

Proposed Investment Policy Statement Draft Framework

Table of Contents (New)

Summarized listing of the Investment Policy Statement (IPS) contents and sections.

Preamble (New)

Introduction of [Investment Beliefs](#) and the precedence they have relative to the IPS.

Executive Summary ([IPMP A-1](#))

Overview of system, the board and the governing statutory provisions. Description of the State Teachers' Retirement Plan (STRP) and its components. Context for how the Investment Beliefs, IPS, and other standalone investment policies are interrelated and implemented within the Investment Branch.

Section 1 – Purpose (New)

1.1 Statement of Purpose—Description of the broader use and applicability of the IPS. Linkage between the IPS and the framework by which CalSTRS manages assets of the STRP to fulfill its mission. Summary of primary features of the IPS including investment objectives, decision framework, constitutional mandates, restrictions, monitoring (benchmarking) and risk.

Section 2 – Governance

- 2.1 Legal Authorities—Constitutional mandates and state statutory provisions provided to the board. CalSTRS is a public pension plan and not subject to ERISA. ([IPMP A-1](#))
- 2.2 Fiduciary Responsibility—The board's and management's legal obligation to administer trust assets consistent with the constitutional mandates. ([IPMP A-2](#))
- 2.3 Standard of Care—Description of investment decision making framework relative to the "Prudent Expert" standard. ([IPMP A-2](#))
- 2.4 Asset Allocation—Description of asset allocation process, policy and its importance. ([IPMP A-7](#))
 - 2.4.1 Asset Allocation Table with targets and ranges by asset class/strategy. ([IPMP A-11](#))
 - 2.4.2 Strategic Asset Allocation—Methodologies used for setting interim targets (steps) and active re-balancing process in times of volatility. ([IPMP A-10](#))
 - 2.4.3 Asset Allocation Trend Table ([IPMP A-10](#))
- 2.5 Valuation—Summarized description of investment valuation activities. ([IPMP A-16](#))
- 2.6 Delegation of Authority and Trading Approval Limits—Description of delegation authority and link to the TRB Governance Manual. ([IPMP Attachment B](#))
- 2.7 Reporting—Table of mandated public reports (e.g., Portfolio Risk Report), frequency and links to Investment Reports on CalSTRS.com. ([IPMP A-17](#))

Section 3 – Objectives

- 3.1 General Investment Objectives—Description of the General Investment Objectives and table listing of each. ([IPMP A-2](#))
- 3.2 Sustainability—Investment Belief regarding climate change and the board’s Net Zero pledge. (New)
 - 3.2.1 Environmental, Social and Governance—Summary of policy regarding ESG including Risk Factors. ([IPMP Attachment A](#) and [IPMP A-7](#))
 - 3.2.2 Diversity Equity & Inclusion (DEI)—Summary of our DEI philosophy and its relationship to the portfolio and overall sustainability from an Investment and portfolio management perspective. (New)
 - 3.2.3 [Engagement](#) and Divestment—CalSTRS philosophy regarding active and direct engagement in the context of advancing change within an organization. CalSTRS definition of divestment will be included and a link to the [Divestment Policy](#). (New)
- 3.3 Investment Performance Objectives and Measurements—Summary introduction of CalSTRS total portfolio performance objectives. ([IPMP A-3](#))
 - 3.3.1 Total Fund Objectives—Table of the five performance objectives of for the overall portfolio. ([IPMP A-3](#))
 - 3.3.2 Total Fund Benchmark—Narrative information regarding the three measurements of the portfolio. Funding level of plan Actuarial Benchmarks, and a Reference Portfolio. ([IPMP A-5](#))
 - 3.3.2.1 Funding level description and narrative (New)
 - 3.3.2.2 Actuarial Benchmarks ([IPMP A-3](#))
 - 3.3.2.3 Reference Portfolio ([IPMP A-5](#))
- 3.4 Investment Risk—CalSTRS philosophy of risk taking: Taking and managing risks are fundamental to CalSTRS achieving its investment objectives. Risks and opportunities are carefully reviewed, and investments are made with the expectation of being rewarded with greater returns. ([IPMP A-5-7](#))
 - 3.4.1 Portfolio Risk—CalSTRS is constantly monitoring and responding to risks within the investment markets. These risks include, but are not limited to, market, liquidity, concentration, credit and inflation. Furthermore, operational risks including governance, ethics, due diligence and third-party are also regularly monitored and addressed. ([IPMP A-6](#))
 - 3.4.2 Risk Mitigations—Section to describe some of the tools and mitigations employed to address the risks. These can include the Active Risk Budget, Risk Allocation Committee, Internal Control Review, policies, reporting and other governance mechanisms. (New)
 - 3.4.2.1 Liquidity—Summary description of liquidity and how CalSTRS manages portfolio liquidity to provide capacity to meet obligations, minimizing cash drag and rebalancing of the portfolio. ([IPMP A-6](#))
 - 3.4.2.2 Active Risk Budget—Summary description of risk budgeting as a tool to manage risk within asset classes. ([IPMP A-7](#))

