



Investment Committee

Item Number 6 – Open Session

Subject: Annual Review of Delegation to Staff

Presenter(s): Chairperson

Item Type: Consent Information

Date & Time: July 8, 2021 – 0 minutes

Attachment(s): Attachment 1 – Annual Review of Delegation

PowerPoint(s): None

POLICY

The board delegates certain discretion over investments to staff. The delegation is outlined in the individual asset class policies and in the Investment Policy and Management Plan, Section 1000 of the Teachers' Retirement Board Policy Manual.

HISTORY AND PURPOSE OF THE ITEM

Investment delegation for staff was developed at CalSTRS in 1997 based on a study by a leading governance consultant. Two decades later, it has served as a hallmark in the industry as efficient and effective portfolio management and is seen as a best practice in pension governance. By the direction of the Investment Committee, this item has been reviewed annually since July 2006.

The delegation is directly linked to the strategy or plan for each asset class/strategy policy. Policy changes are brought to the board periodically throughout the fiscal year. Delegation is divided into two areas:

1. Discretion over investment transactions
2. Discretion over daily trading

The discretion over investment transactions involves decisions over hiring of investment managers and entering into private asset deals. Discretion over daily trading governs the movement of money (cash wires) or purchases and sales of securities.

The purpose of this item is to provide the Board an annual comprehensive review of the investment discretion(s) delegated to staff.

DISCUSSION

Two changes related to discretion over investment transactions occurred during this reporting period (fiscal year 2020-21). Both are summarized below and presented in Attachment 1 for your reference:

1. Sustainable Investments & Stewardship Strategies (SISS) created two portfolio components following adoption by the Investment Committee in January 2021: the SISS Public Portfolio and the SISS Private Portfolio. The existing co-investment limit of \$100 million at the time of investment pertains to the SISS Public Portfolio. The SISS Private Portfolio complies with existing limitations and processes as defined in the CalSTRS Private Equity, Real Estate, and Inflation Sensitive policies.
2. The Commodity Portfolio Policy was decommissioned in July 2020. Approval Limits from the policy have been removed from the Annual Review of Delegation report presented in Attachment 1.

Changes for the current reporting period are in blue and underlined. Other than these changes, there were no significant increases or decreases in delegation granted to the investment staff for this reporting period, fiscal year 2020-21.



Annual Review of Delegation

Approval Decision on Investments	
Public Market External Managers	
The Chief Investment Officer, or designee, has the authority to retain, terminate and allocate assets to Global Equity, Sustainable Investment & Stewardship Strategies, Fixed Income and currency investment managers.	
Sustainable Investment & Stewardship Strategies	
<u>Public</u> Co-Investments	Shall not exceed \$100 million at the time of investment
<u>All Private Portfolios</u>	<u>Shall comply with delegation authority limits outlined in CalSTRS existing Private Equity, Inflation Sensitive, and Real Estate and Innovative Strategies policies.</u>
Real Estate	
New (to CalSTRS) Firms	Up to 2% of Net Asset Value of the total Real Estate portfolio
Follow-on Investments	Up to 4% of Net Asset Value of the total Real Estate portfolio. Thereafter, incremental allocations beyond the 6% may be approved by staff, subject to review by the Investment Committee if requested.
Large Transactions	Discretion to approve up to two transactions in any rolling 12-month period, which may include co-investment opportunities for up to 10% of the Net Asset Value of the total Real Estate portfolio
Private Equity	
New (to CalSTRS) Limited Partnerships	Up to \$400 million or 25% of the partnership capitalization, whichever is less
Follow-on Limited Partnerships	Up to \$750 million or 25% of the partnership capitalization, whichever is less
Separately Managed Accounts	Shall not exceed \$750 million for a follow-on vehicle or \$400 million for a new vehicle
Co-Investments	Shall not exceed \$250 million, 10% of the size of the limited partnership, or 100% of limited partnership's investment in the transaction
Secondary Market	
Limited Partnerships Interest and Separately Managed Accounts	Up to \$1.5 billion (Diversified Pools) and \$750 million (Single Interests and Non-Diversified Pools)
Co-investments, General Partner Interests and Portfolio Companies	Up to \$500 million (Diversified Pools) and \$250 million (Single Interests and Non-Diversified Pools)
Direct Investment in General Partnerships	Shall not exceed \$250 million and ownership shall not exceed 25% economic interest

