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

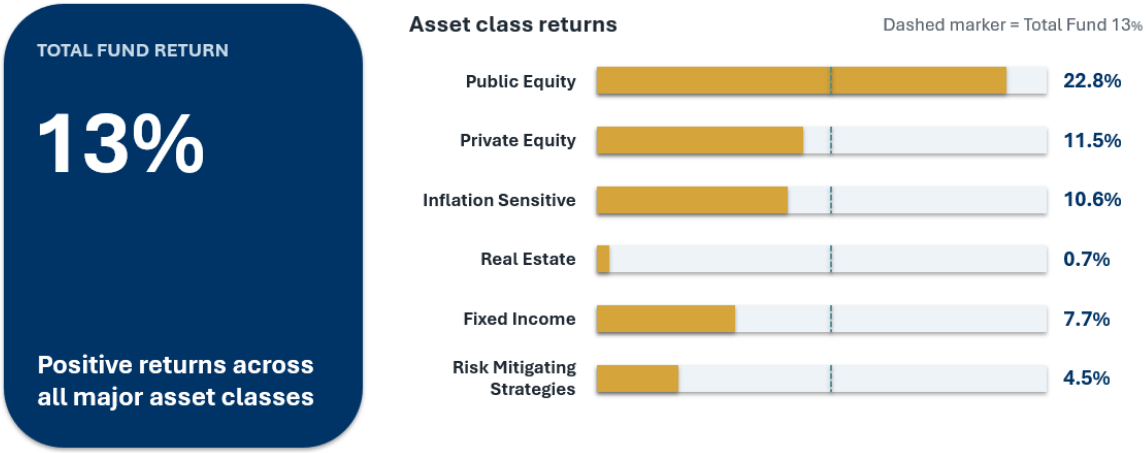
Staff recommend that, upon hearing the verbal report, the Investment Committee receive the report for the record.

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.

