

# INVESTMENT COMMITTEE **PORTFOLIO RISK REPORT**



May 2024

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# Investment portfolio as of February 29, 2024

Chart 1. Portfolio value

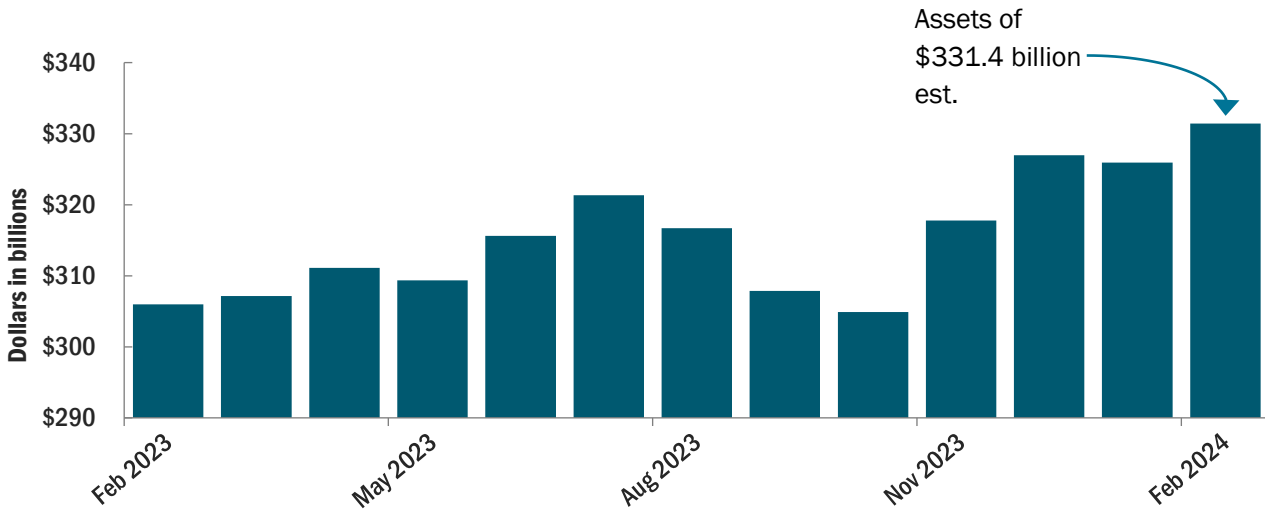


Chart 2. Asset allocation<sup>1</sup>

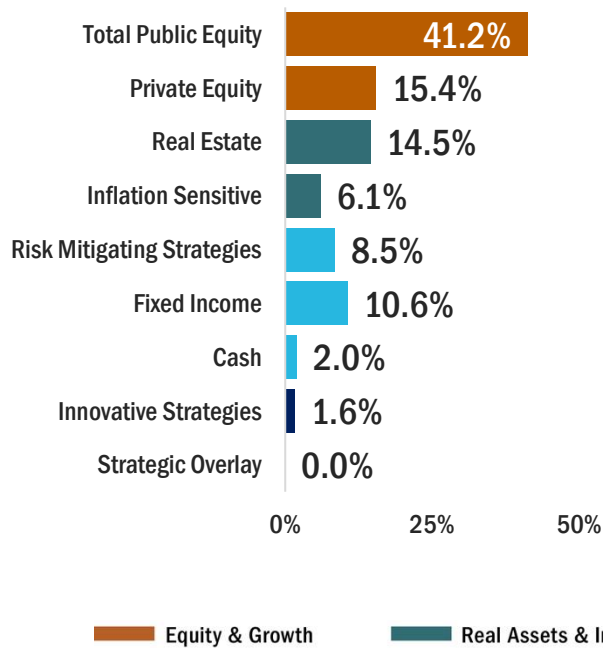
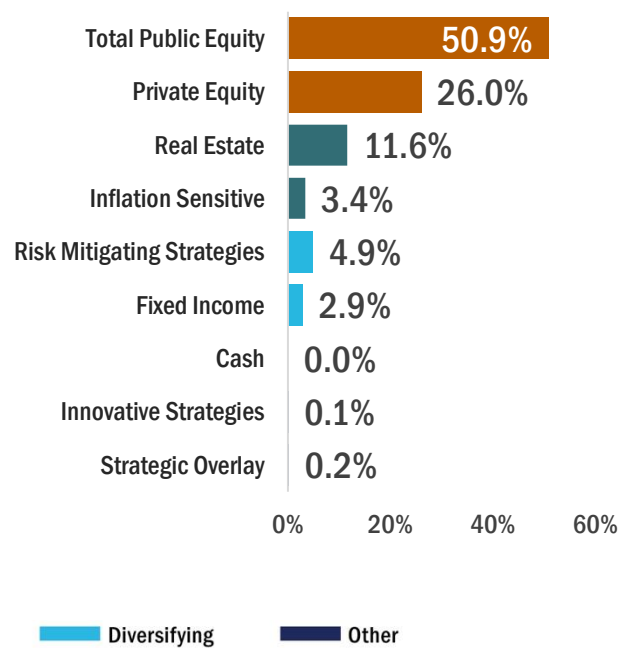


Chart 3. Portfolio risk<sup>1</sup>

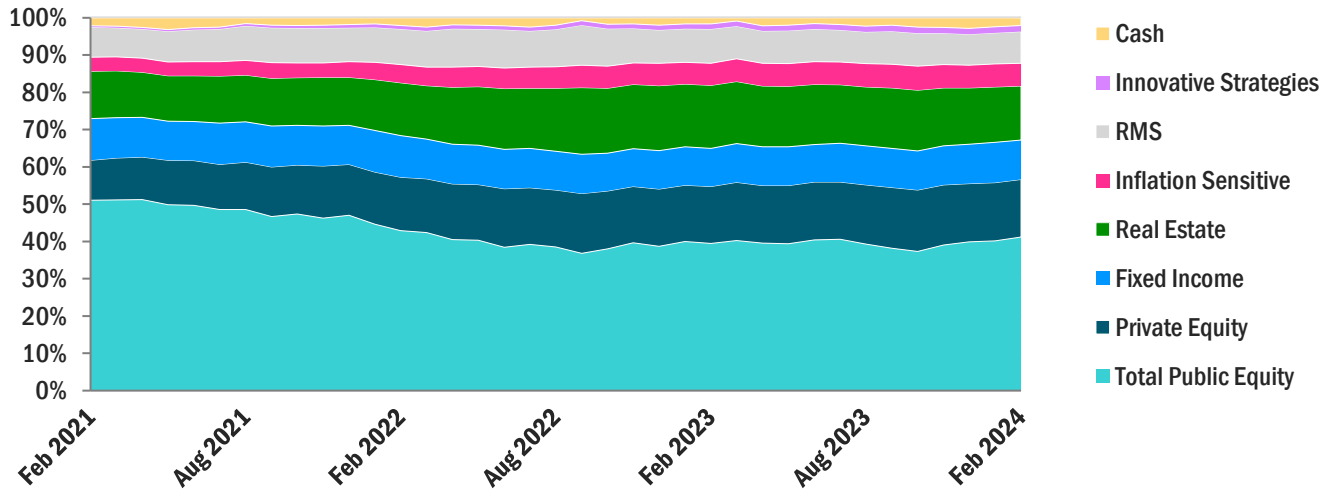


<sup>1</sup> Total Public Equity includes the following sub-units: Global Equity, SISS and Innovation GE. Strategic Overlay includes Currency and Derivatives Overlay.

