Attachment 1 – Cost Breakdown

Attachment 2 – Cost Breakout by Category

Attachment 3 – Capture Ratio

Attachment 4 – Peer Comparison

Attachment 5 – Collaborative Savings

PowerPoint presentation(s): 2025 Annual Cost & Collaborative Model Savings

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Item purpose

This report aims to provide the Committee with detailed cost analysis, transparency, and an estimate of fee savings from the Collaborative Model for CY 2025.

Recommendation

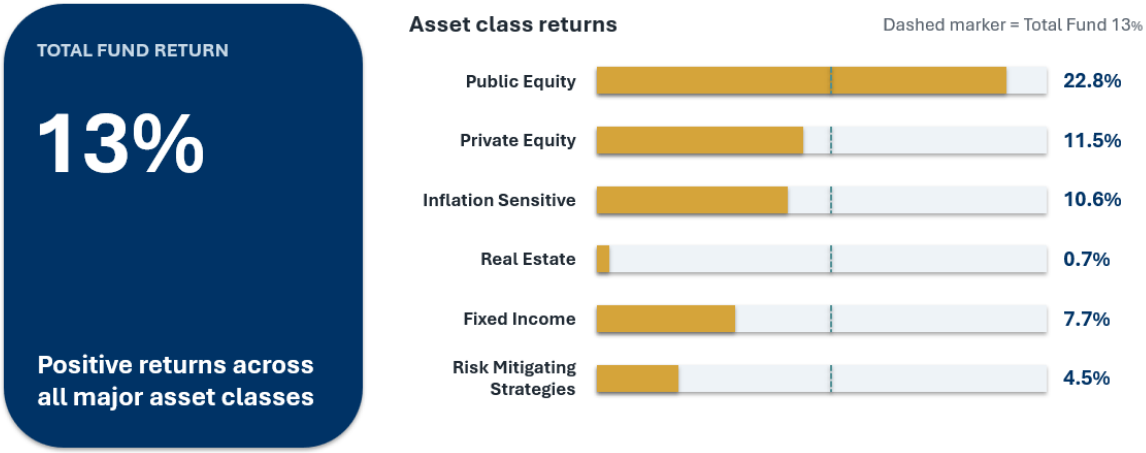
Staff recommend that, upon hearing the verbal report, the Investment Committee receive the report for the record.

Executive summary

This report presents information on a calendar year, cash basis, and at a specific point in time. Costs may vary each year based on the life cycle of the investments and the pace of the strategies. As CalSTRS is a long-term investor, return and cost data are more relevant when analyzed over extended periods. Therefore, data covering a 10-year period has been included in this report.

The 2025 financial markets were defined by a strong stock market, driven by international equities, credit out-performing government duration in the bond markets, and a weakened dollar. Similar to 2024, the Federal Reserve held rates steady for most of the year and began cutting rates in September. Overall, the year rewarded global exposure and inflation-sensitive assets more than a concentrated U.S. stock-and-long-bond allocation.

The Total Fund returned 13%, generating over $45 billion, and closed the year with over $392 billion. Each asset class contributed positive returns, highlighted by CalSTRS Public Equity, which returned over 22% and earned almost $31 billion. This marked the third year in a row of double-digit returns for the asset class.



In the second half of 2025, the strategic asset allocation to Public Equity was reduced by 1%, and an additional 1% was allocated to Inflation Sensitive. Allocation shifts toward private investment and Net Asset Value (NAV) growth are generally two of the biggest drivers of cost, yet Portfolio Costs in 2025 increased less than the growth of the Fund's NAV. This resulted in a year over year 3% increase in Total Portfolio Costs, a 7% increase in carried interest paid, but when compared relative to the NAV, costs actually decreased by 3 basis points.

