



Investment Committee

Item Number 3 – Open Session

Subject: Approval of Minutes of the July 8, 2021, Investment Committee – Open Session – Revised

Presenter(s): Chairperson

Item Type: Action

Date & Time: September 1, 2021 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board – Investment Committee Meeting

July 8, 2021

OPEN SESSION

LOCATION: Web Conference

COMMITTEE MEMBERS PRESENT

Joy Higa, Chairperson

Sharon Hendricks, Vice Chairperson

Harry Keiley

Denise Bradford

William Prezant

Jennifer Urdan

Karen Yamamoto

Gayle Miller, representing the Director of Finance, Keely Bosler

Frank Ruffino representing the State Treasurer, Fiona Ma

Blake Johnson, representing the State Superintendent of Public Instruction, Tony Thurmond

Betty Yee, State Controller

OTHER BOARD MEMBERS PRESENT

Jennifer Whitaker, representing the Director of Finance, Keely Bosler

Karen Greene-Ross, representing the State Controller, Betty Yee

Lynn Paquin, representing the State Controller, Betty Yee

STAFF PRESENT

Cassandra Lichnock, Chief Executive Officer

Christopher Ailman, Chief Investment Officer

Brian J. Bartow, General Counsel

Lisa Blatnick, Chief of Administrative Services

Ashish Jain, Chief Technology Officer

Bill Perez, Chief Benefits Officer

Julie Underwood, Chief Financial Officer

Scott Chan, Deputy Chief Investment Officer

Mike DiRé, Director, Real Estate

Shifat Hasan, Director, Investment Performance and Compliance

Glenn Hosokawa, Director, Fixed Income

Kirsty Jenkinson, Director, Sustainable Investments and Stewardship Strategies

Geraldine Jimenez, Director, Investment Strategy and Risk

June Kim, Director, Global Equities

Paul Shantic, Director, Inflation Sensitive

Steven Tong, Director, Risk Mitigating Strategies

April Wilcox, Director, Investment Services

Margot Wirth, Director, Private Equity

Kelly Criss, Interim Director, Investment Operations

Larry Jensen, Chief Auditor

Teresa Schilling, Chief Public Affairs Officer

Melissa Norcia, Director Human Resources

Rosie Lucchesini-Jack, Portfolio Manager

Josh Diedesch, Portfolio Manager

David Murphy, Portfolio Manager

Philip Larrieu, Associate Portfolio Manager

Rob Ross, Portfolio Manager

LaShae Badelita, Investment Officer III

Alex Holtz, Senior Counsel

OTHER PRESENT

Allan Emkin, Meketa Investment Group

John Haggerty, Meketa Investment Group

Steven Hartt, Meketa Investment Group

Stephen McCourt, Meketa Investment Group

Stephanie Sorg, Meketa Investment Group

Ben Maslan, RCLCO

Taylor Mammen, RCLCO

Tiffany Reeves, Fiduciary Counsel

Chris Waddell, Fiduciary Counsel

Joe Bartell, CTA
Kevin Welch, CTA
Jennifer Baker, CalRTA
Leonard Goldberg, UTLA
Mary Kay Scheid, CTA
Susie Chow, UTLA-R
Ed Foglia
Doug Orr, CFT
Orval Garrison, CTA/NEA Retired
Dr. Sandy Keaton
Kathleen McCreery, ACSA
Peter Morse, SMC Faculty Association President

A quorum being present, Chairperson Higa called the Open Session meeting of the Investment Committee meeting to order at 9:04 a.m.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

MOTION duly made by Ms. Miller, seconded by Mr. Prezant, and carried by the consent of the committee to approve the Committee Agenda.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Prezant	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		

II. OPPORTUNITIES FOR STATEMENTS FROM THE PUBLIC (Item 2)

The committee noted that it had received emails and letters outside of the committee meeting from members of the public urging divestment from fossil fuels.

The committee heard from Paul Banson, who spoke in support of divestment from fossil fuels and noted CalSTRS' fiduciary duty is to carry out efforts to divest.

The committee heard from Derrick Shore, who spoke in support of fossil fuel divestment and noted that the growth of the pension requires divestment.

The committee heard from Julie Cyril, who spoke in support of divestment from

Enbridge and fossil fuels and to invest in sound investments.

The committee heard from Sonny Galbridge, who read a prepared statement urging fossil fuel divestment and noted that the climate crisis impacts the mental health of students. Ms. Galbridge also spoke about the recent change of leadership on the Exxon board and noted that the new board is not proven yet.

The committee heard from Mark Norberg, who spoke about claims regarding CalSTRS losing money from tobacco divestment and that the claimed loss of \$5bil has not been proven after requests to provide information to substantiate the claimed loss.

The committee heard from Shelly Ihrke, who spoke about fossil fuel divestment and that divestment is not irresponsible.

The committee heard from Park Guthrie, who urged CalSTRS to divest from fossil fuels and spoke about climate change and claimed investment in fossil fuels is child neglect.