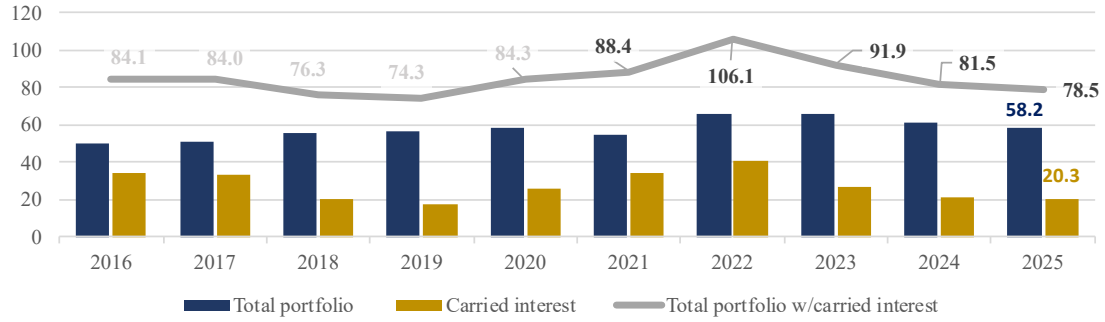


Background

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

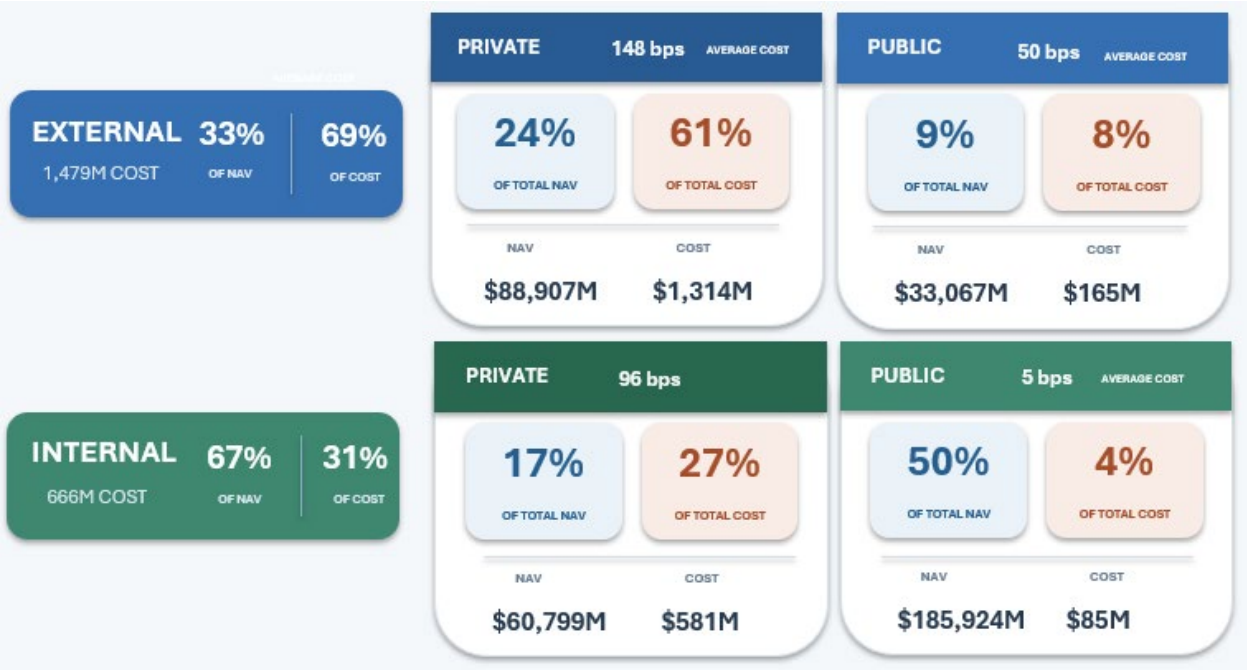


Table 3 shows how investment costs are distributed between internal and external management across public and private assets. In 2025, internally managed NAV increased 11%, while internally managed costs increased 16%. The cost increase was driven primarily by growth in Collaborative Model Investments, 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.

CALSTRS

Overall Cost Breakdown

Overall Cost by Asset Class

External Management Costs[1]

Asset Class/ Investment Strategy	Net Asset Value	Ending Market Allocation	Manager Fee	Operating Expense	Other Expenses	Total Expense	2025 Basis Points	2024 Basis Points	Carried Interest	2025 Basis Points w/Carry
Public Market Costs										
Global Equity	27,118	7%	105	13	14	132	48.7	52.2	0	48.7
Fixed Income	2,922	1%	7	3	0	10	34.2	33.4	0	34.2
Inflation Sensitive	1,587	0%	6	1	1	6.7	42.4	44.4	0	42.4
SISS	1,439	0%	7	3	1	12	80.6	53.2	0	80.6
Strategic Overlay[1]	0	0%	5	0	0	5	11.8	11.8	0	11.8
Total	**$ 33,067**	**9%**	**$ 130**	**$ 19**	**$ 16**	**$ 165**	**49.9**	**51.6**	**$ -**	**49.9**
Private Market Costs										
Private Equity	42,593	12%	451	27	163	640	150.4	170.3	514	271.0
Risk Mitigating Strategies	20,027	5%	143	10	109	263	131.2	123.4	105	183.5
Real Estate	13,182	4%	129	12	74	216	163.5	173.1	39	193.3
Fixed Income	1,651	0%	17	1	13	31	188.3	n/a	9	
SISS	1,263	0%	14	5	8	27	216.6	156.6	5	253.2
Inflation Sensitive	7,249	2%	61	5	25	91.2	125.8	128.9	8	136.4
Collaborative Strategies	2,942	1%	26	2	18	45	154.5	169.7	13	199.2
Total	**$ 88,907**	**24%**	**$ 841**	**$ 63**	**$ 410**	**$ 1,314**	**147.8**	**156.5**	**$ 693**	**225.7**
Total External Mgt.	**$121,974**	**33%**	**$ 971**	**$ 82**	**$ 426**	**$ 1,479**	**121.2**	**126.3**	**$ 693**	**178.0**

[1] Net Asset Value reflects gains / (losses) on notional values and uses notional values for calculating basis points for currency management.

[1] Zero '0" indicates a number rounded to less than 1 million. "- "indicates no value.

