

MEMORANDUM

TO: Investment Committee, CalSTRS
FROM: Stephen McCourt, Allan Emkin, Stephanie Sorg, Mika Malone, Meketa Investment Group
CC: Christopher Ailman
DATE: May 1, 2024
RE: Opinion Memo – IPS Strategic Asset Allocation Targets Step 2

Summary and Recommendation

In March 2024, Staff provided Meketa with updated draft revision language for the Investment Policy Statement (“IPS”) to reflect the first migration of CalSTRS to its long-term strategic asset allocation targets. Specifically, Staff is recommending moving from Step 1 to Step 2 of the interim target asset allocation. ***After independently evaluating Staff’s proposed changes, Meketa concurs with Staff’s proposed IPS revisions.***

Discussion

In May 2023, the Investment Committee (“IC”) approved the new long-term strategic asset allocation targets, which was followed up in July 2023 with the IC’s approval of the updated policy (that reflected the adoption of the new long-term targets) and the migration plan to shift the portfolio to the new target allocation over time. Emulating the transition plan employed in the previous long-term strategic asset allocation process, Staff is recommending implementation steps that reflect planned shifts to the new targets over a reasonable time period. The transition timing toward the new targets may not follow a cyclical time frame due to a variety of factors, including CalSTRS’ current asset allocation, current market conditions, the efficiency of trading certain asset classes, and costs associated with the transition, amongst many other considerations. Based upon the status of these factors, Staff is recommending moving from Step 1 to Step 2 of the SAA implementation plan effective July 1, 2024. Specifically, Staff is recommending:

- Increasing the Fixed Income target weight by 1%
- Decreasing the Public Equity target weight by 1%

The shift from Public Equity to Fixed Income also supports the direct lending strategy recently approved in the Fixed Income Policy.



Summary of Transition to Step 2

	Step 1 (%)	Step 2 (%)	Change (%)	Long-Term Target (%)
Public Equity	41	40	-1	38
Private Equity	14	14	--	14
Real Estate	15	15	--	15
Inflation Sensitive	6	6	--	7
Innovative Strategies	0	0	--	0
Risk Mitigating Strategies	10	10	--	10
Fixed Income	12	13	+1	14
Cash/Liquidity	2	2	--	2

Meketa has reviewed the proposed changes in the IPS and concurs with Staff's recommendations.

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

SBS/AE/KM/jls