



## Item 4. Investment Committee

Sustainable Investment & Stewardship

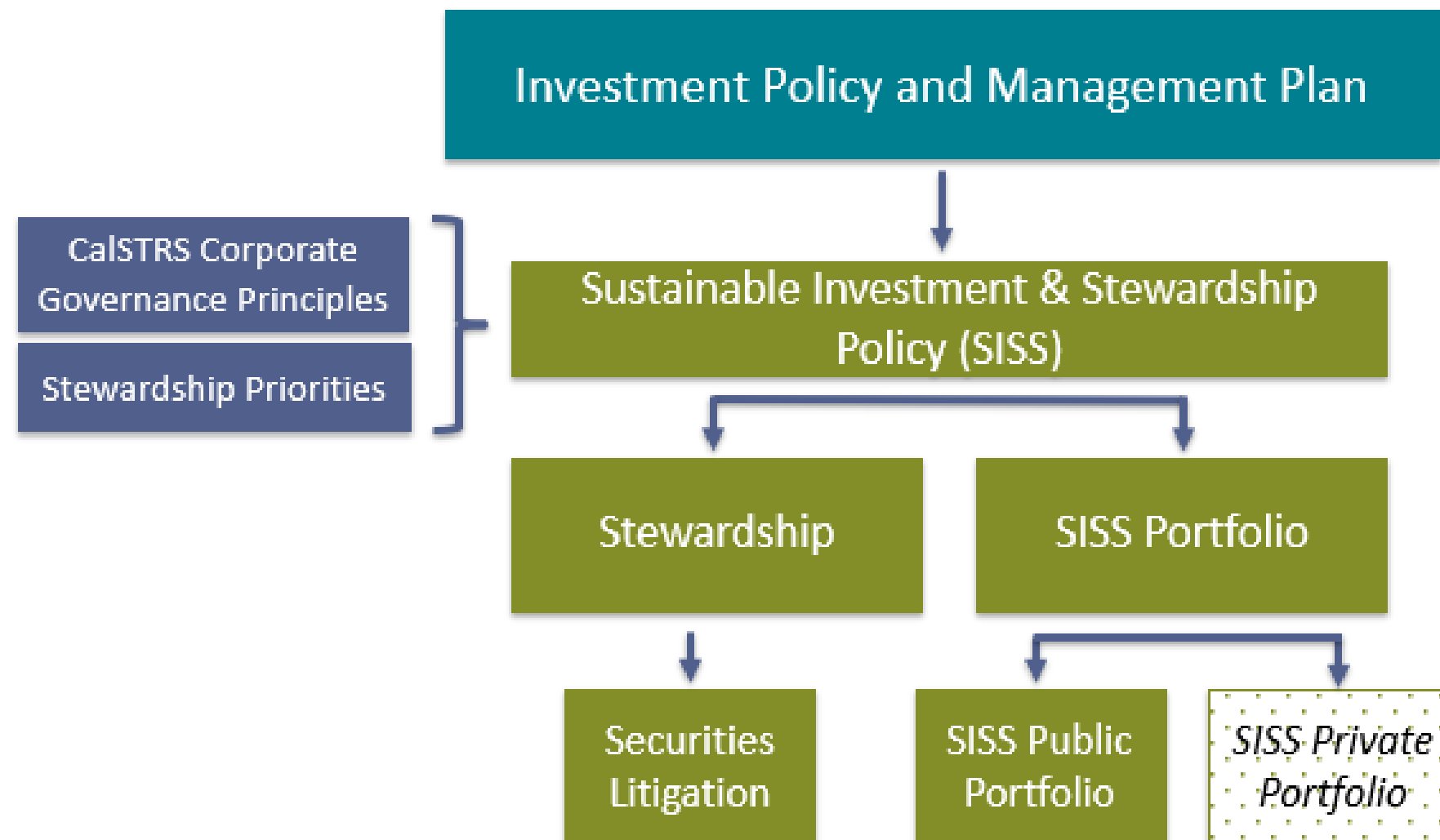
Strategies (SISS) Program and Portfolio Policy