Proactive Portfolio	
New (to CalSTRS) Fund of Funds	Shall not exceed \$100 million
Follow-on Investment Fund of Funds	Shall not exceed \$250 million
New and Follow-on Fund of Funds Side-by-Side	Shall not exceed \$100 million or 30% of the total amount of the partnership capitalization, whichever is less
Infrastructure	
Initial Commitment to a New Investment Manager	Up to \$500 million
Subsequent Commitments	Maximum of 20% of the CalSTRS Infrastructure Portfolio; thereafter if a single investment manager manages a total portfolio in excess of 20% of the CalSTRS Infrastructure Portfolio additional allocations or commitments may still be approved by staff but are subject to review by the Investment Committee if requested.
Eligible Ownership Vehicles (Accounts and Co-Investments)	Up to 5% of the CalSTRS Infrastructure Portfolio
Innovative Strategies	
Co-Investments	Shall not exceed \$100 million at the time of investment
Credit Enhancement Program	
Outstanding Commitments	Shall not exceed 3% of the market value of the CalSTRS Investment Portfolio.
Per Transaction	Up to \$400 million

Approval Limits¹			
	Global Equity Internal Portfolios^{2,3}	Fixed Income Internal Portfolios^{2,4}	Currency Management^{2,5}
Chief Investment	Up to 10% of total global equity portfolio	Up to 10% of total fixed income portfolio	Up to 10% of total non-USD holdings
Deputy Chief Investment	Up to 10% of total global equity portfolio	Up to 10% of total fixed income portfolio	Up to 10% of total non-USD holdings
Director	Up to 5% of total global equity portfolio	Up to 5% of total fixed income portfolio	Up to 5% of total non-USD holdings
Portfolio Manager	Up to 4% per internally managed portfolio	Up to 10% of internally managed portfolio	Up to 5% of core (notional) program
Associate Portfolio	Up to 3% per internally managed portfolio	Up to 8% of internally managed portfolio	Up to 4% of core (notional) program
Investment Officer III	Up to 2.5% per internally managed portfolio	Up to 6% of internally managed portfolio	Up to 3% of core (notional) program
Investment Officer II	Up to 2% per internally managed portfolio	Up to 4% of internally managed portfolio	Up to 2% of core (notional) program
Investment Officer I	Up to 1% per internally managed portfolio	Up to 2% of internally managed portfolio	Up to 1% of core (notional) program

	Home Loan Program ⁶	Credit Enhancement	Private Asset ⁷
Chief Investment Officer	\$100 million	\$600 million	\$1.5 billion
Deputy Chief Investment Officer	\$100 million	\$600 million	\$1.5 billion
Director	\$50 million	\$400 million	\$750 million
Portfolio Manager	\$35 million	\$300 million	\$250 million
Associate Portfolio Manager	\$30 million	\$200 million	\$150 million
Investment Officer III	\$20 million	\$100 million	\$100 million
Investment Officer II	\$10 million	\$75 million	\$50 million
Investment Officer I	\$5 million	\$50 million	\$15 million

- ¹ Any transaction or cash approval limits defined within as asset class policy are superseded by the limits that are defined in Attachment B of the Investment Policy and Management Plan.
- ² Public Asset Approval Policy: Approval limits for transactions within internally managed portfolio trading public assets will use the respective trading parameters by investment type. Non-cumulative daily trade limits.
- ³ For derivatives and transition management portfolios, the risk-based trading parameters are applied to the market value of the U.S. or Non-U.S. segments of the Global Equity portfolio.
- ⁴ For derivative instruments, overlay and/or transition management portfolios, tighter trading parameters may be applied. Short-term assets: No daily limits within the liquidity portfolio shall be established.
- ⁵ Notional amount parameters are intended to take into account the position range referenced in the Currency Management Program Policy.
- ⁶ Daily trade activity or authority to transfer funds.
- ⁷ Private investment portfolio will use a single approval structure to approve the outgoing cash transactions of previously approved investment commitments and does not include the authorization of new investments. The receipt of cash to private investment portfolios does not require approval limits. Non-cumulative daily approval limits with respect to outgoing cash transactions.