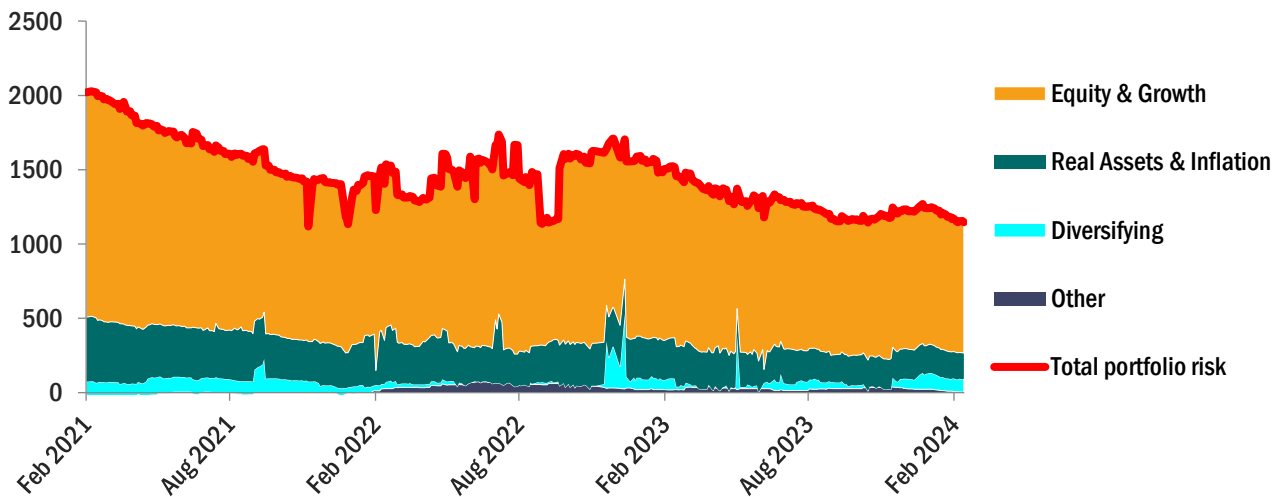
# Total Fund risk and asset allocation as of February 29, 2024

The Risk team utilizes the BlackRock Aladdin risk management system for the total plan portfolio. According to the BlackRock risk model, approximately 51% of the total risk in the CalSTRS Investment Portfolio comes from Public Equity, versus an approximately 41% asset weight. Public Equity risk and Private Equity risk combined now comprise about 77% of portfolio risk. Portfolio risk increased significantly due to spiked market volatility in 2020 and it continues to decrease from its peak.

**Chart 4. Asset allocation over the past three years (monthly)**



**Chart 5. Sources of portfolio risk<sup>1</sup>**

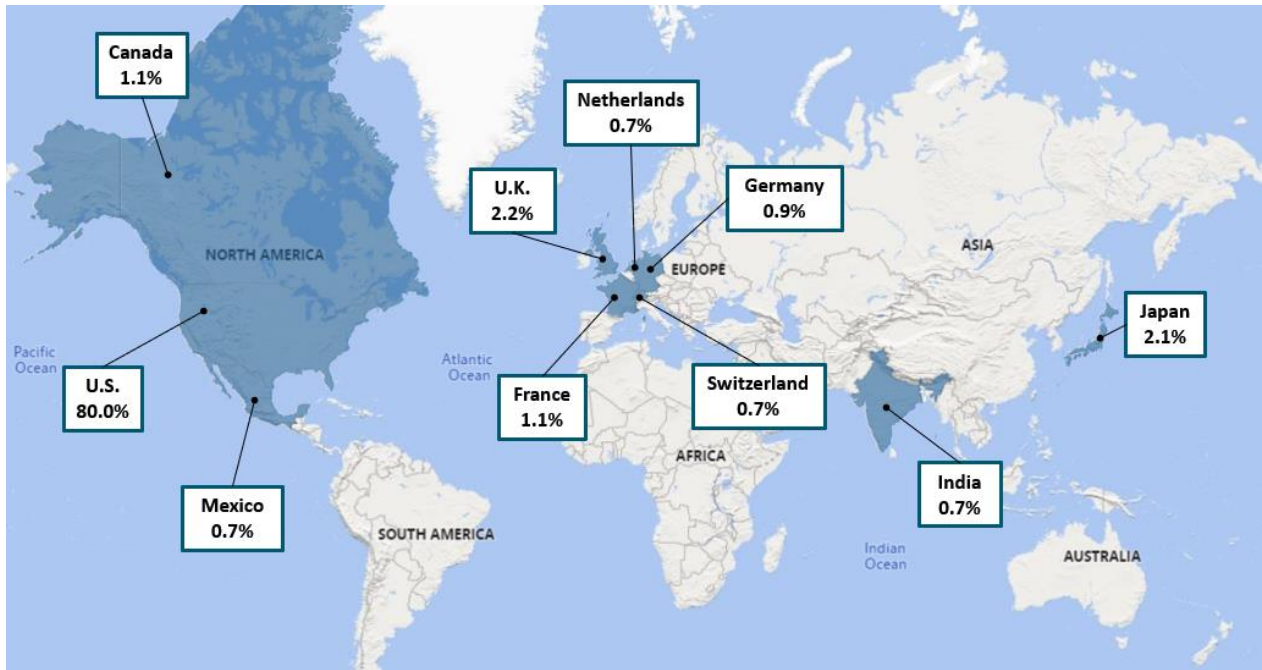


<sup>1</sup> Equity & Growth includes Total Public Equity and Private Equity. Real Assets & Inflation includes Real Estate and Inflation Sensitive. Diversifying includes Risk Mitigating Strategies, Fixed Income & Cash. Other includes Innovative Strategies and Strategic Overlay.

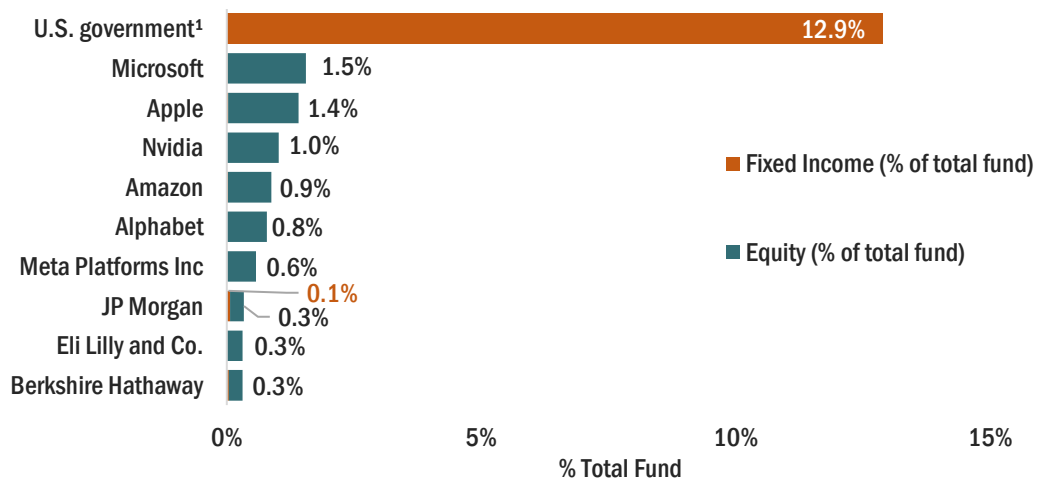
## CaSTRS market exposures

Across all asset classes, the fund has significant exposure to the U.S. with 80% of the portfolio invested in the U.S. The next largest exposure is 2.2% in the United Kingdom. The Netherlands rounded out the top 10, followed closely by Ireland and South Korea, respectively. Chart 7 shows the top 10 Total Fund portfolio exposures by parent company, as a percentage of the Total Fund portfolio.