The committee heard from Thai, who spoke in support of divestment from fossil fuels and questioned trusting a company like Exxon.

The committee heard from Pamela, who urged the board to divest from fossil fuels and Enbridge. She also played an audio clip prepared by indigenous people who spoke against fossil fuel investments and the negative impacts to the land and indigenous people.

The committee heard from Sarah Jones, who spoke about climate change and divestment from fossil fuels. Ms. Jones asked for support/substantiation regarding statements made by the CIO.

The committee heard from Jennifer Baker, who thanked the board for its work and substantial changes. Ms. Baker also offered her continued support of the ESG policies implemented by the board.

The committee heard from Lola (minor), who spoke about climate issues and her efforts as an advocate. Lola urged immediate divestment from fossil fuels and Enbridge.

The committee heard from Diana, who spoke in support of immediate fossil fuel divestment and noted that there is evidence that fossil fuel investing is a declining market.

The committee heard from Miriam, who urged divestment in fossil fuels and Enbridge and spoke about land destruction, climate change and the negative impacts on indigenous people.

The committee heard from Adrian Valdez, who spoke about unsafe working conditions at PetSmart, including the neglect and negative impact on the animals. Ms. Valdez requested the board to contact BC Partners and request that they address the unsafe working conditions.

The committee heard from Raven (minor) who spoke about fossil fuel divestment and called for divestment.

III. APPROVAL OF THE MINUTES OF THE JUNE 10, 2021 INVESTMENT COMMITTEE MEETING – OPEN SESSION (Item 3)

The committee received and considered the proposed Minutes of the June 10, 2021, Investment Committee Meeting – Open Session.

IV. INVESTMENT POLICY REVISIONS - REAL ESTATE POLICY REVISION – AGILITY FOR COLLABORATIVE MODEL – SECOND READING (Item 4a)

The committee received and considered the proposed revisions to the Real Estate Investment Policy.

V. INVESTMENT POLICY REVISIONS – GLOBAL EQUITY POLICY REVISION – BENCHMARK – SECOND READING (Item 4b)

The committee received and considered the proposed revisions to the Global Equity Investment Policy.

VI. INVESTMENT COMMITTEE CHARTER REVIEW (Item 5)

The committee received and considered the proposed revisions to the Investment Committee Charter.

Items 3, 4a, 4b and 5 were approved by the consent of the committee.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Prezant	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		

VII. ANNUAL REVIEW OF DELEGATION TO STAFF (Item 6)

The committee received the Annual Review of Delegation to Staff.

VIII. REPORT PURSUANT TO ASSEMBLY BILL 2833 (Item 7)

The committee received the annual report pursuant to Assembly Bill 2833.

IX. COLLABORATIVE MODEL PILLAR UPDATE (Item 8)

The committee received the Collaborative Model Pillar update.

Items 6, 7 and 8 were approved by the consent of the committee.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Prezant	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		

X. FISCAL YEAR 2021-2022 INVESTMENT COMMITTEE WORK PLAN (Item 9)

The committee received the Investment Committee Work Plan from Mr. Ailman, including discussion and overview about the Collaborative Model 2.0, cost savings, the path to a low carbon future, studying climate risk in the race to net zero and the need to create a work plan. Ms. Jenkinson presented how the path forward will not be a straight road and discussed three words to net zero: risk, return and influence. Ms. Jenkinson also discussed how the data is challenging but is improving and noted that there is no plug and play methodology for achieving net zero. The committee discussed the long-term tasks associated with the work plan, the path to a low carbon future and the barriers to achieving net zero. Mr. Emkin of Meketa noted that this process has been ongoing for a long time and the board and staff have done an enormous amount of work in the commitment to achieve net zero. The committee also discussed the challenges presented by lack of control over external parties and the need for a global commitment to achieve net zero. Mr. Ailman noted that the framework of the work plan will continue to evolve even after adoption.

The committee discussed the need for robust reporting and the possible need to engage a science body to look at the data to achieve net zero. The committee also discussed the need for additional resources to implement the work plan, a comprehensive approach across all staff and the need for internal and external expertise to achieve net zero. The committee considered and discussed the four P’s (pledge, plan, proceed and publish) outlined in the work plan and discussed the plan going forward. Mr. Ailman noted that there are a variety of challenges to get to net zero and it is an iterative process that will require the government to play a substantial role. The committee discussed the net zero pledge and what the correct sequence should be in implementing the pledge given that the work that needs to be done to implement the work plan is not fully known or understood. The committee also discussed the need to define our “North Star” and to find what others

are doing to achieve net zero. Ms. Reeves, fiduciary counsel, recommended thinking about the process and the sequence of the process and noted the next step is information gathering. The committee discussed the pledge being a commitment to move forward and do the work but not at the risk of the members. The committee noted that many critical pieces in the overall work plan haven't been discussed along with the need to align the benchmarks, pledges, and risk budgets. The committee considered the need for the work plan coming back for further review and discussions during the September meeting. The committee also discussed the CalSTRS mission and the relationship/balance to achieving net zero. The committee requested follow up on the benchmarks referenced in the work plan and to address other details and critical pieces not discussed.