Revision – Private Portfolio – Second Reading

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**March 4, 2021**

## SISS Policy Hierarchy





# SISS Policy Revisions: Private Portfolio

## Main Points

- ✓ **Allocation:** SISS Public and Private Portfolios *in aggregate* shall not exceed five percent of CalSTRS Total Fund Market Value.
- ✓ **Benchmark:** SISS Private Portfolio has blended performance benchmark comprised of weightings for each of the strategies multiplied by their respective benchmarks.
  - *Second Read: Additional details of program benchmarks*
- ✓ **Parameters:** Size of individual investment limited to existing limits and restrictions detailed in each asset class policy (Private Equity, Real Estate, Inflation Sensitive). No one investment can exceed 0.5% of Total Fund.
  - *Second Read: Inclusion of Innovative Strategies to accommodate opportunities that do not easily fit in other asset classes or require incubation*
  - *Second Read: Removal of geographic parameters*
- ✓ **Outcomes:**
  1. Additive to CalSTRS Total Fund: opportunistically improve risk and return characteristics of the Fund.
  2. Demonstrable positive outcomes: invest in opportunities that demonstrate positive contributions to a more sustainable global economy.



## SISS Private Portfolio Components

### Two Complementary Components

#### “Scaling”

Investment opportunities that leverage *existing* CalSTRS partnerships across Private Equity, Real Estate, Innovative Strategies and Infrastructure to scale investments that are additive to Total Fund.

#### “New Opportunities”

Investment opportunities that allow CalSTRS to develop *new* investment partnerships that are additive to Total Fund.

### Governance Model

Investments jointly pursued by private asset classes and SISS will utilize underlying asset class governance model, decision making framework, and internal controls.

Investments led by SISS will utilize Innovative Strategies existing governance model for new investments, including CIO/DCIO, underlying asset class representative, and required consultant approvals.



## SISS Private Portfolio Proposed Pacing

### SISS Portfolio Pacing Plan

#### SISS Private Portfolio Capital Availability

- ✓ **Recycling SISS Capital:**
  - SISS Private Portfolio will be seeded with capital redeemed from SISS Public Portfolio.
  - SISS plans to deploy \$1-2bn in private markets over next couple of years.

#### **Real Estate** – Affordable Housing Focus

- Annual target range of \$200-500MM based on opportunities with CalSTRS Real Estate team

#### **Private Equity** – Low-Carbon Solutions Focus

- Annual target of \$150MM based on opportunities with CalSTRS Private Equity team

#### **Innovative Strategies** – Low-Carbon Solutions Focus

- Annual target range of \$250-500MM committed capital



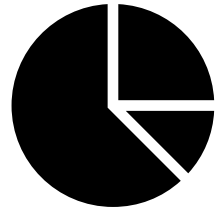
## Meketa Suggestions for Oversight & Reporting

- Quarterly questionnaire from Meketa to SISS staff
- Quarterly meetings between Meketa & SISS leadership
- Quarterly scorecard on SISS program execution for Investment Committee
- Semi-annual reporting from Meketa & staff to Investment Committee





## Next Steps



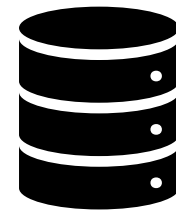
### Policy

Securing board approval for SISS Private Portfolio



### Collaboration/Training

SISS working with Real Estate, Private Equity & Innovative Strategies to understand & integrate investment policies & procedures



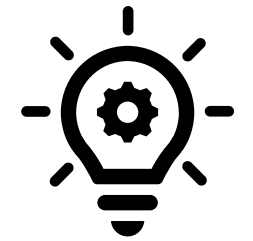
### Operations

Coordinating with Operations to set up new SISS Private Portfolio



### Pipeline

Leveraging existing relationships & partners to explore best ideas



### Investment Opportunities

Reviewing & diligencing opportunities in alignment with appropriate governance model; complete initial transaction