**Chart 6. Top 10 market value exposures by country as of February 29, 2024**



**Chart 7. Total Fund top 10 exposures<sup>1</sup>**

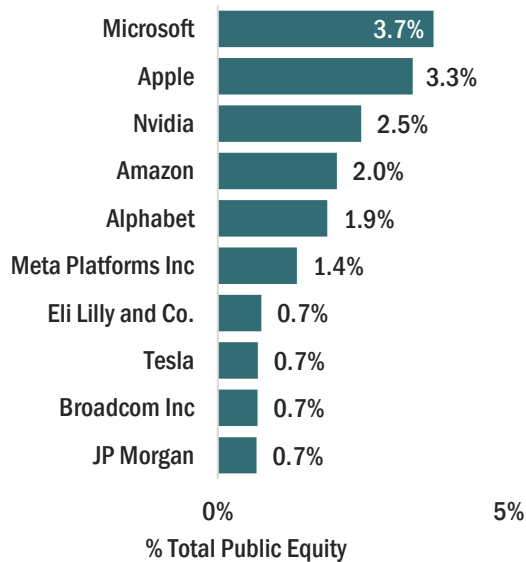


<sup>1</sup> U.S. government includes U.S. Treasuries, Agency MBS and other government agency debt.

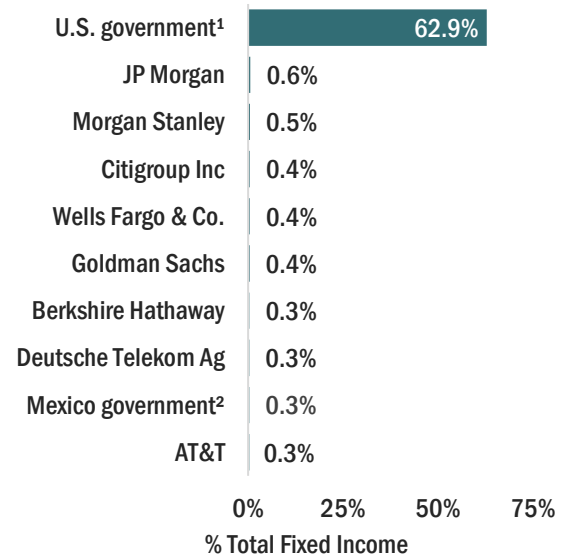
## CaSTRS market and sector exposures

Charts 8 and 9 show the top 10 Total Public Equity Portfolio exposures and the top 10 Total Fixed Income exposures, by parent company as a percentage of the respective portfolios.

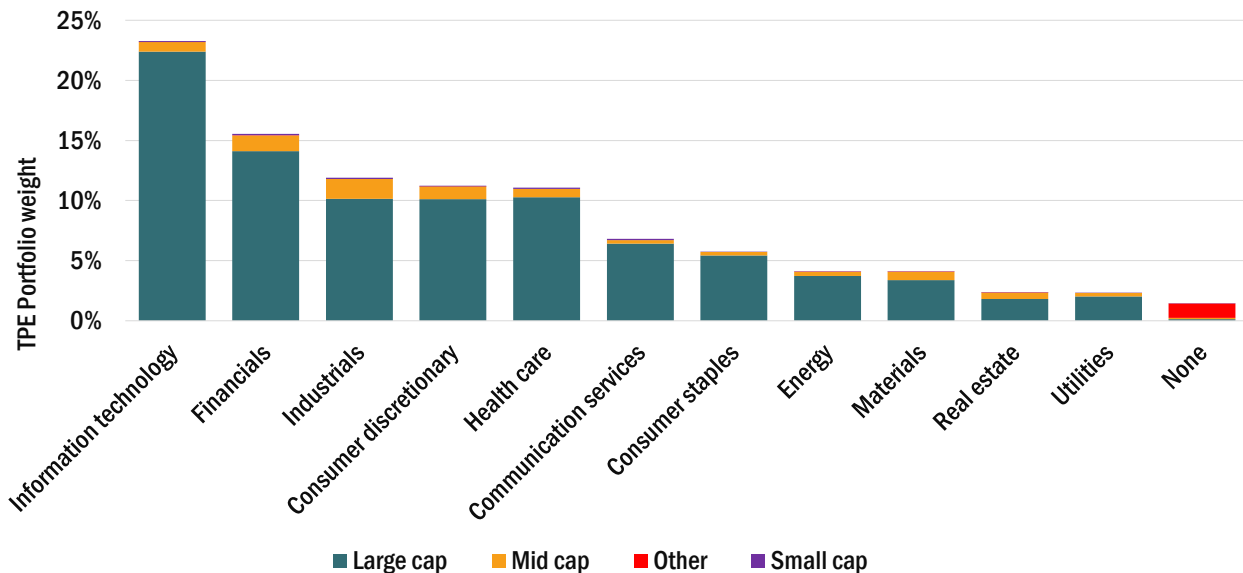
**Chart 8.**  
**Total Public Equity top 10 exposures**



**Chart 9.**  
**Total Fixed Income top 10 exposures<sup>1</sup>**



**Chart 10. Total Public Equity – Sector portfolio exposures as of February 29, 2024**



<sup>1</sup> U.S. Treasuries, Agency MBS and other government agency debt

<sup>2</sup> Mexico government includes PEMEX and Mexico government debt.

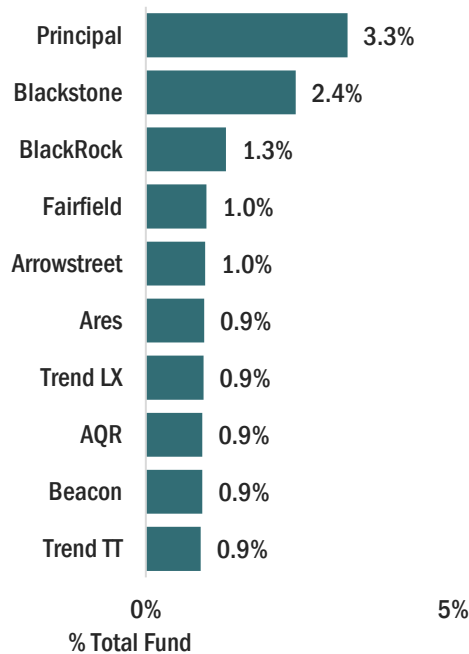
## CaISTRs largest manager exposures

Table 1 summarizes the top 10 manager exposures by relationship, aggregated across all asset classes. Chart 11 shows the same exposure, as a percentage of the CaISTRs Total Fund.

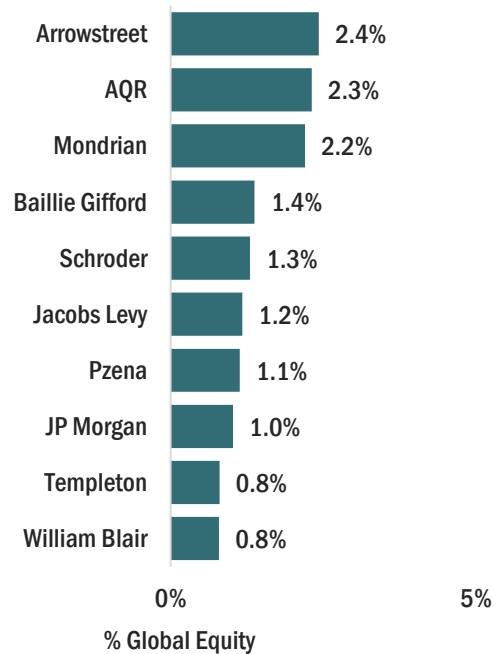
**Table 1. CaISTRs Total Fund<sup>1</sup>**

| Manager     | Relationship length (years) <sup>2</sup> | Asset Class                                                                 | Exposure (million) |
|-------------|------------------------------------------|-----------------------------------------------------------------------------|--------------------|
| Principal   | 40                                       | Real Estate, Global Equity                                                  | \$10,876           |
| Blackstone  | 30                                       | Private Equity, Real Estate                                                 | \$8,072            |
| BlackRock   | 24                                       | Real Estate, Fixed Income, Inflation Sensitive, Innovative Strategies, SISS | \$4,321            |
| Fairfield   | 22                                       | Real Estate                                                                 | \$3,272            |
| Arrowstreet | 8                                        | Global Equity                                                               | \$3,202            |
| Ares        | 11                                       | Fixed Income, Innovative Strategies, Private Equity, Real Estate, SISS      | \$3,145            |
| Trend LX    | 7                                        | Risk Mitigating Strategies                                                  | \$3,106            |
| AQR         | 9                                        | Global Equity                                                               | \$3,050            |
| Beacon      | 15                                       | Real Estate                                                                 | \$3,048            |
| Trend TT    | 5                                        | Risk Mitigating Strategies                                                  | \$2,965            |