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Internal Management Costs[1]

Asset Class/ Investment Strategy	Net Asset Value	Ending Market Allocation	Manager Fee	Operating Expense	Other Expenses	Total Expense	2025 Basis Points	2024 Basis Points	Carried Interest	2025 Basis Points w/Carry
Public Market Costs										
Global Equity	122,575	33%	-	45	1	46	3.8	3.8	0	3.8
Fixed Income	40,312	11%	-	26	0	26	6.4	5.1	0	6.4
Risk Mitigating Strategies	7,997	2%	-	3	-	3	3.7	4.0	0	3.7
Cash / Liquidity	8,259	2%	-	4	-	4	6.4	5.7	0	1.2
Inflation Sensitive	5,825	2%	-	2	-	2.4	4.0	4.3	0	4.0
Collaborative Strategies	502	0%	-	0	-	0.3	6.4	5.7	0	6.4
SISS	184	0%	-	0	0	1	48.7	75.4	0	48.7
Strategic Overlay[1]	270	0%	-	1	2	3	1.2	1.0	0	105.1
Total	**$185,924**	**50%**	**$ -**	**$ 81**	**$ 4**	**$ 85**	**4.6**	**4.4**	**$ -**	**4.6**
Private Market Costs										
Real Estate	33,971	9%	221	32	190	443	130.5	121.1	53	146.2
Private Equity	13,219	4%	7	8	62	77	58.4	15.4	0	58.4
Inflation Sensitive	10,951	3%	23	6	19	48.3	44.1	50.7	1.5	45.5
Collaborative Strategies	1,297	0%	1	1	7	8.1	62.4	92.2	1.2	72.0
Fixed Income	938	0%	1	1	0	1	14.8	69.4	1	28.9
SISS	424	0%	0	1	1	3	70.2	188.0	0	70.2
Total	**$ 60,799**	**16%**	**$ 252**	**$ 49**	**$ 280**	**$ 581**	**95.6**	**87.6**	**$ 58**	**105.0**
Total Internal Mgt.	**$246,723**	**67%**	**$ 252**	**$ 130**	**$ 284**	**$ 666**	**27.0**	**25.7**	**$ 58**	**29.3**
Total Public Market	**$218,991**	**59%**	**$ 130**	**$ 100**	**$ 20**	**$ 250**	**11.4**	**12.5**	**$ -**	**11.4**
Total Private Market	**$149,707**	**41%**	**$ 1,093**	**$ 112**	**$ 690**	**$ 1,895**	**126.6**	**128.9**	**$ 750**	**176.7**
Grand Total	**$368,697**	**100%**	**$ 1,223**	**$ 212**	**$ 710**	**$ 2,145**	**58.2**	**60.9**	**$ 750**	**78.5**

[1] Net Asset Value reflects gains / (losses) on notional values and uses notional values for calculating basis points for currency management.

[1] Zero '0" indicates a number rounded to less than 1 million. "- "indicates no value.

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Overall Cost Breakout by Sub-Category *($000)*

Asset Class	Manager & Performance Fees*	Operating Expenses								Other Expenses	
		Internal Salary & Travel	Org Wide Allocated Expenses	Advisors & Consultants	Legal	Custody & Other Operating	Research & Rating Services	Risk Management Systems	Trading Systems	Partnership	Broker Commission
Global Equity	105,013	19,767	22,158	1,937	267	3,410	8,536	781	539		15,739
SISS	21,942	3,728	490	2,175	1,208	921	1,516	13	1	10,155	674
Private Equity	457,200	16,506	8,261	5,173	1,531	2,297	774	220	16	225,414	129
Real Estate	350,365	13,854	6,980	13,826	4,024	5,004	209	186	13	264,341	30
Inflation Sensitive	90,235	6,919	3,791	702	693	1,356	244	101	7	43,958	562
Fixed Income	24,510	11,508	6,783	1,149	872	1,814	6,977	180	994	13,364	155
Risk Mitigating Strategies	143,110	7,150	4,148	740	110	789	383	110	8	109,128	
Collaborative Strategies	26,194	1,839	702	189	322	110	49	19	1	24,429	
Strategic Overlay	4,725	959	40	3		6	1	1			1,823
Total Portfolio Allocations**	**1,223,293**	**84,383**	**54,575**	**26,002**	**9,033**	**15,895**	**18,727**	**1,643**	**1,582**	**690,789**	**19,113**

