CALSTRS®

Investment Committee
Item Number 3 – Open Session

Subject: Investment Policy Statement: Strategic Asset Allocation Targets – Step 2 – First Reading

Presenter(s): Geraldine Jimenez

Item Type: Information

Date & Time: May 1, 2024 – 20 minutes

  Attachment(s): Attachment 1 – Meketa Opinion Memo

Attachment 2 – Investment Policy Statement – Redline Version

Attachment 3 – Investment Policy Statement – Clean Version

PowerPoint(s): None

Item Purpose

The Investment Committee conducts an Asset Liability Management (ALM) study every four years. The 2023 study was completed at the May 2023 meeting when the Investment Committee selected new long-term Strategic Asset Allocation (SAA) Targets. In July 2023 the Investment Committee approved within its Investment Policy Statement (IPS), formerly known as the Investment Policy and Management Plan, the new SAA targets along with moving toward the first step in an implementation plan. This item is a first reading of the policy update moving toward the second step the implementation plan effective July 1, 2024.

Recommendation

Staff and the consultant, Meketa, recommend the Investment Committee approve the shift to the second step in the SAA implementation plan effective as of July 1, 2024 as shown in table 1 below. The specific changes in the second step are:

- Increasing the Fixed Income target weight by 1%.
- Decreasing the Public Equity target weight by 1%.

This recommendation supports the shift to the second step in the SAA moving CalSTRS towards its long-term targets. The shift between Public Equity and Fixed Income also supports the direct lending strategy recently approved in the Fixed Income Policy. Please see Attachment 2 – the red line version of the IPS and Attachment 3 – the clean version of the IPS.

Background

Asset Allocation and Implementation Plan

The Investment Committee (Committee) approved the new long-term strategic asset allocation targets at the May 2023 meeting and updated the Policy at the July 2023 meeting with an implementation plan shifting the portfolio towards the new long-term targets over a series of steps. CalSTRS has learned from experience that setting a rigid timeline is inefficient as investment opportunities ebb and flow and may not follow a cyclical time frame. Therefore, the implementation plan is expressed in "Steps" toward the long-term targets.

Today staff is recommending the Committee review the IPS allowing for the second step towards the new long-term strategic allocation targets. Any move to the subsequent steps will be brought forward to the Committee for approval at the appropriate time.

The specific changes are increasing Fixed Income target weight from 12% to 13% to support direct lending, while decreasing Public Equity by 1% to fund this increase.

The Table 1 below shows the recommended Implementation Plan and the second step in the process.

Table 1: The Implementation Plan

Strategic Class	Asset class/strategy	Current Target	Step 1 Effective date 7/1/23	Step 2 Effective date 7/1/24	Step 3 TBD	Step 4 TBD	Long-term target
Economic growth	Public Equity	40%	41%	40%	39%	38%	38%
	Private Equity	14%	14%	14%	14%	14%	14%
Real assets	Real Estate	15%	15%	15%	15%	15%	15%
	Inflation Sensitive	6%	6%	6%	6%	7%	7%
Diversifying	Innovative Strategies	0%	0%	0%	0%	0%	0%
	Risk Mitigating Strategies	10%	10%	10%	10%	10%	10%
	Fixed Income	13%	12%	13%	14%	14%	14%
	Cash/Liquidity	2%	2%	2%	2%	2%	2%
Total asset allocation		100%	100%	100%	100%	100%	100%

Strategic Plan Linkage: Goal 1 of the strategic plan. Trusted stewards – Ensuring a well-governed, financially sound trust fund.

Board Policy Linkage: Investment Policy Statement - March 2024 (calstrs.com)

Optional Reference Material: *(prior board items, supplemental educational materials, etc.)*

May 4, 2023 Investment Committee: 2023 ALM; 2023 ALM Study Discussion

July 7, 2022 Investment Committee: Investment Policy and Management Plan Revision - Asset Allocation - First Reading

March 6, 2024 Investment Committee: Fixed Income Policy