**Chart 11. CaISTRs Total Fund<sup>1</sup>**



**Chart 12. Global Equity**

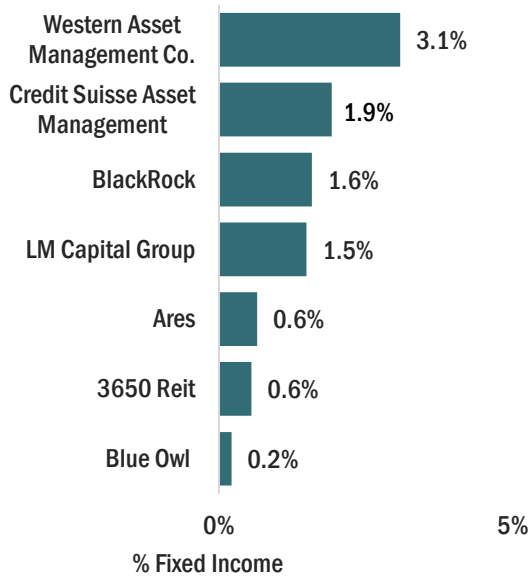


<sup>1</sup> Public asset manager exposures reported are as of 2/29/24. Private asset manager exposures reported are as of 12/31/23.

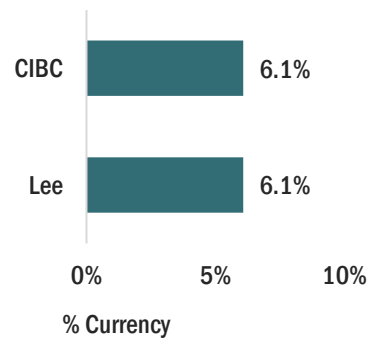
## CaSTRS largest manager exposures

Charts 13 – 16 show the top 10 manager exposures by relationship, as a percentage of each respective asset class portfolio.

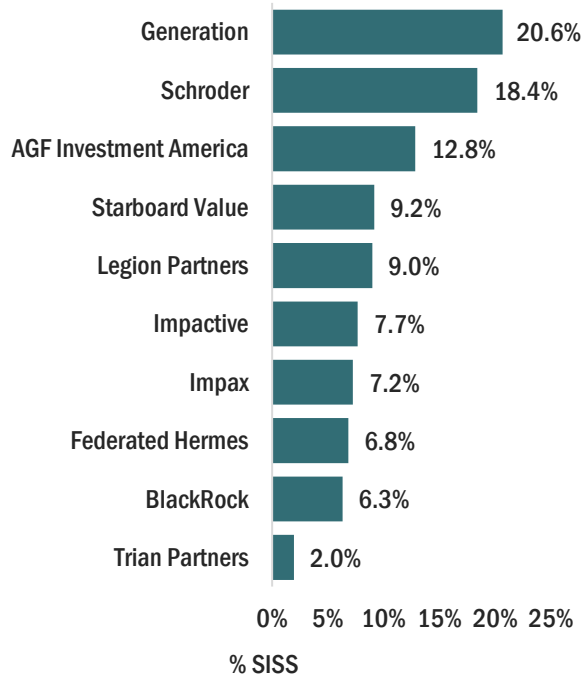
**Chart 13. Fixed Income<sup>1</sup>**



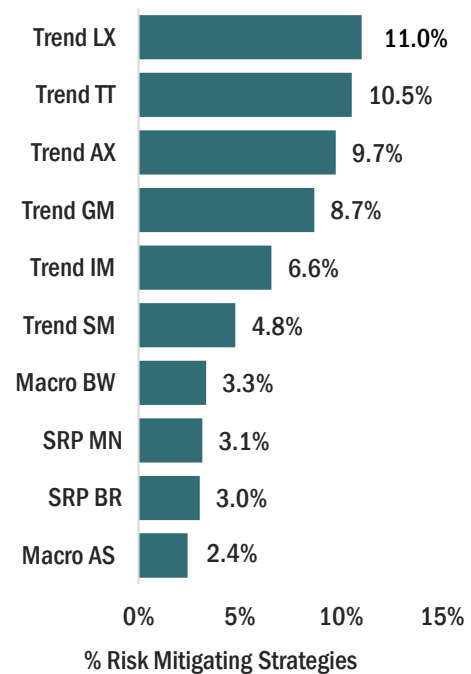
**Chart 14. Currency**



**Chart 15. SISS<sup>1</sup>**



**Chart 16. Risk Mitigating Strategies**



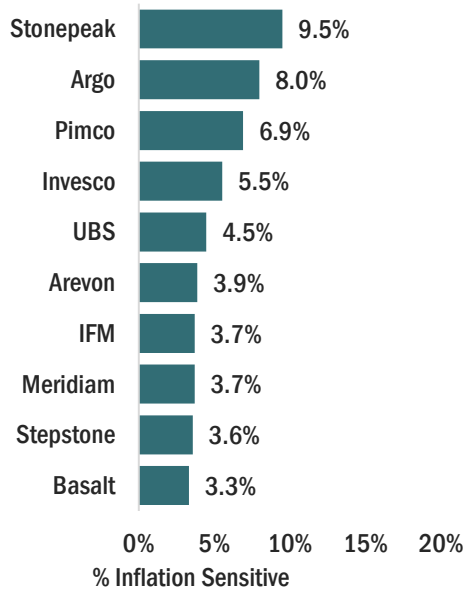
<sup>1</sup> Public asset manager exposures reported are as of 2/29/24. Private asset manager exposures reported are as of 12/31/23.



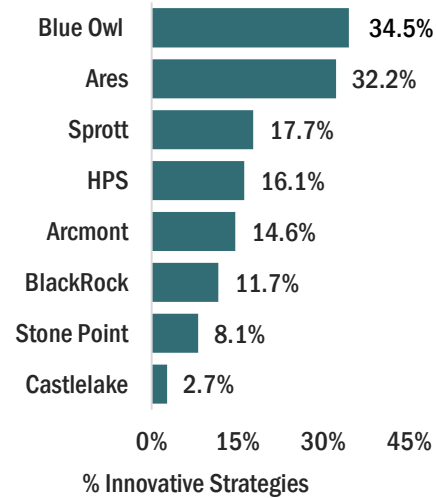
## CaSTRS largest manager exposures

Charts 17 – 20 show the top 10 manager exposures by relationship, as a percentage of each respective asset class portfolio.