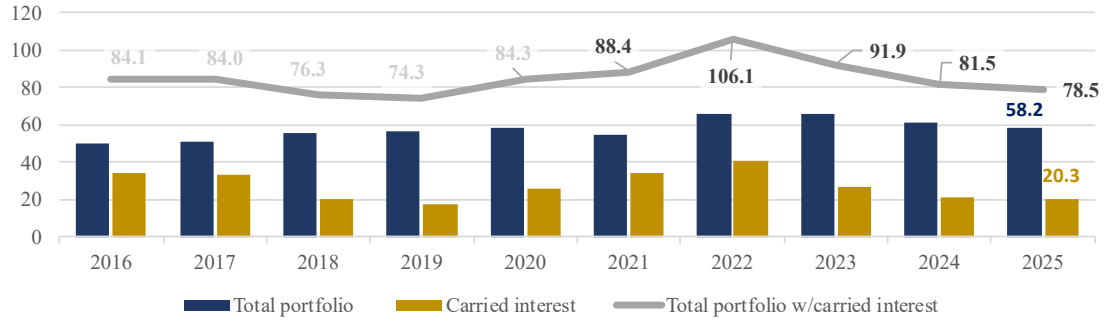


Background

In 2025, CalSTRS incurred approximately $2.1 billion in portfolio costs to operate the fund and an additional $750 million in carried interest, an overall increase of 4%.

The average NAV increased 8% to $368 billion, outpacing the growth in costs. As a result, overall costs declined from 81.5 basis points in 2024 to 78.5 basis points in 2025.

Chart / Table 1 – Overall Costs in Basis Points and Dollars



$ in Millions	2021	2022	2023	2024	2025	2025 Δ
Average NAV	338,296	308,309	312,963	341,290	368,697	8%
Total Portfolio Costs	1,840	2,014	2,056	2,078	2,145	3%
Carried Interest Paid	1,150	1,257	820	704	750	7%
Overall Costs	2,990	3,271	2,876	2,782	2,895	4%

Carried interest paid increased 7% to $750 million, or 20.3 basis points. Carried interest is a contractual profit-sharing arrangement between CalSTRS and general partners that is generally paid when profitable private investments are realized. Because these payments reflect gains accumulated over multiple years and the timing of investment exits, carried interest can fluctuate significantly from year to year. Despite the 2025 increase, carried interest remains below the levels paid following the stronger private equity returns generated in 2020 and 2021.

Total Portfolio Costs, excluding carried interest, increased 3% to $2.1 billion. These costs include external management fees, internal operating expenses, and other expenses such as partnership costs. The primary cost drivers are portfolio NAV, the allocation to private assets, and the mix of internally and externally managed investments. On a NAV-adjusted basis, Total Portfolio Costs declined from approximately 60.9 basis points in 2024 to 58.2 basis points in 2025. A complete breakdown of the portfolio cost categories is provided in attachment 2. Below we discuss the drivers of this year's change.



Management fees decreased 0.3% overall despite an increase in the Total Fund's NAV. The allocation shift from Public Equity to Inflation Sensitive resulted in increased manager fees within Infrastructure, but this was more than offset by an increase in internal management from both Public and Private Equity over the year.

Operating expenses increased 1.1%, driven by a few factors: additional advisors as part of the investment data warehouse initiative, an increase in enterprise allocated expenses, research fees, and internal salary.

Other expenses, more specifically, partnership costs associated with private investments, made up the majority of the increase in portfolio costs. These included additional due diligence, legal, and credit facility fees which increased these costs by 2.2% compared to last year.

