# Investment Committee Semi-Annual Activity Report

4. Fixed Income

# FIXED INCOME SEMI-ANNUAL REPORT

## MARKET RISKS[1]

### As of 6/30/2022

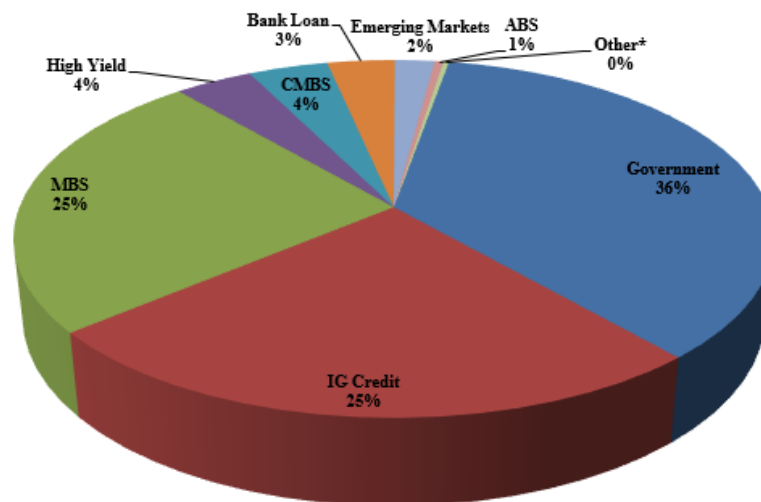| Indicator | 6/30/2022 | 12/31/2021 | Change | Risk / Valuation Level |
|---|---|---|---|---|
| Monetary Policy | 1.50 - 1.75% | 0 - 0.25% | 1.50% | Accommodative — Neutral — Restrictive (Neutral) |
| U.S. Unemployment Rate | 3.60% | 3.90% | -0.30% | Low — Moderate — High (Low) |
| 10 Yr. U.S. Treasury Yield (Interest Rate Risk) | 3.01% | 1.51% | 1.50% | Low — Moderate — High (Moderate) |
| Current Inflation (CPI) | 9.10% | 7.00% | 2.10% | Low — Moderate — High (High) |
| Cost of Corporate Credit (Spread over U.S. Treasury) | 1.43% | 0.87% | 0.56% | Cheap — Fair Value — Rich (Fair Value) |

[1] Current level compared to long-term averages

## CALSTRS SECTOR WEIGHTS

Assets Under Management $31.7 Billion

10.5% Allocation vs. Target of 12%



Pie chart — CALSTRS Sector Weights: Government 36%, IG Credit 25%, MBS 25%, High Yield 4%, CMBS 4%, Bank Loan 3%, Emerging Markets 2%, ABS 1%, Other* 0%
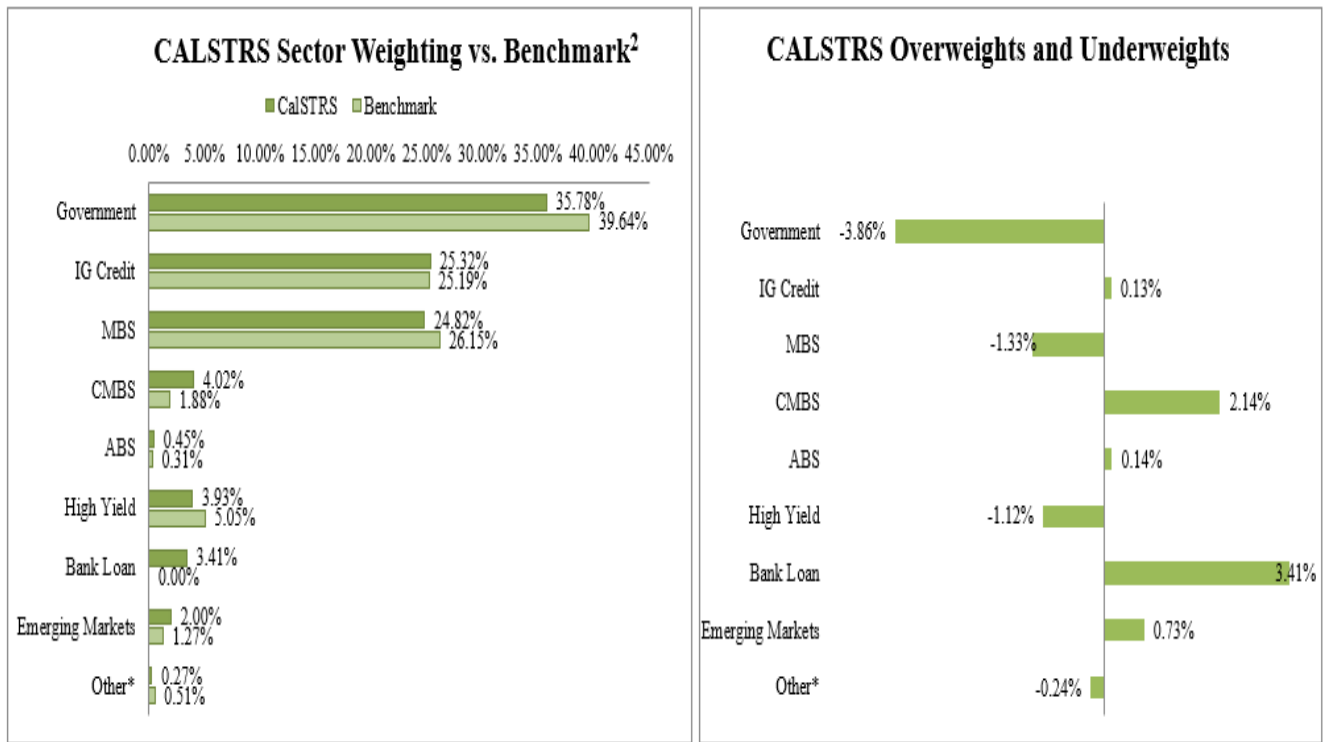
*Includes other investments such as International Sovereign Bonds, Derivatives and Cash

