

## MEMORANDUM

**TO:** Investment Committee, CalSTRS  
**FROM:** Stephen McCourt, Allan Emkin, Mika Malone, Eric White, Stephanie Sorg,  
Meketa Investment Group  
**CC:** Christopher Ailman  
**DATE:** May 4, 2023  
**RE:** Opinion Memo – SISS Investment Policy Revisions

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### Summary & Recommendation

In March 2023, Staff asked that Meketa review two proposed changes to the SISS Investment Policy that are being prompted by the implementation of the net zero initiative. The first revision is to modify the SISS Public Portfolio policy benchmark to a blended performance benchmark comprised of a weighted blend of each underlying investment strategy. It is noted that the recommended change is a compensation-specific benchmark. The second proposed revision is to modify the SISS Public Portfolio active risk budget to be incorporated within the Total Public Equity Portfolio active risk budget proposed in the Global Equity Investment Policy. This recommendation is being made concurrently with the Global Equity Investment Policy revision recommendations. ***After independently evaluating Staff's proposed changes, Meketa concurs with Staff's recommendation to incorporate the SISS public equity investments in the Total Public Equity composite and risk budget (see accompanying policy request for Global Equity), but continues to review Staff's proposed benchmark changes in the context of the Board's broader benchmarking work stream.***

### Discussion

At the September 2021 Investment Committee, CalSTRS adopted a pledge to achieve a net zero investment portfolio by 2050 or sooner. Subsequently, at the August 2022 Investment Committee, the Committee approved a package of four investment measures that support CalSTRS net zero portfolio emissions strategy. One of these measures was the approval to allocate 20% of Public Equity to the MSCI ACWI Low Carbon Target Index ("LCTI") to assist in achieving the net zero portfolio emissions reduction goal. Staff has developed an implementation plan and reviewed the impacts on benchmarks and risk budgets. Staff has determined that the LCTI allocation can be implemented within the Global Equity portfolio, further detailed in the Global Equity Investment Policy companion agenda item.

To facilitate this implementation plan, the current allocation to the LCTI (approximately \$4.2 billion, as of January 31, 2023) will be transferred from the SISS Public Portfolio to the Global Equity portfolio for operational and execution efficiency. While this transfer creates benefits for the Total Fund, it has implications for the SISS Public Portfolio that would need to be addressed.

Currently, the SISS Public Portfolio is benchmarked to a diversified global equity index (Custom MSCI All Country World Investable Market Index). This benchmark is appropriate for the existing SISS Public Portfolio as it is currently composed of concentrated, active strategies and diversified, risk-controlled (or 'passive') strategies that align with a global index. Staff noted that the proposed SISS Public Portfolio,



without a sizable allocation to an internally managed diversified global index (currently the LCTI), presents an exposure mismatch relative to the current global benchmark. The old benchmark would no longer be appropriate to assess performance of the proposed SISS Public Portfolio. Staff is, therefore, proposing a revised benchmark that would consist of a market value-weighted blend of each underlying strategy benchmark as a more appropriate benchmark to assess portfolio performance. Additionally, the benchmark methodology would be consistent with the Innovative Strategies and SISS Private Portfolio benchmarks.

In regard to the risk budget, Staff noted that the Investment Committee adopted an annualized forecasted risk budget of 50 to 250 basis points for the SISS Public Portfolio in July 2021, based on the portfolio composition at that time. With the proposed LCTI transition to Global Equity, the SISS Public Portfolio will no longer have an indexed component, thus Staff believes that a separate risk budget is no longer appropriate for the proposed, fully active, SISS Public Portfolio.

In summary, Meketa reviewed Staff's proposal and respective justifications for the changes, conferred with our internal team, and concurs with Staff's recommendation to incorporate the SISS public equity investments in the Total Public Equity composite and risk budget (see accompanying policy request for Global Equity), but continues to review Staff's proposed benchmark change in the context of the Board's broader benchmarking work stream.

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

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