** Does not include carried interest*

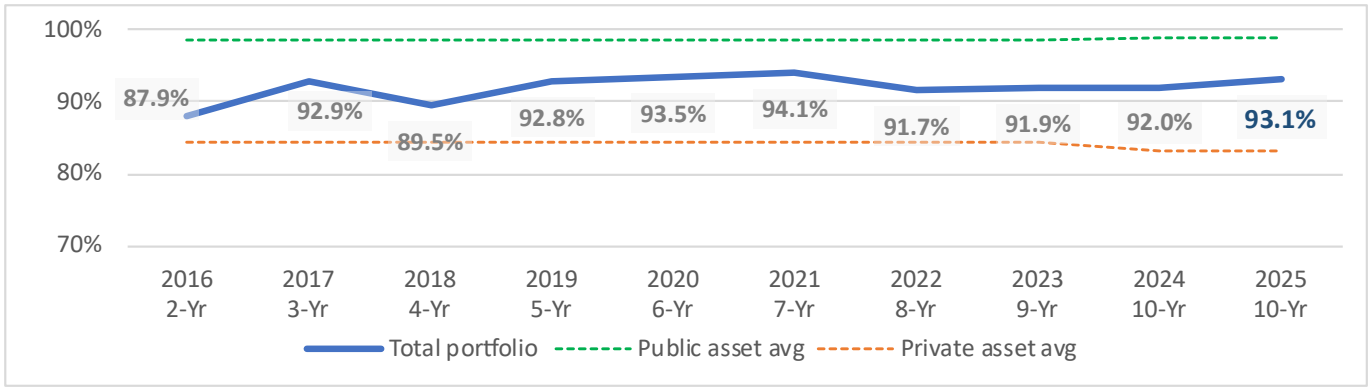
*** Columns will not add as expenses related to the cash/liquidity portfolios are included only in the Total Portfolio Allocation amounts*

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Capture Ratio Analysis

The Capture Ratio reflects the percentage of gross profits captured and reflected in the net returns over the ten-year period ending December 31, 2025. CalSTRS captured 93.1% of the gross dollars earned over the last ten years, slightly up from the prior ten-year figure.

10-Year Period *Ending December 31, 2025*		2025 Target Weights	Costs*	Gross Return (Time Weighted)	Net Return (Time Weighted)	Capture Ratio
Total Portfolio			17,506	9.14%	8.99%	**93.1%**
Growth	Global Equity	39%	1,243	12.10%	11.98%	**99.1%**
	Private Equity	14%	8,155	13.44%	13.44%	**83.2%**
Real Assets	Real Estate	15%	4,594	5.86%	5.32%	**77.3%**
	Inflation Sensitive	7%	638	8.78%	8.76%	**93.9%**
Diversifying	Fixed Income	13%	118	2.67%	2.64%	**98.7%**
	Risk Mitigating Strategies	10%	1,908	2.09%	2.06%	**78.4%**



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COST EFFICIENCY + LONG-TERM PERFORMANCE

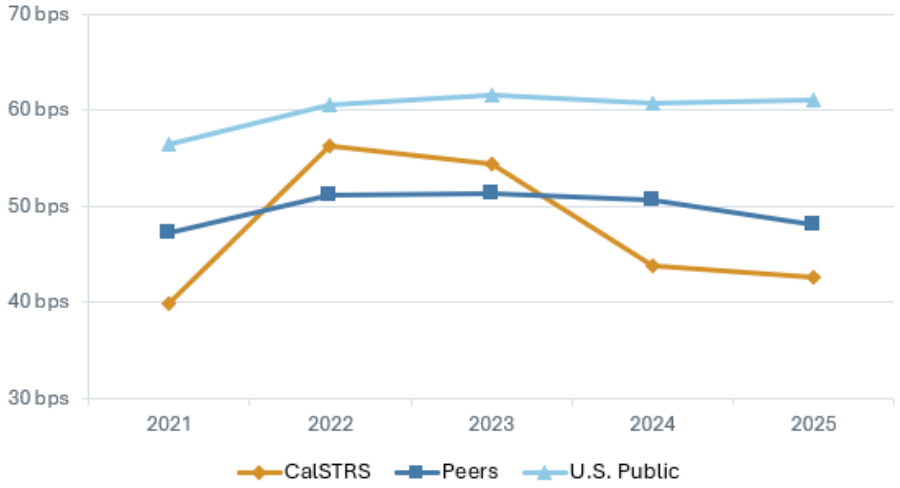
Lower cost. Stronger long-term outcomes.

