

## MEMORANDUM

Attachment 1  
Investment Committee- Item 6b  
July 7, 2022  
Page 1

**TO:** Investment Committee, CalSTRS  
**FROM:** Stephen McCourt, Allan Emkin, Mika Malone, Eric White, Stephanie Sorg,  
Meketa Investment Group  
**DATE:** July 7, 2022  
**RE:** Infrastructure Investment Policy Revisions

---

Meketa Investment Group (“Meketa”) has been asked by CalSTRS Investment Staff (“Staff”) to review the revised Infrastructure Investment Policy (the “Policy”). *Meketa has independently reviewed and assessed the proposed policy changes and, after dialogue with Staff, concurs with each of the changes recommended in the revised Policy presented to the Investment Committee.*

A brief summary of the significant policy revisions with Meketa’s comments are provided below, listed in the order that they appear, with section head noted, and page number(s) referencing the tracked-change version. A number of other proposed changes are minor clarifications or ministerial in nature and not explicitly addressed below.

- **Action:** Under **Strategic Objectives** (page M-3 to M-4), deleted the table titled “Infrastructure Portfolio Sub-Classifications” comprising descriptions and details relating to strategy, allocation, cash yield, real return targets, and infrastructure examples, with the intent to move these to guidelines and procedures and modify, as necessary, from time to time
  - **Comment:** Broad descriptions of strategy sub-classes (Core, Value-Added, Opportunistic, and Publicly Listed Assets) exist at the beginning of this section (page M-3). It is reasonable to move the more detailed information for each to guideline documents.
- **Action:** Under **Allocation** (page M-4 to M-5), modified the Long Term Allocation Ranges as follows: for Core, changed from “40% - 70%” to “30% - 70%”; and for Value-Added changed from “20% - 50%” to “20% - 60%”.
  - **Comment:** Decreasing the lower bound for Core and increasing the upper bound for Value-Added by 10% each is reasonable and appropriate given the pricing dynamics and risk-return profiles of the opportunities in the marketplace, including the stiff competition for Core assets and attractive strategies in the Value-Added segment.
- **Action:** Under **Portfolio Development** (page M-5), deleted language characterizing the Infrastructure Portfolio as a developing program as it is now mature.
  - **Comment:** This is reasonable and appropriate.

- **Action:** Under **Geographic Regions** (page M-5 to M-6), made the following three changes: (1) deleted “and Canada” to make the first-listed region just the “United States”, and for consistency the same change for the second region, making it “OECD ex-US”; (2) increased the upper limit for United States to 80% from 75% (an increase of 5%); and (3) deleted the example countries listed for each region.
- **Comment:** These changes are reasonable to simplify the geographic categories to better align them with the Portfolio’s US-based benchmark, acknowledge the US opportunity set, and reflect the evolving OECD community.
- **Action:** Under a new subsection **Direct Investments** (page M-8), added language defining Direct Investments, added explicit permission for the Portfolio to invest in them, and provided a description of process and governance items/considerations.
- **Comment:** Permitting Direct Investments is consistent with other asset classes.
- **Action:** Under **Risks** (page M-8 to M-9), deleted the list of potential risks to review in association with infrastructure investments, and added language affirming risks will be identified and reviewed during due diligence and the internal review process, with the intent to move the list to guidelines and procedures to consider as necessary and applicable.
- **Comment:** This change is reasonable and appropriate.
- **Action:** Under **Environmental Liability** (page M-10), deleted enumerated investment provisions and restrictions to make this section consistent with language recently adopted by the Board in the CalSTRS Real Estate Policy (2021), with the intent to move them to guidelines and procedures.
- **Comment:** This change aligns the Policy with those of other asset classes.
- **Action:** Under **Concentration Limits** (page M-10), increased the limit on exposure to a single investment manager from 20% to 25%.
- **Comment:** This modest increase is reasonable and appropriate to reflect and accommodate the maturing Portfolio and the benefits of continuing to partner with strong investment managers, which is also consistent with the Collaborative Model and with other asset classes.
- **Action:** Under **Discretionary Authority** (page M-10 to M-11), amended certain language guiding the approval decisions for infrastructure investments that are delegated to staff by adding references to, and limits for, Direct Investments relating to initial dollar commitment maximums, subsequent exposure (percentage) limits, and single asset limits.
- **Comment:** The changes are consistent with the addition of Direct Investments as an Eligible Ownership Vehicle.



- **Action:** Under Responsible Contractor Policies (page M-11 to M-12), added the statement that “CalSTRS requires its infrastructure managers to abide by the Responsible Contractor Policy on all applicable investments” and deleted details describing and governing such policies.
- **Comment:** The changes are consistent with language recently adopted by the Board in the CalSTRS Real Estate Policy (2021).
- **Action:** Under Monitoring and Reporting (page M-13), removed references to specific accounting standards; added that assets will be valued in accordance with “accounting industry best practices”; and deleted the description of Infrastructure Investment Selection standards.
- **Comment:** The changes around accounting language maintains alignment with best practices. The stricken standard language is not necessary as all CalSTRS investment units follow internal procedures common to all asset classes.
- **Action:** Exhibit 1, a Policy Implementation Flowchart, and the Glossary (page M-15 to M-19), were deleted, to be consistent with other policies, with the intent to incorporate Exhibit 1 into guidelines and procedures, and to make an Investment Terms Glossary covering all asset classes available at CalSTRS.com.
- **Comment:** These changes were recommended by the Compliance Unit and are reasonable and appropriate.

Meketa Investment Group does not have any concerns with the policy changes proposed by Staff.

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

LB/SPM/JC/jls