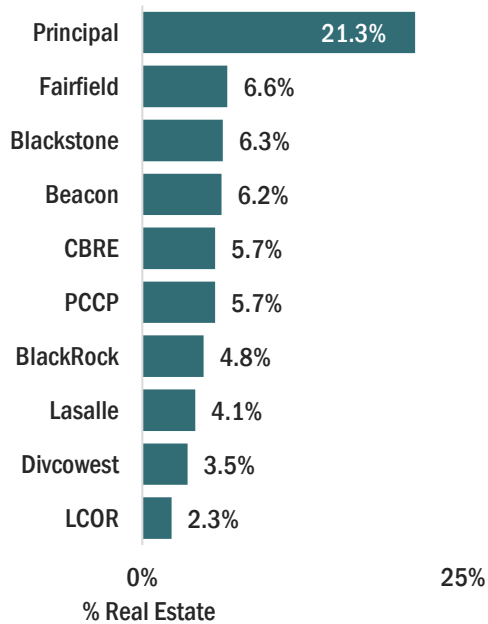
**Chart 17. Inflation Sensitive<sup>1</sup>**



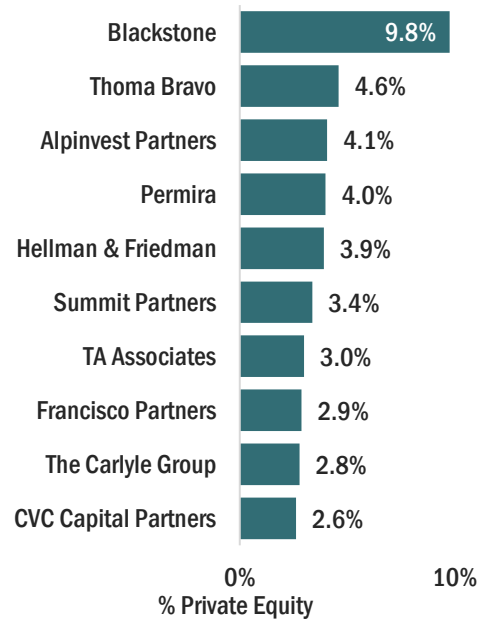
**Chart 18. Innovative Strategies<sup>1</sup>**



**Chart 19. Real Estate<sup>1</sup>**



**Chart 20. Private Equity<sup>1</sup>**

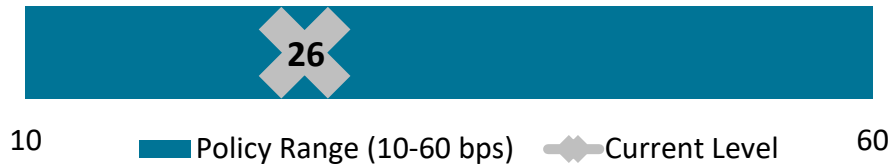


<sup>1</sup> Public asset manager exposures reported are as of 2/29/24. Private asset manager exposures reported are as of 12/31/23.

# Total Public Equity – Active risk summary

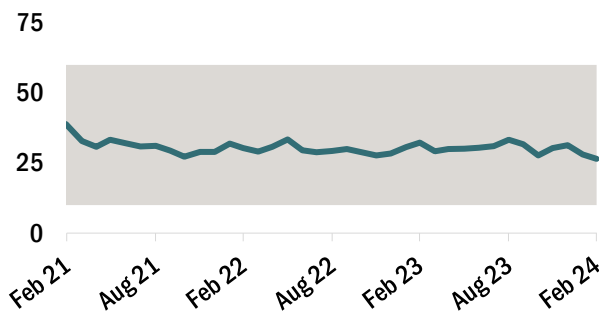
**Chart 21. Current active risk (bps)<sup>1</sup>**

At the May 2023 Investment Committee meeting, the committee approved a new governance policy for Total Public Equity, establishing an active risk budget range of 10 to 60 basis points. As of February 29, 2024, the expected active risk of the Total Public Equity portfolio is 26 basis points.

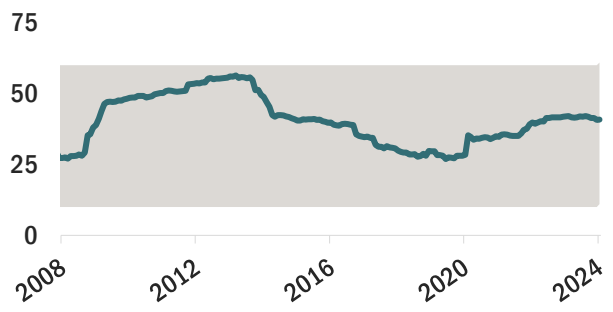


## Historical active risk (bps)

**Chart 22. Forecasted<sup>2</sup>**

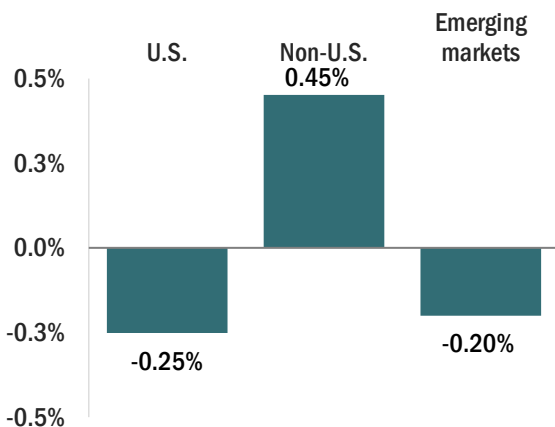


**Chart 23. Realized<sup>3</sup>**

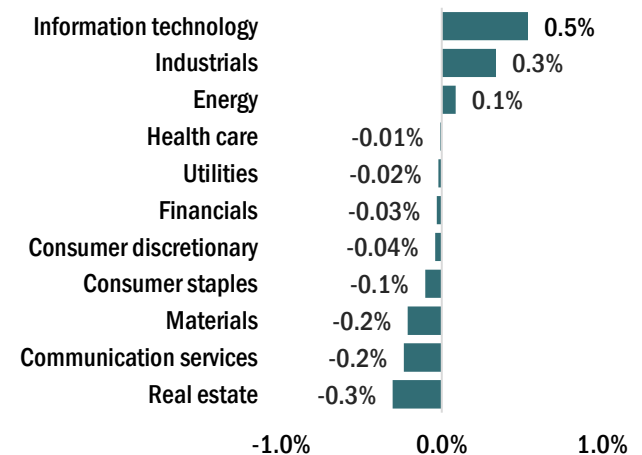


## Exposures vs. benchmark (market value %)

**Chart 24. Geographic active exposures**



**Chart 25. Sector active exposures**



<sup>1</sup> Forecasted active risk based on BlackRock Aladdin model calculation.

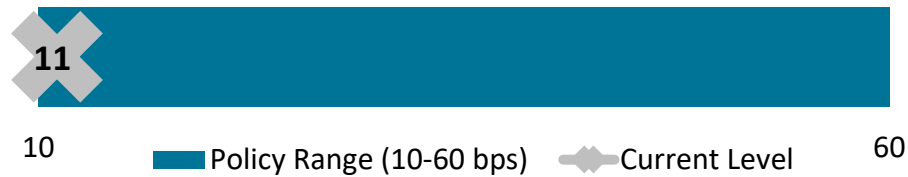
<sup>2</sup> Forecasted active risk based on the Total Public Equity Portfolio and market conditions over time.

<sup>3</sup> Based on a rolling 60-month period of realized returns through February 29, 2024

# Fixed Income – Active risk summary

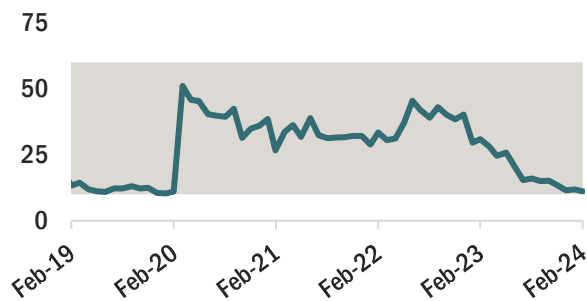
**Chart 26. Current active risk (bps)<sup>1</sup>**

At the September 2021 Investment Committee meeting, the committee approved a new governance policy for Fixed Income, establishing an active risk budget range of 10 to 60 basis points. As of February 29, 2024, the expected active risk of the Fixed Income Public Portfolio is 11 basis points.

