



Investment Committee

Item Number 5c – Open Session

Subject: Investment Policy Statement (IPMP Modernization Project) – First Reading

Presenter(s): Shifat Hasan, Melissa DaRonco and David Munoz

Item Type: Action

Date & Time: May 4, 2023 – 10 minutes

Attachment(s): Attachment 1 – Investment Policy Statement – First Reading Clean Version

Attachment 2 – Investment Policy Statement – First Reading Redline Version

Attachment 3 – Meketa Concurrence Memorandum

PowerPoint(s): None

Item Purpose

At the [January Board](#) Investment Committee (IC) meeting, staff presented the *preliminary* reading of the Investment Policy Statement (IPS). The IPS represents the modernization of CalSTRS existing Investment Policy and Management Plan (IPMP). The purpose of this item is to present the IC with a first reading of the IPS.

Recommendation

Staff recommends and the Board Consultant, Meketa Investment Group, concurs that the IC consider adopting the proposed IPS document as a first reading to replace the existing IPMP.

Executive Summary

As presented at the prior November and January IC meetings, the IPS transitions our existing IPMP into a modernized and best-in-class policy document. Our recommended draft is based on significant peer review, best practice provided by the CFA Institute and feedback received from the IC. Moreover, the IPS maintains the spirit and policy intent of the existing IPMP.

The following is a summary of updates and enhancements related to the IPS that have been included since the *preliminary* reading in January:

1. *Delegation of Authority (Section 1.4)*— Consolidated the Board’s existing delegation of trading limit authority with the Chief Investment Officer (CIO). In current practice, the Board delegation extends trading limit authority to the CIO *and all* other Investment staff within the Investment Branch. Consistent with best practice, this update will concentrate the Board’s trading limit authority exclusively with the CIO, which can then be further delegated down to specific investment staff. This update is consistent with the Board’s governance structure and will replace “Attachment B” from the existing IPMP. The Board will continue to receive the annual Review of Delegation to Staff, which includes all trading limit authority for oversight.
2. Long-term Policy Targets Implementation (*Section 1.5.1*)—Updated language for clarity and to reflect current practice.
3. Portfolio Rebalancing (*Section 1.5.2*)—Updated language for clarity and to reflect current practice.
4. *Investment Reporting (Section 1.7)*—Included a description of investment reporting to outline differences in the presentation of investment values based on data aggregation methods.
5. *Benchmarks (Section 4.1)*—Asset class benchmarks exist within respective asset class policies. The Total Public Equity and the Cash/Liquidity benchmarks have been included in the IPS because they are not referenced in any other policies.
6. Other Non-substantive Updates (Various Sections)—Modernizing the existing IPMP included various technical “cleanup” items that are listed below:
 - Removal of Attachment A—The Environmental, Social, and Governance Policy (Attachment A) is being separated from the IPS. This Policy already exists on CalSTRS.com and it is duplicative to also have in the IPS.
 - Removal of Investment Resolution—Actions taken by the CalSTRS Board, as documented in the existing IPMP Resolution, are reflected in meeting minutes.
 - Relocation of Ancillary Investment Information—Supplementary and historical investment information are being transitioned to new webpage page on CalSTRS.com.
 - Based on IC feedback, the Diversity, Equity and Inclusion section was further refined and the CalSTRS Diversity Statement was added.

All of the updates described above as well as other technical cleanup edits are provided in track changes within Attachment 2. Once adopted, the process for future updates to the IPS and necessary Board approval will be streamlined and less frequent than in our current state. The next major update to the IPS, after adoption, would be to implement the results of the Asset Liability Management Study, including the adoption of the new asset allocation.

Background

The process of modernizing the existing IPMP has been an ongoing and collaborative effort for more than a year. Significant research of industry best practice and peer review has guided the process into the IPS document that is before the IC today. The IPS, when adopted, will represent the core components of our investment program, board governance over investments, and a clear structure for which staff will make investment decisions.

Strategic Plan Linkage: Goal 1 of the [CalSTRS Strategic Plan](#). Trusted stewards – Ensuring a well-governed, financially sound trust fund.

Board Policy Linkage: [CalSTRS Investment Policy and Management Plan](#)

Optional Reference Material: (*e.g., prior board items, supplemental educational materials, etc.*)

January 26, 2023 Investment Committee: [Investment Policy Statement \(IPMP Modernization Project\) – Preliminary Reading](#)

November 3, 2022 Investment Committee: [Investment Policy and Management Plan Modernization Project](#)

July 7, 2022 Investment Committee: [Investment Policy & Management Plan Revision – Asset Allocation – First Reading](#)

[CFA Institute: Elements of an Investment Policy Statement for Institutional Investors](#)