## ACTIVITY UPDATE

The Fixed Income portfolio represented 10.5% of the Total Fund as of June 30, 2022. The Fed pivoted aggressively to fight the hottest inflation in 40 years amid criticism they left monetary policy too accommodative for too long. They raised rates by 1.5% and forecast about 1.75% of further tightening in 2022. The Fed hikes stressed financial markets, as investors worried the Fed could trigger a recession. During the period, Fixed Income received $2.2 billion from the Total Fund and deployed assets to the Core portfolios. As equities sold off, Fixed Income raised $1 billion for the Total Fund from the Core and Core Plus portfolios. Lastly, the unit reduced IG Credit and increased MBS. The portfolio is underweight Treasuries while overweight Bank Loans and CMBS.

# FIXED INCOME SEMI-ANNUAL REPORT

## CALSTRS Sector Weighting vs. Benchmark[2]

■ CalSTRS  ■ Benchmark

0.00%  5.00%  10.00%  15.00%  20.00%  25.00%  30.00%  35.00%  40.00%  45.00%

| Sector | CalSTRS | Benchmark |
|---|---|---|
| Government | 35.78% | 39.64% |
| IG Credit | 25.32% | 25.19% |
| MBS | 24.82% | 26.15% |
| CMBS | 4.02% | 1.88% |
| ABS | 0.45% | 0.31% |
| High Yield | 3.93% | 5.05% |
| Bank Loan | 3.41% | 0.00% |
| Emerging Markets | 2.00% | 1.27% |
| Other* | 0.27% | 0.51% |

## CALSTRS Overweights and Underweights

| Sector | Value |
|---|---|
| Government | -3.86% |
| IG Credit | 0.13% |
| MBS | -1.33% |
| CMBS | 2.14% |
| ABS | 0.14% |
| High Yield | -1.12% |
| Bank Loan | 3.41% |
| Emerging Markets | 0.73% |
| Other* | -0.24% |

*[2]Benchmark: (95%) Bloomberg U.S. Aggregate Custom Index + (5%) Bloomberg U.S. High Yield 2% Issuer Capped Custom Index*

*Index Sector Weightings and Overweights/Underweights may have some rounding variations due to calculations by BlackRock Risk System*

## PERFORMANCE PEER GROUP COMPARISON

Legend:
- 5th Percentile
- 25th Percentile
- Median
- 75th Percentile
- 95th Percentile

| | 1 year | | 3 years | | 5 years | |
|---|---|---|---|---|---|---|
| | Return % | Rank | Return % | Rank | Return % | Rank |
| ▲ CalSTRS | -10.30 | 51 | -0.41 | 51 | 1.38 | 43 |
| ● Benchmark[2] | -10.39 | 55 | -0.86 | 90 | 0.95 | 89 |