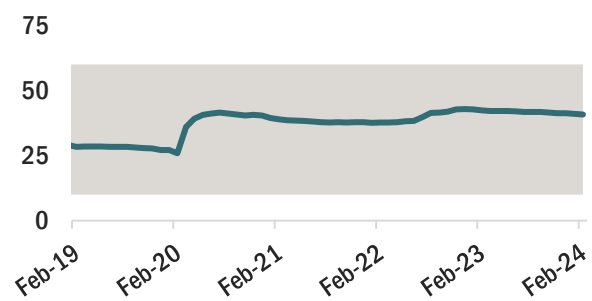


## Historical active risk (bps)

**Chart 27. Forecasted<sup>2</sup>**

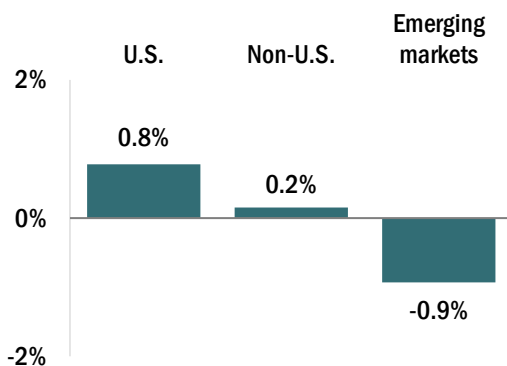


**Chart 28. Realized<sup>3</sup>**

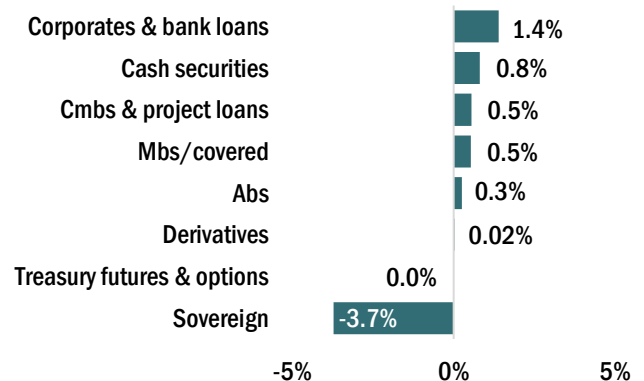


## Fixed Income exposures vs. benchmark (market value %)

**Chart 29. Geographic active exposures**



**Chart 30. Sector active exposures**



<sup>1</sup> Forecasted active risk based on BlackRock Aladdin model calculation.

<sup>2</sup> Forecasted active risk based on the Fixed Income Portfolio and market conditions over time.

<sup>3</sup> Based on a rolling 60-month period of realized returns through February 29, 2024

# Real Estate

At the July 2021 Investment Committee meeting, the committee approved a new CalSTRS Real Estate Investment Policy. The policy sets limits on Real Estate leverage depending on CalSTRS’ level of control. Controlled structures have a leverage limit of 50% and are typically separate accounts and joint ventures where CalSTRS is the majority investor. Non-controlled structures have a leverage limit of 65% and are typically commingled funds where CalSTRS is a minority partner with typical limited-partner rights.

Real Estate data is based on CalSTRS’ share of gross asset value as of September 30, 2023.

## Real Estate leverage

Chart 31. Leverage and limits

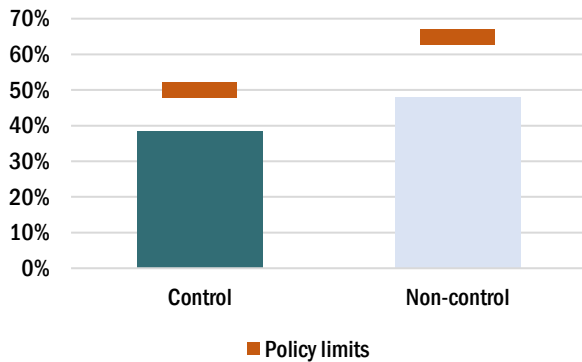
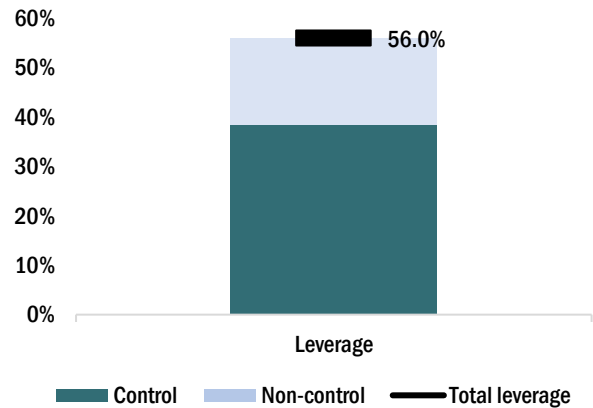


Chart 32. Total leverage



## Real Estate Portfolio exposure

Chart 33. Geographic exposure<sup>1</sup>

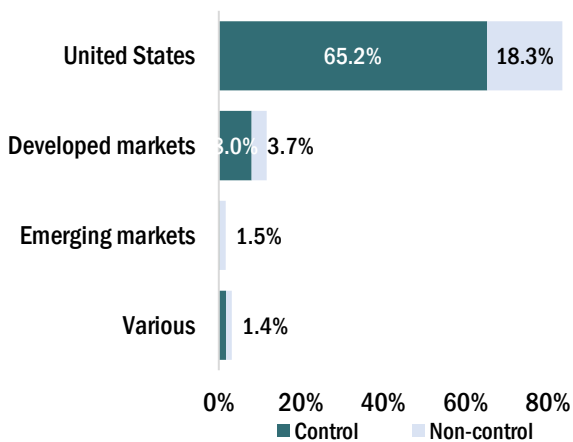
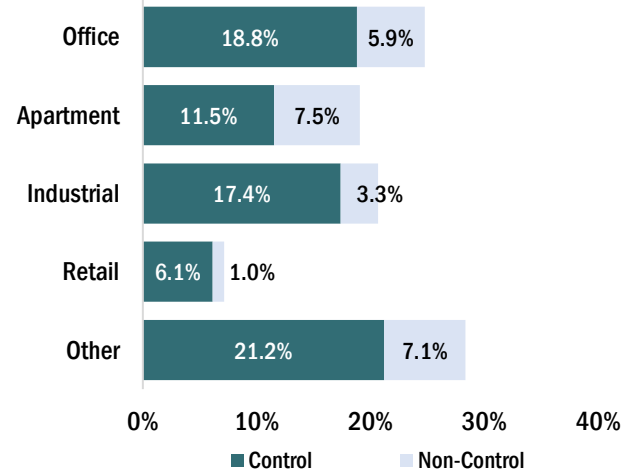


Chart 34. Property type exposure<sup>2</sup>



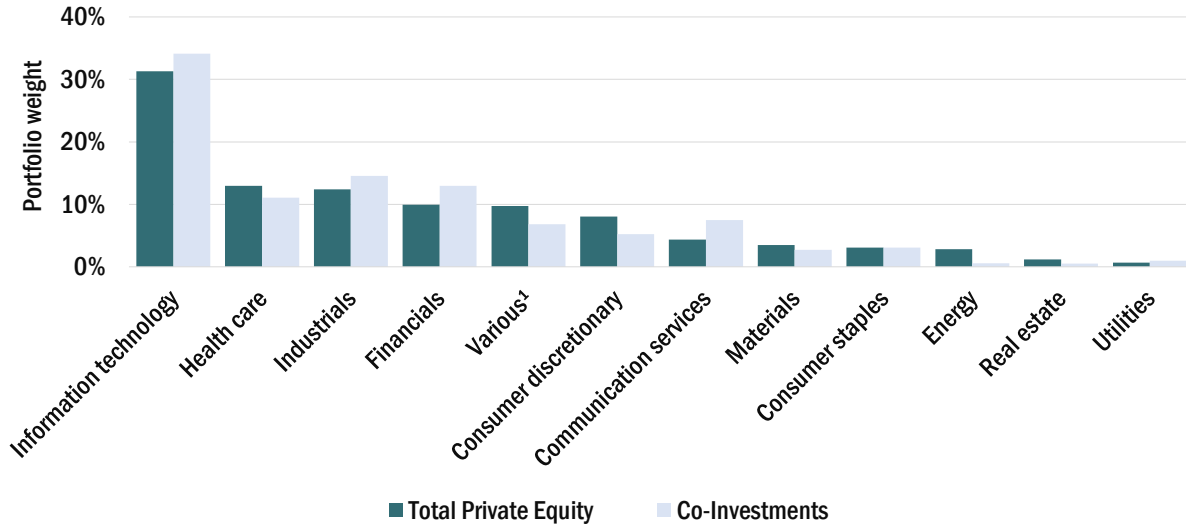
<sup>1</sup> Various investments have properties in multiple countries that could be in multiple regions.