42.7 bps
2025 total investment cost
5.4 bps below peer average

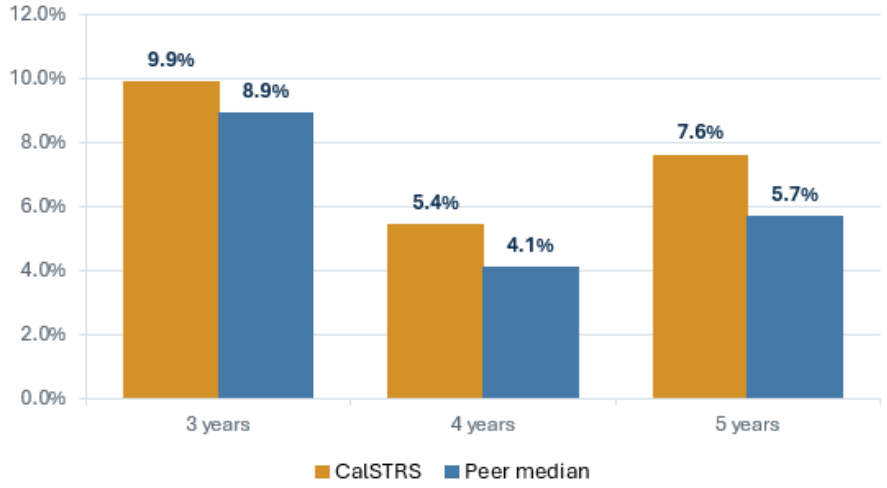
7.6%
5-year net total return
1.9 percentage points above median

92nd %ile
5-year peer ranking
Among the strongest long-term results

Cost advantage widened



Strong net performance results across periods



Take Aways

2025 costs sit below both comparison groups, while 5-year net return ranks near the top of peers

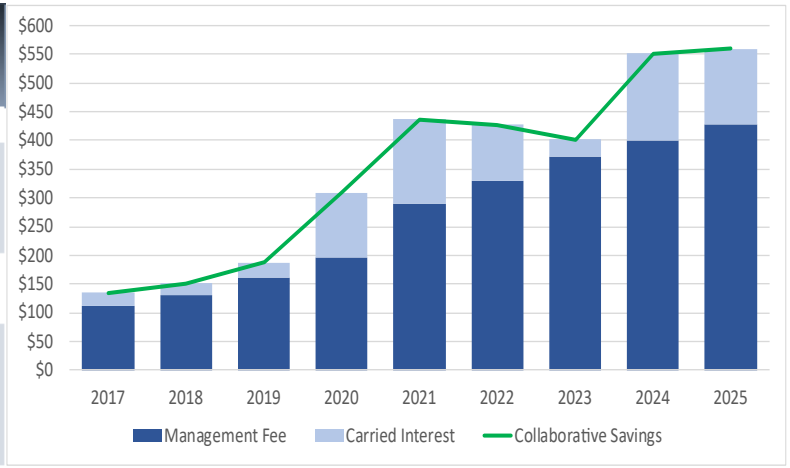
Cost discipline is reinforcing, not constraining, long-term outcomes

** Based on CEM Benchmarking Inc. 2025 Investment Benchmark Analysis: 35 U.S. Public Funds and 14 Global Peer Funds excluding transaction costs and carried interest.*

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Collaborative Savings

Asset Class		Net Dollars Earned	Collaborative Dollars Saved	2025 Return	Return with Savings Removed	Excess Return Added
Total Portfolio		45,283	559	13.01%	12.93%	0.09%
Growth	Global Equity	30,911	13	22.83%	22.82%	0.01%
	Private Equity	6,057	258	11.46%	10.97%	0.49%
	SISS	126	19	1.33%	1.14%	0.20%
Real Assets	Real Estate	306	121	0.66%	0.40%	0.26%
	Inflation Sensitive	2,592	59	10.63%	10.39%	0.24%
Diversifying	Fixed Income	3,364	67	7.71%	7.55%	0.15%
	RMS	1,325	5	4.54%	4.52%	0.02%
	Collaborative Strategies	349	16	8.01%	7.65%	0.36%



($ millions)	2017	2018	2019	2020	2021	2022	2023	2024	2025	Total 9 Yr Savings
Collaborative Savings	134.4	150.6	187.2	308.9	437.0	428.0	401.3	551.8	559.4	$3.16B
Management Fee	110.8	130.2	161.4	195.3	290.5	330.0	371.0	400.7	428.6	
Carried Interest	23.6	20.3	25.8	113.5	146.4	98.0	30.3	151.1	130.8	
Component Count	109	135	166	200	320	365	409	412	459	

The total cost savings for 2025 were $559.4 million, slightly up from the previous year. Management fee savings increased while carried interest decreased.

