

Glossary

Asset Class/Investment Strategy	As outlined in the Investment Policy and Management Plan (IPMP); a group of securities that have similar financial characteristics, behave similarly in the marketplace, and are subject to the same laws and regulations. CalSTRS asset classes and investment strategies include Global Equity, SISS, Fixed Income, Private Equity, Real Estate, Inflation Sensitive, Innovative Strategies, Risk Mitigating Strategies, Strategic Overlay and Cash.
Basis Point (Bps)	A unit of measure used in finance to describe the percentage change in value or rate of a financial instrument. One hundredth of the one percent or .0001 in decimal form.
Brokerage Commissions/Fees	An agent or agent’s company charges to conduct transactions between buyers and sellers. Fees are charged for services such as purchases, sales, and advice on the transaction, negotiations, or delivery. Included as “Other Expenses” within the report.
Capitalized Costs	An accounting method used to delay the recognition of expenses by recording the expense as a long-term asset.
Capture Ratio	Percentage of gross profits retained after paying management fees and carried interest.
Carried Interest (Profit Sharing)	Applicable to private assets only. A profit-sharing mechanism by which general partners are compensated for their performance, usually after meeting a certain performance threshold and returning all previously paid management fees to limited partners. Carried interest is distributed to the general partner as part of the profit before profits are paid to the limited partners (CalSTRS).
Collaborative Model	One of the objectives established for the 2017/18 Investment Committee Work Plan is to review and evaluate how CalSTRS approaches the implementation decision regarding internal versus external asset management across the portfolio. The proposed new model that is being studied is referred as the “Collaborative Model.” It focuses on developing innovative platforms and strategies by enhancing the social capital of investment organizations to improve their effectiveness and investment efficiency.
External Asset Management	The outsourcing to external companies of asset management of various securities and other assets in order to meet specified investments goals.

External Management Costs	Costs that are associated with external management of investments. Generally, these are management fees of private and public markets, partnership expenses and related salaries, support and oversight.
General Partner	A general partner is an owner of a partnership who has unlimited liability. A general partner can be an entity or individual who is also usually a managing partner and active in the day-to-day operations of the business or investment fund.
Global Master Custodian	A bank servicing the Investment Branch that takes responsibility for reconciling its records with those of each investment manager, processing and recording trades, relieving CalSTRS of this administrative burden.
Internal Asset Management	<p><i>Public:</i> Asset management of various securities and other assets in order to meet specified investment goals performed ‘in-house’ by CalSTRS staff.</p> <p><i>Private:</i> Investment category that represents collaborative private strategies with external partners that have been carved out for Co-Investments and where CalSTRS has significant ownership and control (full or primary) over investment decisions such as purchases, sales, or financing. The investment type is specific to each asset class or investment strategy as follows:</p> <ul style="list-style-type: none">• Co-Investments: Private Equity, Real Estate, Inflation Sensitive and SISS• Real Estate Operating Companies, Separate Accounts and Joint Ventures: Real Estate <p>Managed Accounts: Inflation Sensitive.</p>
Internal Management Costs	Costs that are incurred for internal management of the investments and relevant operational support and administration.
Internal Salary	An Operating Expense that comprises of salary and benefits paid to CalSTRS staff within the Investment Branch.
Management Fee	A periodic payment made by an investment fund to the fund’s investment advisor for investment and portfolio management services which is calculated as a percentage of assets under management. Performance-based fees are paid when the advisor generates positive returns above an agreed upon performance rate. As displayed in the cost tables, manager fees include

both asset base and performance base manager fees for public markets and manager fees excluding performance for private markets. Management Fee excludes internal staff salaries.

Net Asset Value (NAV)	The dollar value of the fund based on the total value of all the securities in its portfolio, any liabilities the fund has and the number of fund shares outstanding.
Notional Amount	The U.S. Dollar amount of the underlying assets.
Operating Expense	Part of Total Portfolio Costs. Broken down into staff salaries (including supplies, training and other Investment Branch support and administrative expenses), travel, and organization wide allocation to Investments. Includes advisor, consultant, risk and trade management system expenses. Also, includes investment expenses not allocated to an asset class such as custodian, audit and other organizational support budget expenses (see attachment 4 for breakdown).
Other Expenses	Includes portfolio company fees that the General Partner/Manager or its related parties receive from the portfolio companies for consultancy services, broken deal fees, transaction and deal fees, board of director fees, ongoing monitoring fees and capital markets fees, as well as property management fees, construction management fees, project marketing fees, and other fees for real estate partnerships; also includes fund of fund fees. It includes private asset related partnership expenses inclusive of accounting, IT, administration, audit & tax, bank fees, custody fees, due diligence, legal, organizational, travel and entertainment, insurance, partnership level taxes and other expenses charged to the partnership. Includes brokerage commissions charged to CalSTRS for trades in the public markets. Excludes trading spread for fixed income and currency instruments.
Partnership Expenses	Applicable to private assets. Reflected under "Other Expenses" and includes private asset related partnership expenses inclusive of accounting, IT, administration, audit & tax, bank fees, custody fees, due diligence, legal, organizational, travel and entertainment; may also include insurance, partnership level taxes and other expenses charged to the partnership.
Portfolio Company Fees	Applicable to private assets. Reflected under "Other Expenses" and includes fees the General Partner/Manager or its related parties receive from the portfolio companies for consultancy services, broken deal fees, transaction and deal fees, board of director fees, ongoing monitoring fees and capital markets fees, as well as property management fees,

construction management fees, project marketing fees, and other fees for real estate partnerships; includes fund of fund fees.

Private Markets	Refers to the market of mostly illiquid investments that do not trade on an exchange. Investment structures can range from limited partnerships, limited liability companies and joint ventures.
Private Market Costs	The expenses associated with private assets including the costs that have been capitalized and deducted from the gross value of the investment, such as management fees for limited partnerships, portfolio company fees and other types of expenses paid to the general partner and/or its affiliates. Within our report, private market costs also include relevant staff salaries and administration costs to manage the private assets.
Public Markets	Refers to the market of securities that trade on an exchange and can be bought or sold by anyone in the general population. These securities typically trade in a systemized secondary market.
Public Market Costs	Expenses associated with the management of the publicly traded investments and fixed income securities. These include external management costs such as management fees, broker commissions and applicable internal costs.
Soft Dollars	Soft dollars are the benefits provided to an asset manager by a broker-dealer as a result of commissions generated from financial transaction executed by the broker-dealer for client accounts or funds managed by the asset manager. Soft dollars, in turn might be used to pay for future commission expenses, research, advice etc.