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MEMORANDUM

TO: Investment Committee, CalSTRS
FROM: Stephen McCourt, Allan Emkin, Mika Malone, Eric White, Meketa Investment Group
CC: Christopher Ailman
DATE: January 27, 2022
RE: Concurrence Memo – Investment Policy and Management Plan Revisions

Summary & Recommendation

In December 2021, Staff provided Meketa with updated draft revision language for the Investment Policy and Management Plan (the "IPMP") to reflect the continued migration of CalSTRS to its long-term strategic asset allocation targets. Staff recommends migrating the interim target asset allocation to a slightly modified Step 3, the final interim step before the long-term asset allocation target is achieved. ***After independently evaluating Staff's proposed changes, Meketa concurs with Staff's proposed IPMP revisions.***

Discussion

In early 2020, after a comprehensive review of asset allocation considerations over the course of 2019, the Investment Committee approved a new long term strategic asset allocation for CalSTRS. To facilitate the implementation, the Committee adopted an implementation plan to migrate towards the new long term asset allocation targets over a reasonable period of time.

The long-term targets and the implementation plan, consisting of three interim asset allocation steps, were memorialized within the IPMP. The Committee approved Staff's recommendation to transition the interim asset allocation target to Step 1 on July 1, 2020, and to Step 2 on July 1, 2021. Staff is now recommending a migration to a modified Step 3, effective January 1, 2022. This third reallocation would be the final step before migrating to the approved long term target asset allocation.

The Committee has tasked Investment Staff to bring before the Committee recommendations when CalSTRS migrates from one Step to another Step in the implementation plan. Staff's decision to do so is based on a variety of factors, including CalSTRS' current asset allocation, current market conditions, the efficiency of trading certain asset classes, and costs, amongst many other considerations.

Staff is recommending that Step 3 be slightly modified, such that the target allocation to the inflation protected asset class remains at 4% (instead of moving to 5%), and the target allocation to private equity increase to 13%, the long-term target (instead of the anticipated 12% level at this step). Staff's rationale for this modification is that private equity investment and valuations have increased much more quickly than anticipated over the past year, allowing it to already achieve its long-term target.

In summary, and as expressed in Staff's write-up of the item, the move from Step 2 to the modified Step 3 in the Implementation Plan will involve a decrease in the public equity target from 47% to 45%, and an increase in the private equity target from 11% to 13%.

Meketa has reviewed the proposed changes in the IPMP can concurs with Staff's recommendations.

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

SPM/AE/jls