

## MEMORANDUM

**TO:** Investment Committee, CalSTRS  
**FROM:** Stephen McCourt, Allan Emkin, Mika Malone, Stephanie Sorg, Meketa Investment Group  
**CC:** Chris Ailman  
**DATE:** March 6, 2024  
**RE:** Opinion Memo – Credit Enhancement Policy Decommission

---

### Summary and Recommendation

In January 2024, Staff provided Meketa with a recommendation for the Investment Committee to decommission the Credit Enhancement Program Policy. This was the result of Staff refreshing the governance structure and evaluating various policies to diagnose relevance and impact, while also identifying policies that are either redundant and/or out-of-date. The Credit Enhancement Program suspended new underwriting commitments in 2013 and terminated the last commitment in 2017, thus in 2024 the policy is deemed out-of-date. ***After independently evaluating the proposed change to the governance structure, Meketa Investment Group support the Staff's recommendation to decommission the Credit Enhancement Program Policy.***

### Discussion

When established in July 2008, the primary objective of the Credit Enhancement Program was to emphasize earning fee income through the enhancement of bond transactions (municipal or private activity bonds which have a public purpose [e.g., multi-family housing, industrial development, pollution control]). Credit Enhancement was an off-balance sheet activity that did not affect the CalSTRS asset allocation and possessed a low-risk opportunity set.

The decision was made in 2013 to suspend the underwriting of new transactions and wind down the Credit Enhancement Program based on a cost-benefit analysis that resulted in the reallocation of Staff resources to other higher return opportunities. The market environment for credit enhancement transactions had become more competitive, resulting in lower fee income to CalSTRS, while the associated risk assumed with these transactions had remained flat or increased due to ongoing economic challenges experienced by municipalities in the wake of the Great Financial Crisis. Since the last commitment in this program was terminated in 2017 there is no longer a need to maintain the Credit Enhancement Program Policy within the governance structure.

Meketa has independently reviewed the proposed recommendation, and supports Staff's suggestion to decommission the Credit Enhancement Program Policy.

If you have any questions, please feel free to contact us at (760) 795-3450.

SBS/SPM/MLM/jls