

CALSTRS

CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

**COLLABORATIVE STRATEGIES
PORTFOLIO
POLICY**

INVESTMENT BRANCH
MARCH 2024

COLLABORATIVE STRATEGIES PORTFOLIO POLICY

Preamble

The California State Teacher’s Retirement System, through action of the Teachers’ Retirement Board Investment Committee, has established Investment Beliefs for the organization. These beliefs provide a foundational framework for CalSTRS investment decision-makers to prudently invest in a manner that reflects CalSTRS’ views of the global investment markets and its vision for participating in these markets to accomplish our fiduciary goal.

Executive Summary

In accordance with the CalSTRS Investment Policy Statement (IPS), the California State Teachers’ Retirement System Board (Board) has established a Collaborative Strategies portfolio (Portfolio). The purpose of this Portfolio is two-fold:

- 1) Incubate and grow innovative investment strategies (“Innovation sleeve”),
- 2) Expand and diversify the CalSTRS portfolio with unique investment opportunities (“Opportunities sleeve”).

This pool of capital will allow staff flexibility to invest in and create value-added investments aligned with the CalSTRS Collaborative Model, often with increased control and lower fees. The Portfolio helps to achieve three key goals aligned with Collaborative Model investments:

- 1) Leveraging our partners,
- 2) Advancing a ‘one fund’ advantage,
- 3) Capitalizing on our scale.

CalSTRS believes that environmental, social, and governance (ESG) issues can affect the performance of our investments. As a result, CalSTRS’ Investment Policy for Mitigating Environmental, Social, and Governance Risks has been developed as a tool that both internal and external investment managers are expected to use to assess the impact of ESG risk when making an investment on behalf of CalSTRS.

The internal investment staff and independent fiduciaries operate under the direction of the Chief Investment Officer (CIO). Review of the Portfolio will fall under the Board’s general consultant (Consultant), who reports directly to the Investment Committee.

Policies approved by the CalSTRS’ Investment Committee cannot be altered without explicit direction from the Board.

CalSTRS’ Collaborative Strategies Portfolio assets (Assets) are to be invested, administered, and managed in a prudent manner for the sole benefit of its participants and beneficiaries, in accordance with the California Constitution, the California State Teachers’ Retirement Law, and other applicable statutes. No investment instrument or activity prohibited by the IPS shall be authorized for the Portfolio. These policies are designed to set boundaries that will ensure prudence and care

in the management of the Assets while allowing enough flexibility to capture investment opportunities.

Section 1: Governance and Oversight

1.1 Delegation of Authority

The Chief Investment Officer (CIO), or designee, has the authority to manage the Collaborative Strategies Portfolio. Monitoring and oversight of the implementation of the Portfolio shall come under the purview of the Investment Senior Management Team.

All investments are subject to appropriate due diligence as defined in the Collaborative Strategies procedures and will only be approved following an affirmative recommendation from the Investment Senior Management Team and an Independent Fiduciary.

The CIO has been delegated public markets trading limit authorities and outgoing cash authorities for private assets outlined in the Investment Policy Statement (IPS). The CIO may further delegate these limits to staff.

The CIO or designee has the authority to approve commitments up to one percent of the net total fund assets at the time of commitment.

1.2 Allocation Ranges

| Strategy | Limit |
|--|---|
| Overall allocation to Collaborative Strategies Portfolio | 0% - 5% of the CalSTRS Total Portfolio Net Asset Value at month end |
| Single investment allocation | 1.0% of the CalSTRS Total Portfolio Net Asset Value at month end, calculated using the total commitments as of the investment decision date |

1.3 Program Structure

The Collaborative Strategies Portfolio may invest in both public and private assets. The Portfolio rests on two premises for allocating capital with the goal of adding flexibility for the investment team: 1. to pursue new and/or compelling strategies and investments that may be beyond the specific frameworks or expertise of existing asset classes, and 2. to capture investments that fall in between asset classes, across asset classes, and/or traverse private markets to public markets.

1.3.1 Innovation Sleeve

The primary objective of the Innovation sleeve is to identify, research, and incubate strategies that CalSTRS feels can grow into a meaningful part of the CalSTRS Total Portfolio. The Innovation sleeve is designed to invest in and grow compelling strategies that are currently not included in

existing asset class strategies. Staff will oversee the assets providing risk/return analysis, pacing and cash flow projections and adherence to program goals. After a three-year holding period, staff will decide if a strategy should be: 1) graduated to one of the traditional asset classes; 2) dedicated to a new asset class; 3) remain in the Collaborative Strategies Portfolio with the same or additional allocation; or 4) be terminated and liquidated over time.

1.3.2 Opportunities Sleeve

The purpose of the Opportunities sleeve is to provide a process and place for CalSTRS to invest in unique investment opportunities that do not fit into the existing asset classes due to differing risk/return projections, duration, allocation restraints or differing asset level diversification goals. In addition, the Opportunities sleeve is designed to be a flexible pool of capital that can span multiple asset classes, traverse the spectrum of private markets and public markets, and are larger in scale than typical Innovation deals. Staff will oversee the assets providing risk/return analysis, pacing and cash flow projections and adhere to program goals.

1.4 Permissible Investment Types

For CalSTRS to meet its objectives in the Portfolio, staff will select appropriate investment vehicles to maximize return, control costs, mitigate risk, and maintain accountability. The Portfolio may invest in both public and private assets using approved investment types within the asset class portfolios.

1.5 Investment Reporting

The following reports will be prepared and presented to the Board, unless otherwise stated, in order to facilitate visibility of monitoring and reporting according to this document:

- i. **Semi-Annual Review with Meketa** – prepared by staff
- ii. **Performance Report** – prepared by master custodian/consultant (semi-annually)
- iii. **Substantive Activities Report** – prepared by staff

1.6 Policy Monitoring and Modification

Investment Compliance provides investment policy oversight and will report to the Investment Committee policy exceptions if they occur.

The Collaborative Strategies Portfolio Investment Policy shall be reviewed periodically to determine if modifications are necessary and/or desirable. Any changes shall be subject to the approval of the Investment Committee.

[Link to Investment Terms Glossary at CalSTRS.com](#)

Section 2: Investment Objectives and Measurements

2.1 Program Objectives

This pool of capital, which ranges from 0-5% of the overall CalSTRS portfolio, is designed to add flexibility for the investment team to pursue new and/or compelling strategies and investments that may be beyond the specific frameworks or expertise of existing asset classes.

- Objective 1: Innovation sleeve: Explore, fund, incubate and manage a specified amount of capital in innovative strategies.
- Objective 2: Opportunities sleeve: Expand CalSTRS ability to invest in specific, unique investment opportunities.
- Over the long-term, the Portfolio seeks to produce a positive real return greater than the CalSTRS assumed actuarial rate of return while incubating new investment strategies and/or groups of assets for potential growth within the CalSTRS Total Portfolio.

2.2 Program Benchmarks

Given the specialized nature of the Collaborative Strategies Portfolio, individual portfolios are measured based on the investable universe as defined in the investment management agreement. This may include absolute return objectives, broad market indexes, or customized benchmarks. The overall Collaborative Strategies Portfolio shall have a blended performance benchmark comprised of the weightings for each of the strategies multiplied by their respective benchmarks.

For periods of ten years or greater, the Portfolio shall meet the assumed actuarial rate of return for the CalSTRS Total Portfolio.

Policy created, replaced Innovation Portfolio Policy, March 6, 2024