Section 4 – Investment Assets, Programs and Strategies

4.1 Asset Allocation Structure—Brief description of what is included in the table below. ([IPMP A-12-16](#))

<u>Asset Allocation Structure</u>		
Asset	Description	Policy
Global Equity	Brief summary of Program Objectives	Link
Fixed Income	Brief summary of Program Objectives	Link
Real Estate	Brief summary of Program Objectives	Link
Private Equity	Brief summary of Program Objectives	Link
Risk Mitigating Strategies	Brief summary of Program Objectives	Link
Inflation Sensitive	Brief summary of Program Objectives	Link
Cash/Liquidity	Brief summary of Program Objectives	N/A
Innovative Strategies	Brief summary of Program Objectives	Link
Sustainable Investment and Stewardship Strategies	Brief summary of Program Objectives	Link
Strategic Overlay	Brief summary of Program Objectives	N/A

4.2 Other Investment Programs and Policies—Brief description of overarching objectives for each investment program or policy. ([IPMP A-16](#))

<u>Other Investment Programs and Policies</u>		
Programs & Policies	Description	Policy
Securities Lending	Brief summary of Program Objectives	Link
Currency Management Program	Brief summary of Program Objectives	Link
Home Loan Program	Brief summary of Program Objectives	Link
Credit Enhancement	Brief summary of Program Objectives	Link
California Investments	Brief summary of Program Objectives	Link
Infrastructure Investment	Brief summary of Program Objectives	Link
Special Mandates	Brief summary of Program Objectives	Link
Responsible Contractor	Brief summary of Program Objectives	Link
Trade Limit Policy	Brief summary of Program Objectives	Link

Methodology and Peer Review

The IPS Draft Framework, as provided on the preceding pages of this Attachment, was developed with consideration of industry best practice as well as a broad evaluation of our peers. This approach, as detailed below, enabled staff to design a framework consistent with CalSTRS' Investment philosophies and goals.

Framework Methodology

Core principles of the modernization effort:

- Create a document that is comprehensive, aligned to best practice and useful to its intended users.
- Maintain all existing IPMP policy intent within the proposed IPS document.
- Design the structure of the document to minimize future revisions by referencing other related public documents that exist separately on CalSTRS.com as opposed to duplicating the information within the proposed IPS.

Peer Research

Staff developed the proposed framework based on significant research of our peers and industry best practices. Specifically, staff has reviewed more than a dozen Investment Policy Statements (synonymous with IPMP) from some of our largest and most similarly situated peers. The peer group included domestic and international pensions funds, private investment management companies, as well as guidance from the CFA Institute. The results of the peer review identified several notable observations when comparing and contrasting the documents. These observations included:

Highly Customized—The look, feel and components of IPS documents are as diverse as the organizations that produce them. The IPS documents range from fairly simple and informal to incredibly comprehensive and elaborate. While most IPS documents reviewed included common elements such as investment objectives, roles and responsibilities and asset allocation, each document was tailored for its own organizational specific needs.

Asset Class/Strategy Integration—Across the peer group, there were varying levels of asset class and/or asset type strategy policy integrated into the IPS. That is, some peer IPS documents provided an overarching investment philosophy from a total fund and principle-based perspective and peers at the other end of the IPS spectrum, included more granular and explicit policy requirements at the asset class and/or strategy level.

Sustainability and Diversity—ESG and DEI considerations were mentioned in most IPS documents reviewed; however, it was rare for the IPS documents to include a distinct section specifically to address these issues. The CFA Institute encourages investors to consider and include such concepts as part of their philosophical approach to investing. CalSTRS IPS framework *would* continue to include ESG and DEI concepts as they relate to our broader investment strategies.