Co-investments overall contribute greater than half of the annual savings, due to the reduced fee and carried interest structure. The savings will increase or decrease variably over time based significantly on whether private asset profits were realized in a given year. The table below outlines the savings per asset class and investment type over the last 5 years.

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Rolling 5-Year Collaborative Model Savings *(per Asset Class and Investment Type)*

($ Millions) Asset Class	2025		2024		2023		2022		2021	
	Manager Fee	Carried Interest	Manager Fee	Carried Interest	Manager Fee	Carried Interest	Manager Fee	Carried Interest	Manager Fee	Carried Interest
Private Equity	**$160.2**	**$97.5**	**$154.0**	**$122.2**	**$149.7**	**$25.8**	**$120.8**	**$64.7**	**$97.8**	**$90.5**
Co-Investments	$160.2	$97.5	$154.0	$122.2	$149.7	$25.8	$120.8	$64.7	$97.8	$90.5
Real Estate	**$101.4**	**$19.7**	**$113.0**	**$19.2**	**$105.4**	**$2.1**	**$72.8**	**$14.0**	**$62.3**	**$17.9**
Co-Investments	$8.4	$1.7	$8.2	$2.2	$10.8	$0.5	$8.2	$6.2	$9.9	$3.4
Joint Ventures	$51.1	$8.5	$49.0	$17.0	$46.9	$1.7	$32.8	$7.8	$28.9	$11.6
Separate Accounts	$41.9	$9.5	$55.7	$0.0	$47.6	$0.0	$31.8	$0.0	$23.5	$2.9
Inflation Sensitive	**$47.3**	**$11.6**	**$40.0**	**$9.3**	**$30.3**	**$1.7**	**$35.6**	**$18.8**	**$36.6**	**$37.5**
Co-Investments	$28.8	$11.5	$20.7	$9.3	$20.5	$0.4	$15.6	$18.7	$15.6	$0.0
Internally Managed	$3.2	$0.0	$2.7	$0.0	$2.4	$0.0	$1.9	$0.0	$1.3	$0.0
Managed Accounts	$15.3	$0.1	$16.5	$0.1	$7.3	$1.3	$18.0	$0.1	$19.8	$37.5
SISS	**$18.5**	**$0.1**	**$13.2**	**$0.0**	**$1.9**	**$0.0**	**$0.4**	**$0.0**	**$0.3**	**$0.0**
Co-Investments	$18.5	$0.1	$13.2	$0.0	$1.9	$0.0	$0.4	$0.0	$0.3	$0.0
Fixed Income	**$66.0**	**$1.3**	**$37.2**	**$0.0**	**$38.2**	**$0.0**	**$59.4**	**$0.0**	**$59.4**	**$0.0**
Co-Investments	$19.6	$1.3	$0.2	$0.0						
Internally Managed	$46.4	$0.0	$36.9	$0.0	$38.2	$0.0	$59.4	$0.0	$59.4	$0.0
Global Equity	**$13.0**	**$0.0**	**$12.3**	**$0.0**	**$15.0**	**$0.0**	**$20.8**	**$0.0**	**$21.0**	**$0.0**
Internally Managed	$12.8	$0.0	$11.6	$0.0	$15.0	$0.0	$20.8	$0.0	$21.0	$0.0
Collaborative Strategies	**$15.7**	**$0.0**	**$25.0**	**$0.0**	**$24.4**	**$0.1**	**$11.6**	**$0.0**	**$4.2**	**$0.0**
Co-Investments	$15.7	$0.0	$25.0	$0.0	$24.4	$0.1	$11.6	$0.0	$4.2	$0.0
RMS	**$4.5**	**$0.0**	**$4.5**	**$0.0**	**$4.5**	**$0.0**	**$6.0**	**$0.0**	**$6.3**	**$0.0**
Internally Managed	$4.5	$0.0	$4.5	$0.0	$4.5	$0.0	$6.0	$0.0	$6.3	$0.0
Rebate Agreements	**$2.0**	**$0.5**	**$1.6**	**$0.4**	**$1.8**	**$0.5**	**$2.5**	**$0.5**	**$2.7**	**$0.5**
Total Savings	**$428.6**	**$130.8**	**$400.7**	**$151.1**	**$371.0**	**$30.3**	**$330.0**	**$98.0**	**$290.5**	**$146.4**