



# Investment Committee

## Item Number 4 – Open Session

**Subject:** Investment Policy & Management Plan Revision – Asset Allocation –  
First Reading

**Presenter(s):** Geraldine Jimenez

**Item Type:** Action

**Date & Time:** January 27, 2022 – 20 minutes

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**Attachment(s):** Attachment 1 – Meketa Investment Group Concurrence Memo  
Attachment 2 – Investment Policy and Management Plan –  
Redline Version  
Attachment 3 – Investment Policy and Management Plan – Clean  
Version

**PowerPoint(s):** None

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### **POLICY**

The Trust Fund's asset allocation is governed by the [CalSTRS Investment Policy and Management Plan](#) (IPMP) Teachers' Retirement Board Policy Manual, Section 1000, page A-1. As the overarching policy document for the Investment Branch, the IPMP begins with CalSTRS Investments Beliefs then presents the framework for meeting CalSTRS' objectives including the current Strategic Asset Allocation Long Term Policy Targets.

### **PURPOSE AND HISTORY**

The purpose of this policy change is to adjust the asset class weightings to continue moving toward the long-term strategic asset allocation weights.

The Investment Committee conducts an Asset Liability Management (ALM) study every four years. The 2019 study was completed at the November meeting when the Investment Committee selected new long-term asset allocation targets. Those new long-term targets and the Implementation Plan with Step shifts to the portfolio were adopted into the Board's Investment Policy and Management Plan at the January 2020 meeting. This item is being presented to shift the Asset Allocation Targets and Policy Benchmark to a modified Third Step of the implementation plan.

If approved the changes would be effective as of January 1, 2022.

**BACKGROUND & DISCUSSION**

After the Committee approved the new long-term asset allocation targets at the January 2020 meeting, it included a course to shift from the January allocation to the new long-term target over a series of Steps. CalSTRS has learned from experience that setting a rigid timeline is inefficient as investment opportunities ebb and flow and do not follow a calendar time frame. Therefore, the implementation plan is expressed in “Steps” toward the long-term target. With the COVID-19 global pandemic, we have seen significant volatility on the global financial markets and rise in market valuations across the portfolio. The private market asset classes of Real Estate, Inflation Sensitive and Private Equity have grown to a larger percentage of the asset mix with Private Equity growing the fastest due to attractive opportunities during this past year.

As a result, staff is recommending the Committee shift to a modified Step 3 in the Implementation Plan. The specific changes are:

- Private Equity target weight would rise by 2% to 13% which is faster than expected due to opportunities available over the last year. This step will put it at its long-term target.
- Inflation Sensitive will remain at its current target weight of 4% as opportunities were limited during the year.
- Public Equity will move down 2% to fund Private Equity.

The Table 2 below shows the recommended Implementation Plan and subsequent Steps in the process.

Table 2: The Implementation Plan

Strategic Class	Asset Class/Strategy	Effective Date	Effective Date	Effective Date	Long-Term Target
		7/1/2020 Step 1	7/1/2021 Step 2	1/1/2022 Step 3	
Economic Growth	Public Equity	49%	47%	45%	42%
	Private Equity	10%	11%	13%	13%
Real Assets	Real Estate	14%	14%	14%	15%
	Inflation Sensitive	3%	4%	4%	6%
Diversifying	Innovative Strategies	0%	0%	0%	0%
	Risk Mitigating Strategies	9%	10%	10%	10%
	Fixed Income	13%	12%	12%	12%
	Cash / Liquidity	2%	2%	2%	2%
<b>Total Asset Allocation</b>		<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Staff and the consultant regularly monitor the asset allocation and will continue making recommended shifts to the Policy Targets at quarter ends where appropriate. The Total Fund benchmark will adjust to align with the new asset allocation weights for performance measurement purposes since it is comprised of each asset classes' custom benchmark, weighted by their respective targets. The Policy Targets will be refreshed as shown in Table 3 below with the next ALM study.

Table 3: Next ALM tentative study timeline

Approximate Timeline	ALM Research & Processes	Focus
2021	Consider enhancements to modeling & monitor industry/market trends	Liquidity modeling, new asset categories, inflation expectations, etc.
2022	Research Capital Market Assumptions	Review asset class & economic assumptions
2023	Formal ALM Review Process with the Board	Review & approve assumptions and portfolio options; formal adoption of new policy targets

### **RECOMMENDATION**

Staff and the consultant, Meketa, recommend the Investment Committee adopt the revised IPMP with allocation targets and implementation plan changes effective as of January 1, 2022. The specific changes are:

- Public Equity will decrease its allocation target by 2%.
- Private Equity will increase its allocation target by 2%.