

MEMORANDUM

TO: Investment Committee, CalSTRS
FROM: Stephen McCourt, Allan Emkin, Mika Malone, Stephanie Sorg, Meketa Investment Group
CC: Chris Ailman
DATE: November 1, 2023
RE: Opinion Memo - Policy on Portfolio Restrictions

Summary and Recommendation

In October 2023, Staff provided Meketa with draft language for the first reading of the proposed Investment Policy on Portfolio Restrictions (“IPPR”). The IPPR represents the modernization of CalSTRS’ existing Divestment Policy, and has been created as part of CalSTRS’ ongoing efforts to update and streamline its investment policies. Meketa provided input to Investment Staff and internal/external legal counsel during the drafting of the IPPR. ***After independently evaluating the proposed policy, Meketa Investment Group concurs with Staff’s recommendation to adopt the IPPR as a successor policy to the existing Divestment Policy.***

Discussion

CalSTRS’ Divestment Policy was created 14 years ago as a policy to provide direction and transparency regarding CalSTRS’ approach to issues concerning engagement and divestment within the investment portfolio. It provided a thoughtful process for the Investment Committee to undertake, consistent with its fiduciary responsibilities.

As time has passed, Staff identified parts of the Divestment Policy that, in their opinion, merited updating. Importantly, the current Divestment Policy is focused on engagement having a binary outcome – success or failure. In practice, engagement is now viewed more appropriately as a risk mitigation tool, part of the prudent management of the CalSTRS investment portfolio. Like the Divestment Policy, the IPPR appropriately acknowledges that there could be instances where restricting the portfolio is prudent, but only after a thorough process of evaluation. Unlike the Divestment Policy, the IPPR does not require the Committee to determine a binary outcome of engagement before conducting this evaluation.

Meketa concurs with Staff that the modernized IPPR more closely characterizes the practices around divestment and engagement decisions, reinforces fiduciary responsibilities in the decision-making process, and clarifies the non-binary nature of engagement practices generally.

Meketa has independently reviewed the proposed first reading of the proposed IPPR and concurs with Staff’s recommendations.

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

SPM/AE/jls