## APPENDICES:

Reference Slides from January Board Meeting





## Real Estate/SISS Collaboration: Affordable Housing

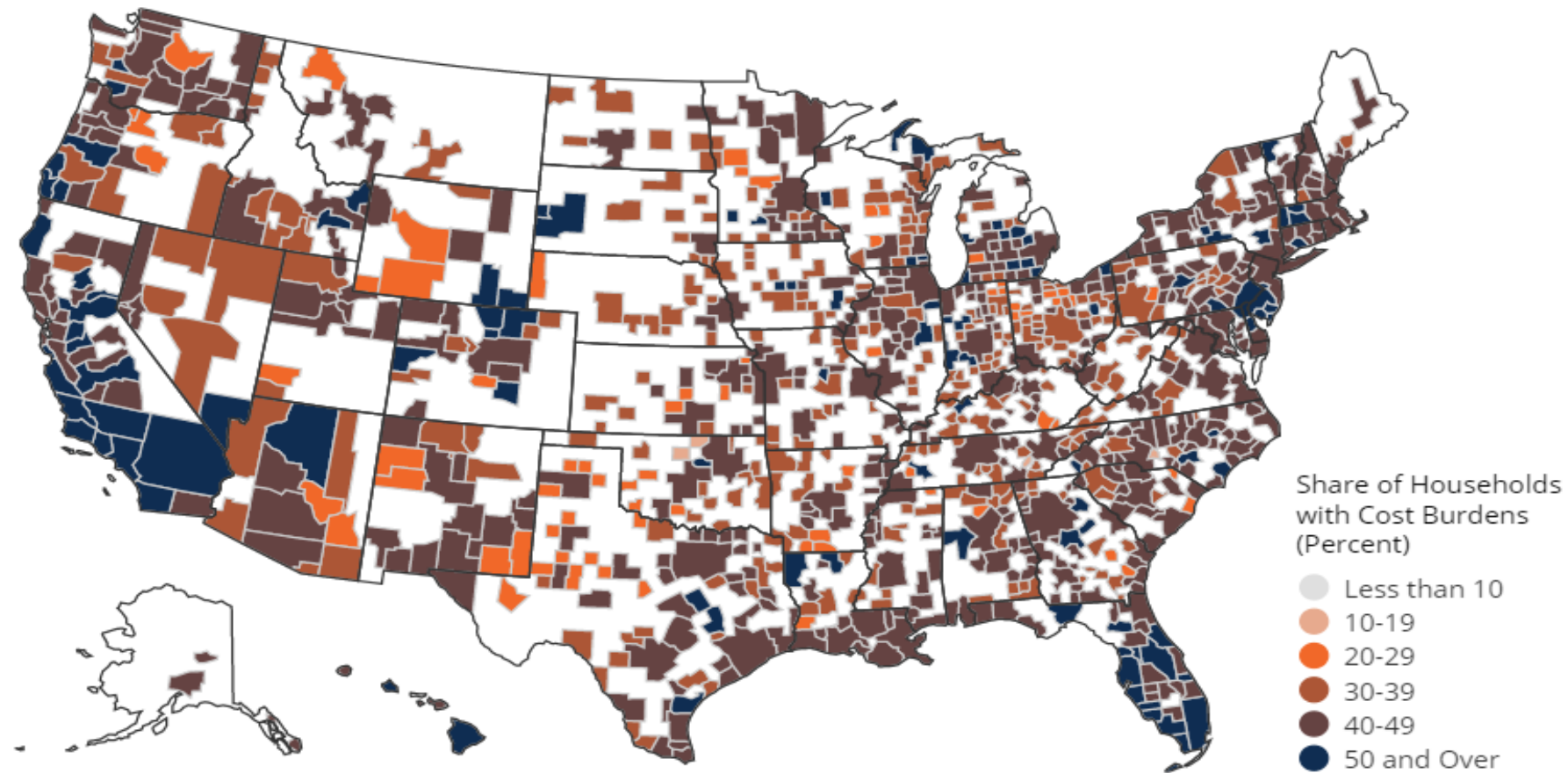
### Definition Cost-Burdened

Any household allocating more than 30% of annual gross income toward housing costs