<sup>2</sup> Other property type includes diversified investments that include multiple property types and all other property types (for example, hotels or land).

## Private Equity

Private Equity Portfolio company level data as of September 30, 2023.

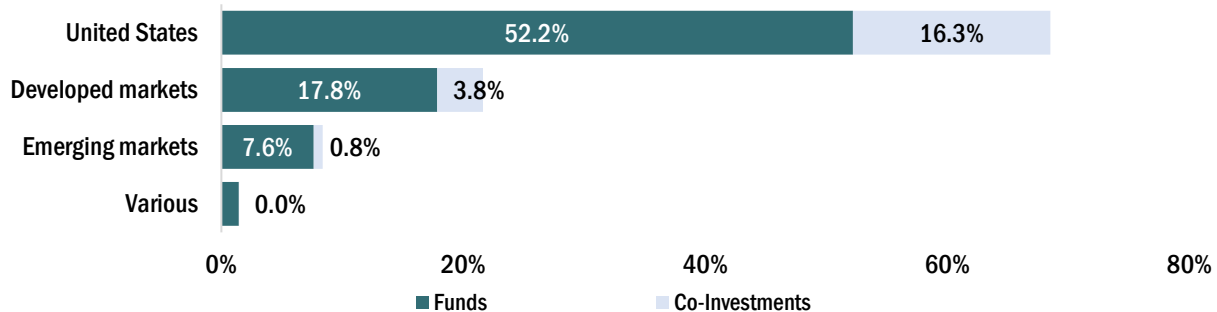
**Chart 35. Sector exposure**



**Table 2. Top 10 portfolio company exposure**

| Company | Investment vehicle     | Market value (millions) | % of Private Equity |
|---------|------------------------|-------------------------|---------------------|
| 1       | Co-Investments & funds | \$528                   | 1.00%               |
| 2       | Co-Investments & funds | \$422                   | 0.80%               |
| 3       | Co-Investments         | \$341                   | 0.65%               |
| 4       | Co-Investments & funds | \$320                   | 0.61%               |
| 5       | Co-Investments & funds | \$305                   | 0.58%               |
| 6       | Funds                  | \$304                   | 0.58%               |
| 7       | Co-Investments & funds | \$304                   | 0.58%               |
| 8       | Co-Investments & funds | \$269                   | 0.51%               |
| 9       | Co-Investments & funds | \$268                   | 0.51%               |
| 10      | Co-Investments & funds | \$261                   | 0.50%               |

**Chart 36. Geographic exposure<sup>1</sup>**



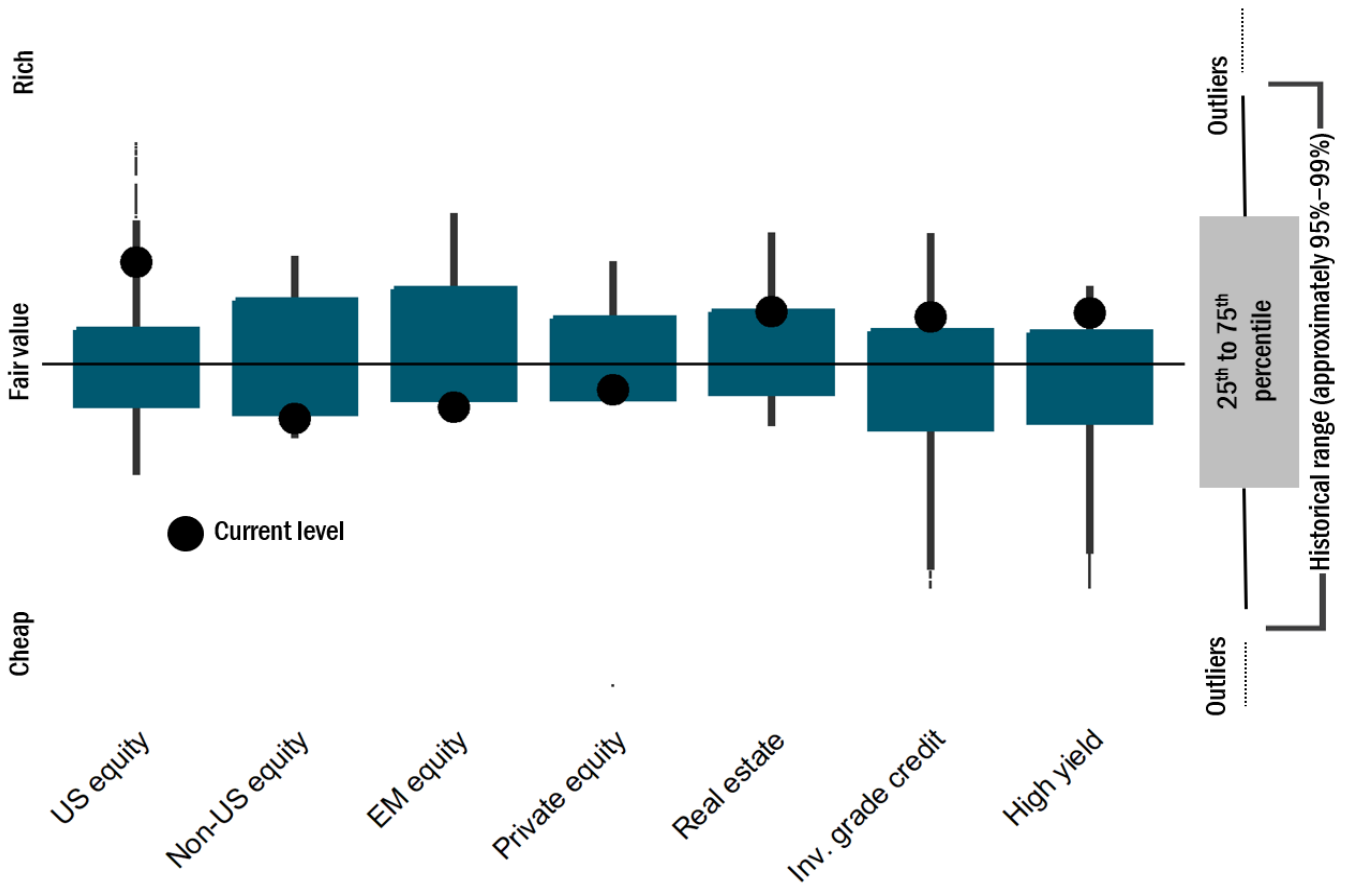
<sup>1</sup> Various includes investments in which the sector or geography data is not available at the level of detail of the data set.

# Valuations

For most of the larger asset classes in the portfolio, the price of the asset at any given time is an important component of expected return, particularly over the medium term (three to five years). Higher prices tend to precede periods of lower returns, an important consideration for the risk-return opportunities across the portfolio.

Chart 37 shows several common measures of valuation converted to a common scale for comparability. U.S. equity persistently has higher valuations than non-U.S. developed and emerging market equity. In the past few months, the valuations for developed market equity, emerging market equity and private equity have decreased, while the valuation for high yield credit has increased.

