

MEMORANDUM

TO: Investment Committee, CalSTRS
FROM: Stephen McCourt, Allan Emkin, Mika Malone, Stephanie Sorg, Meketa Investment Group
CC: Chris Ailman
DATE: May 1, 2024
RE: Opinion Memo – Special Mandate Policy Revision

Summary and Recommendation

In March 2024, Staff provided Meketa with a policy recommendation for the Investment Committee to consider approving administrative changes and updates for the reporting section of the Special Mandate Policy. This was the result of Staff’s review of the governance structure and the evaluation of the Special Mandate Policy compared to other CalSTRS investment policies. The goal was to ensure relevance and, when appropriate, simplification for the benefit of best execution. The proposed changes to the reporting section of the policy align and simplify reporting frequency, that otherwise is currently complicated and complex. The changes, along with immaterial administrative updates, streamline reporting oversight without impacting the intent and level of transparency of the policy. ***After independently evaluating the proposed change to the Special Mandate Policy, Meketa Investment Group supports the Staff’s recommendation to amend the Policy.***

Discussion

CalSTRS has a history of considering specialized mandates/investment strategies dating back to the 1980s. In December 2015, the CalSTRS Board expressed the desire to formulate an official process for Board Members to refer and approve Special Mandates. In response, a formal Special Mandate Policy was adopted in June 2016. “Special Mandates” are defined as discrete investment strategies promoted by Board Members that include, but are not limited to, environmental, social, governance (“ESG”); in-state investments; or other factors which are intended to have a positive or neutral impact on economic performance of the fund over the long-term. Current special mandates include Developing Manager Program (Global Equity), Clean Tech Investment (Private Equity), and Proactive Program (Private Equity).

In accordance with the current Special Mandate policy, the periodic review of the various special mandates includes a regular review of the original expected economic risks and opportunities and any subsequent material developments since approval of the mandate. As such, the current reporting requires that every three years, on the anniversary of the initial funding, the general consultant will prepare and present a review of the special mandate. Further, every six years, on the anniversary of the initial funding of the mandate, the Investment Committee must affirmatively vote to continue the special mandate. The item of note within these requirements is the stipulation that the review must occur on the anniversary of the initial funding of the respective mandate. Upon reviewing the initial



funding date for each of these mandates, all three were funded in various months and years (Developing Manager Program – August 2004, Clean Tech Investment – May 2005, Proactive Program – UR March 2003/ NNG May 2005). In addition to the complexities around monitoring and tracking the individualized reporting timelines, the inconsistency in report date creates the risk of inequitable performance evaluations.

The amended reporting section of the Special Mandate policy seeks to mitigate this complexity by aligning the review period for all special mandates. Specifically, it would state:

- Annually, the CIO presents the risk and cost adjusted performance of all special mandates relative to the respective asset classes.
- Every three years, the general consultant will prepare and present a review of all special mandates.
- Every six years, the Investment Committee will affirmatively vote to continue the special mandates.

Meketa has independently reviewed the proposed first reading of the proposed Special Mandates Policy changes and concurs with Staff's recommendations regarding updates to the reporting section and administrative changes.

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

SBS/SPM/AE/jls