Table 3 – Total Portfolio Costs as a Percentage of Net Asset Value

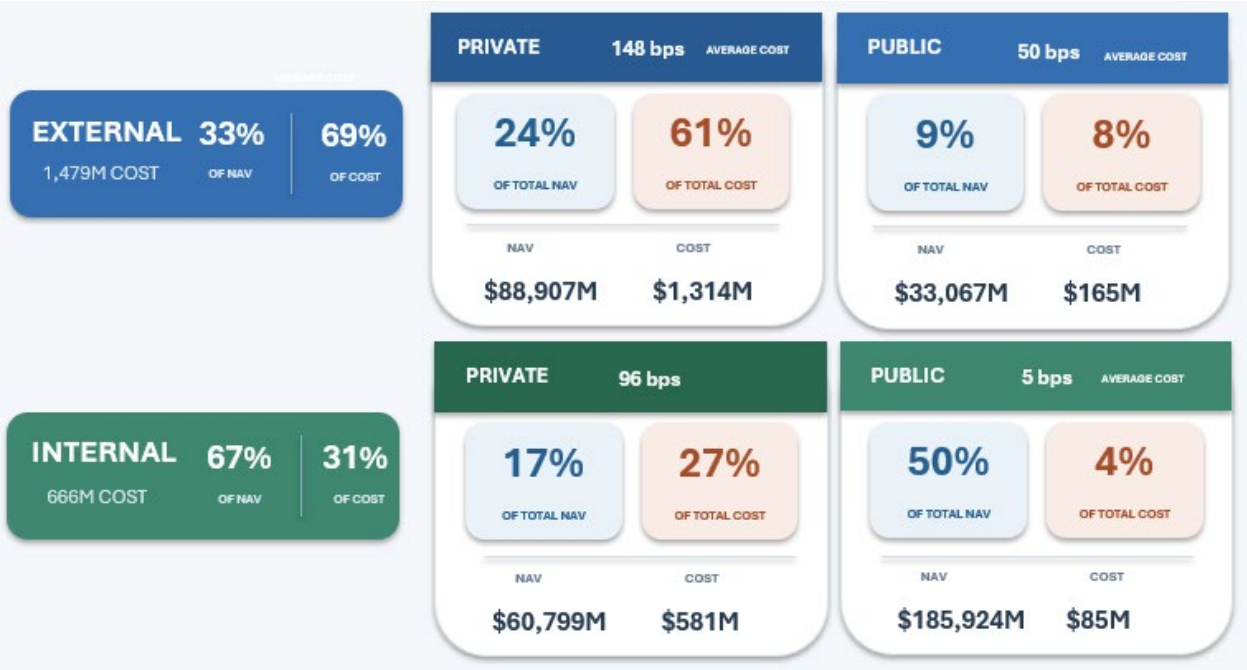


Table 3 shows how investment costs are distributed between internal and external management across public and private assets. In 2025, internally managed NAV increased 11%, while internally managed costs increased 16%. The cost increase was driven primarily by growth in Collaborative Model Investments, including higher NAV and associated operating expenses. Private assets' share of Total Fund NAV declined by one percentage point from the prior year. This decline reflected strong, double-digit public equity returns, which increased public equity values relative to private assets, rather than a material reduction in private asset exposure. As a result, public equities' share of Total Fund NAV increased 10%, despite a one-percentage-point reduction in the strategic target allocation. Further details and breakdown of this information can be found in Attachment 1.

Conclusion

Key points highlighted within the report:

- **Strong investment results:** The Total Fund returned 13%, generated more than $45 billion, and ended 2025 above $392 billion
- **Broad-based performance:** Every asset class produced positive returns, led by Public Equity at more than 22% and nearly $31 billion in earnings
- **NAV growth outpaced cost growth:** Average NAV increased 8%, compared with a 4% increase in overall costs
- **Lower costs relative to assets:** Overall costs declined from 81.5 to 78.5 basis points of NAV, while Portfolio Costs excluding carried interest declined from 60.9 to 58.2 basis points
- **Management fees remained controlled:** Fees decreased as increased internal management offset an allocation shift to private assets (Inflation Sensitive)
- **Cost increases were concentrated:** Partnership costs, strategic advisory support, internal operating expenses, and Collaborative Model Investments drove most of the increase
- **Carried interest reflects investment realizations:** Payments increased 7% to $750 million but remained below levels following the strong private equity returns of 2020 and 202
- **Attachment 1 & 2:** Complete breakdowns of Internal/External, Public/Private, Asset Class, and expense categories.
- **Attachment 3** shows that the rolling 10 year capture ratio improved year over year as costs increased less than 2025 NAV growth. Over the last decade, CalSTRS captured an estimated 93% of its gross profits.
- **Attachment 4:** CalSTRS operated as a low-cost fund with an investment cost of 42.7 bps, compared to a peer benchmark of 46.4 bps, equating to $137 million saved in 2025.
- **Attachment 5**: The Collaborative Model contributed almost $560 million in savings, showcasing its effectiveness in reducing management fees through increased co-investments and other structures.

Strategic Plan linkage: Goal 1 of the CalSTRS Strategic Plan. Trusted stewards – Ensure a well-governed, financially sound trust fund.

Board Policy linkage: N/A

Optional reference material:

Annual Investment Cost Report - CalSTRS – for historical Annual Cost & Collaborative Model Savings Reports.

Investment terms glossary - CalSTRS – for a full listing of glossary terms and definitions.