**Chart 37. Asset class valuations<sup>1</sup>**

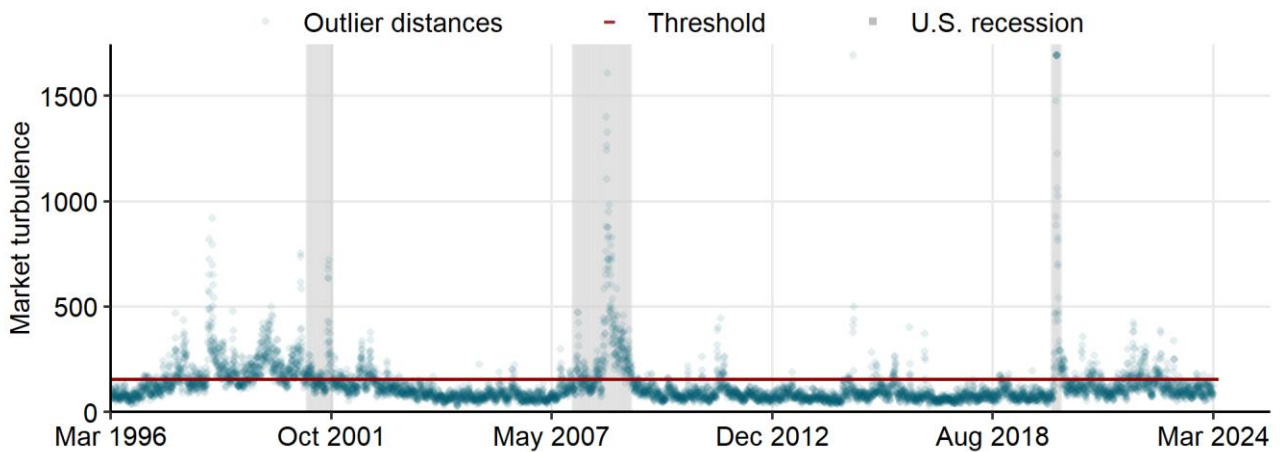


<sup>1</sup> Valuation metrics: Long-Term P/E Ratio for Public Equity; Total Value/EBITDA for Private Equity; Transaction Cap Rate for Real Estate; Credit spreads for Investment Grade and High Yield Credit.

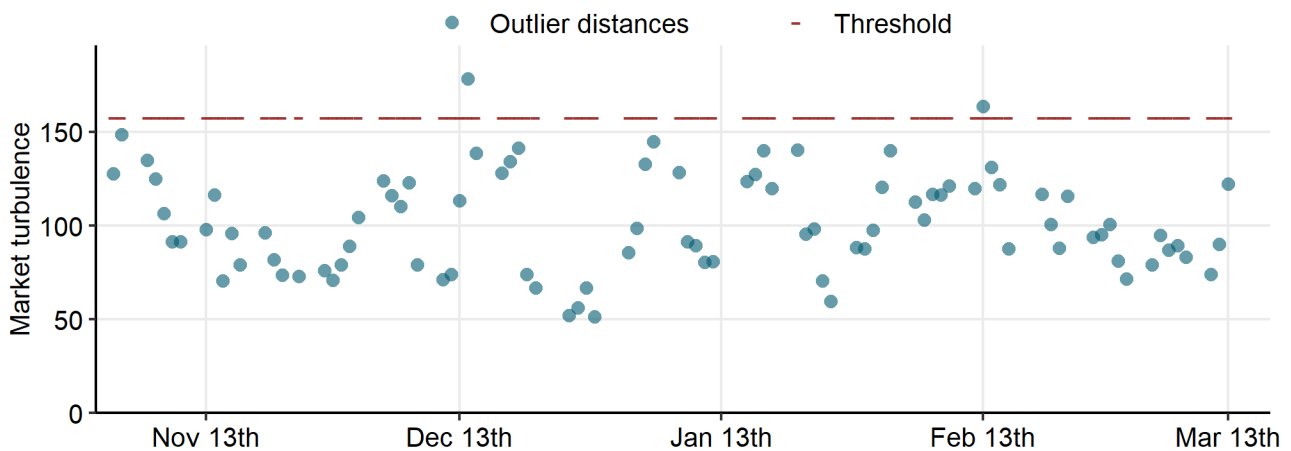
## Market volatility

The volatility index presented in Chart 38 and Chart 39 is an indicator of general market turbulence. The red lines provide a threshold by which to judge whether a day is an outlier or not. The long-term chart shows that, historically, periods of higher turbulence tend to cluster in time. The clustering of turbulent periods means that if a particular day is an outlier, the following day is much more likely to be an outlier. Several days in a row of outliers are a strong indicator that market turbulence could persist for many weeks or months. Recent turbulence was driven by economic concerns over geopolitical events and when the Fed will switch to an accommodative interest rate policy.

**Chart 38. Market turbulence—long term**



**Chart 39. Market turbulence—recent**



## Fund liquidity as of February 29, 2024

Maintaining liquidity to pay benefits, rebalance the portfolio, avoid forced selling, and take advantage of market opportunities are key liquidity oversight objectives. Grouping portfolio assets into “liquidity tiers” is a convenient framework for measuring available liquidity. As described below, the portfolio maintains an allocation to cash and a large allocation to assets that can be readily converted to cash:

- Cash.
- Liquid assets: Securities that trade frequently and can be readily converted to cash. Generally liquid securities that can still trade at prevailing price levels even in periods of modest market stress.
- Illiquid assets: Securities that are by their nature illiquid, such as Private Equity Portfolio partnerships and otherwise liquid assets that become illiquid in periods of stress.

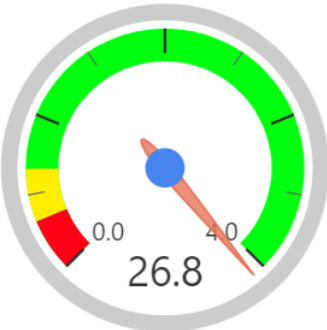
Table 3 shows the liquidity profile of the total portfolio by liquidity tier. The combination of Cash and Liquid assets provide a substantial cushion, even in periods of extended market stress.

**Table 3. Fund liquidity**

| Asset           | Portfolio value (%) | Months of benefit payments |
|-----------------|---------------------|----------------------------|
| Cash            | 2.0%                | 4.4                        |
| Liquid assets   | 56.6%               | 122.4                      |
| Illiquid assets | 41.4%               | 89.4                       |

Another way to monitor the liquidity of the CalSTRS portfolio is through the Liquidity Coverage Ratio [LCR]. The LCR is a commonly used liquidity risk metric in the financial services industry and is helpful for monitoring the liquidity of the portfolio in a stressed environment. The LCR shown below refers to the proportion of cash available to meet stressed liquidity needs over a 90-day period. Chart 40 shows the 90-day LCR is 26.8, or 2680%, as of February 29, 2024. The portfolio holds substantial cash to meet potential needs in a stressed environment.

**Chart 40. 90-day Liquidity Coverage Ratio (as of February 29, 2024)**





## Total Fund leverage as of February 29, 2024

Leverage is an investment strategy where money or capital is borrowed to increase the potential return of an investment or portfolio. At the January 2024 Investment Committee meeting, the committee approved a new CalSTRS Investment Policy Statement. The policy sets a limit on Total Fund net leverage at 10%.

**Table 4. Total Fund leverage**

| Leverage category         | Notional (millions) | Total Fund % |
|---------------------------|---------------------|--------------|
| Total Fund gross leverage | \$5,684             | 1.7%         |
| Total Fund cash           | -\$6,542            | -2.0%        |
| Total Fund net leverage   | -\$859              | -0.3%        |
| Total Fund assets         | \$331,436           |              |

**Chart 41. Total Fund leverage**