### 2019 Cost-Burdened Households

37.1 Million

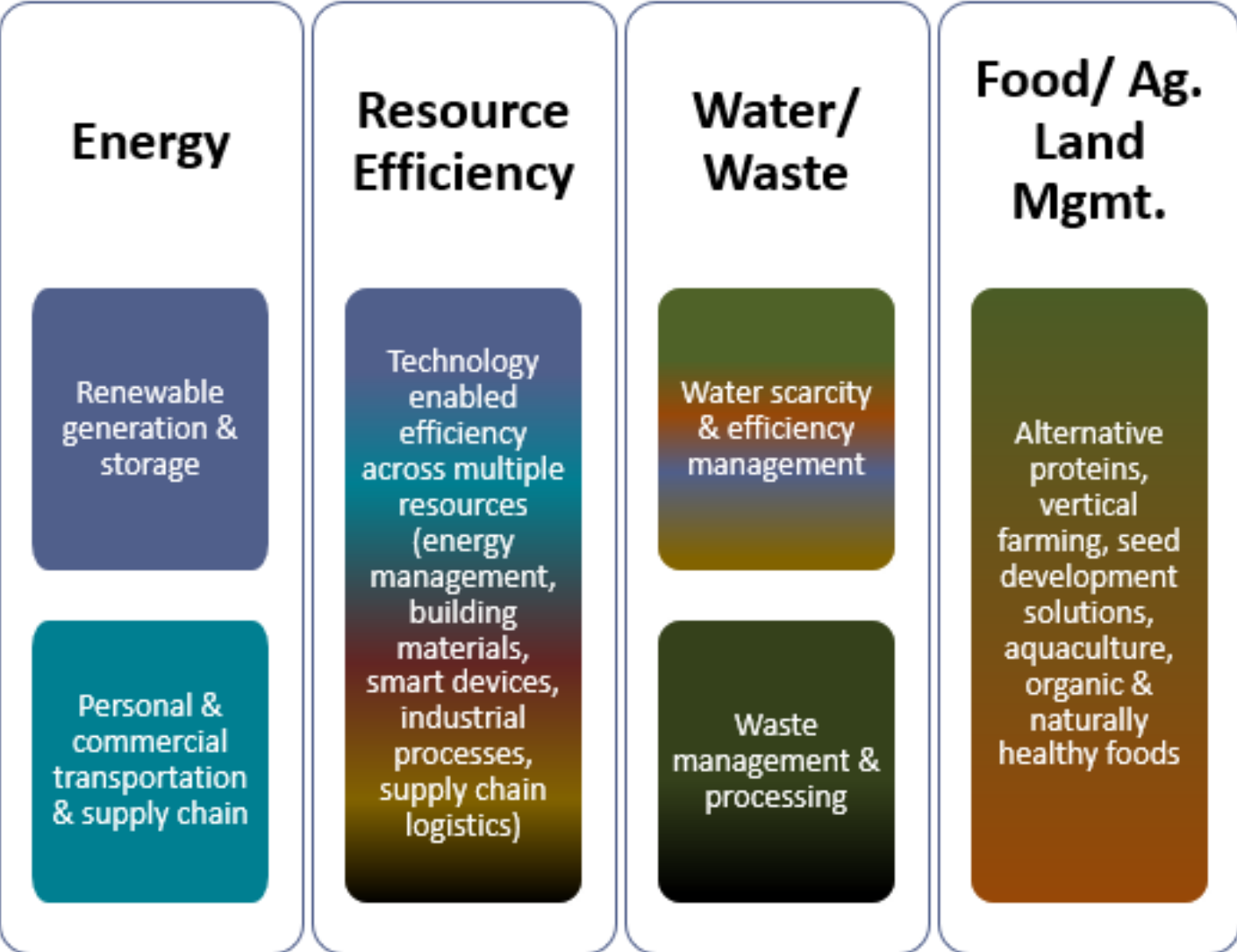
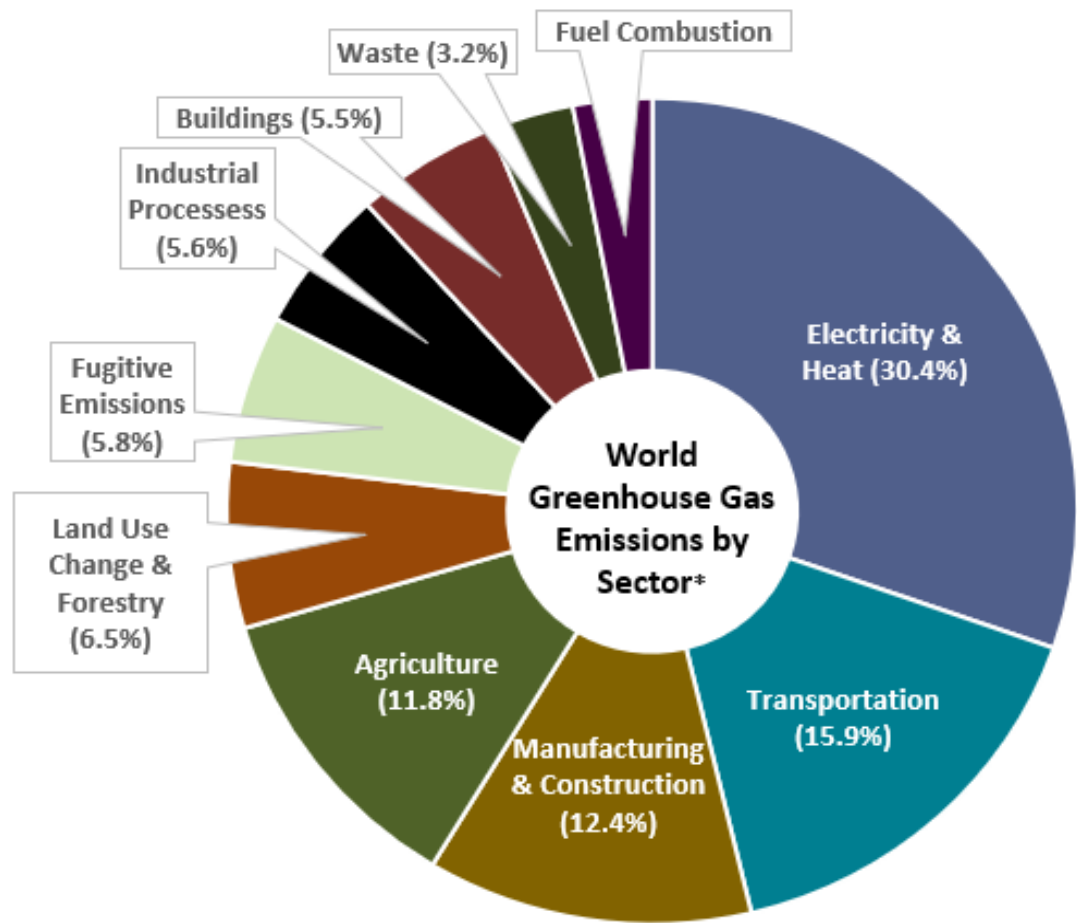
### 2019 Cost-Burdened Renter Households by Metro (as a Share of Total Renter Households)





## Private Equity/SISS Collaboration: Low-Carbon Solutions

**Low-carbon solutions:** Investment opportunities enabling high carbon sectors to transition to a low-carbon economy



\* Source: World Resource Institute



## Private Equity/SISS Collaboration: Low-Carbon Solutions

Focus on co-investment opportunities with existing Private Equity partners

Leverage existing strategic partners to secure deal flow



Review co-investment opportunities



Deploy capital & construct portfolio