MOTION duly made by Ms. Hendricks, seconded by Controller Yee, and carried to adopt the proposed work plan with flexibility.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Prezant	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		
Chairperson, Higa	X		

PUBLIC COMMENT

The committee heard from Kevin Welch who spoke about support of the net zero pledge and transition to a low carbon economy.

The committee heard from Paula Buell who played an audio statement from Debbie Klein who spoke about the climate crisis and divestment from fossil fuels.

The committee heard from Clark who wanted to know why the North Star pledge didn't include a discussion about fossil fuel divestment and urged CalSTRS to divest from fossil fuels.

The committee heard from Katie who spoke about climate issues and stated that the 2050 net zero goal in the work plan would be difficult to achieve unless CalSTRS divested in fossil fuels.

The committee heard from Dulce (minor) who spoke about land destruction and who played an audio clip regarding divestment in Enbridge.

The committee heard from Elaine who spoke about climate change urged to say no to coal, gas, and oil.

The committee heard from Diana Curiel, who encouraged CalSTRS to look at all models and data, suggested revisiting the divestment policy, and stated that the 2050 goal is too long.

XI. FISCAL YEAR 2021-2022 INVESTMENT BUSINESS PLANS - 10-YEAR FINANCIAL PLAN (Items 10a – 10k)

The committee received and considered the investment business plans from Mr. Ailman. The committee received information about the 10-year financial plan and the complexity of the plans increasing over time. The committee also received information about the Collaborative Model generating large fee savings and greater investment returns. The committee considered the business plans and discussed the availability, timing, and accuracy of data to support the cost savings generated through implementation of the Collaborative Model. The committee also discussed the challenges of succession planning and emphasized its continued priority moving forward.

The committee acknowledged diversity and inclusion being implemented in all business plans.

The committee inquired with Brian Bartow, General Counsel, as to whether the committee should receive the investment plans as an informational item or approve as an action item. Mr. Bartow recommended that the committee receive the business plans as informational and not approve as an action item.

There were no comments from the public on this Item.

XII. FISCAL YEAR 2021-2022 INVESTMENT BUSINESS PLANS - INVESTMENT POLICY & MANAGEMENT PLAN REVISION – ASSET ALLOCATION WEIGHTS – FIRST READING (Item 11)

The committee received and considered the proposed revisions to the Investment Policy and Management Plan from Ms. Jimenez, which included discussion about the staff recommended policy changes: (1) New Fiscal Year allocation targets and implementation plan (2) The approved changes to the RMS benchmark, and (3) An increase in the allotment to illiquid assets to match the Asset Allocation shift.

MOTION duly made by Controller Yee, seconded by Ms. Bradford, and carried to approve the proposed revisions to the Investment Policy and Management Plan-Asset Allocation Weights, as recommended by staff.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		

Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Prezant	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Controller Yee	X		
Chairperson, Higa	X		

There were no comments from the public on this Item.

XIII. CHIEF INVESTMENT OFFICER'S REPORT (Item 12)

The committee received the Open Session Chief Investment Officer report from Mr. Ailman, including a recap on the current value of the fund which hit a record high above \$308b. Mr. Ailman indicated that he anticipates returns will be above ~25%, which would be the highest return since the late 1980's, but the figures will not be official until July 21, 2021. Mr. Ailman also highlighted the risk report and the three risk budgets within the report. The investment student interns introduced themselves to the committee. Mr. Ailman provided the committee with a status report on plans to return to the office indicating that we continue to mainly operate remotely but the plan is to begin a gradual return to the office on September 7, the day after Labor Day. Mr. Ailman noted a desire to have a connected office whether working remotely or in the office, but the rule for 2021 is flexibility. Mr. Ailman indicated the return plan and schedule will continue to be revisited through the remainder of 2021. The committee acknowledged the complexity of the pandemic issues and the return plans and cautioned making permanent decisions on our workforce.

There was no public comment on this item.

The committee meeting recessed at 11:39 a.m. and returned at 1:01 p.m. Ms. Whitaker replaced Ms. Miller for the Department of Finance and Ms. Paquin replaced Controller Yee at 1:01 p.m.

XIV. INVESTMENT POLICY REVISIONS FIXED INCOME POLICY REVISION – RISK BUDGET – FIRST READING (Item 13a)

The committee received the first reading of the Fixed Income Policy Revision – Risk Budget from Mr. Chan, Mr. Hosokawa, and Ms. Lucchesini-Jack. The committee discussed the proposed revisions to include risk budgets and to aggregate and simplify benchmarks. The committee considered the plan to adopt a risk budget in the public market assets and discussed not adopting a risk budget in private market assets. The committee also considered the proposed risk budget range of 10- to 60bps and the proposed private credit max allocation of 5%. The committee discussed compensation

and considered the benchmarking and compensation changes recommended by staff and Meketa. The committee discussed how the risk budget approach helps manage risk by identifying where risks are being taken and generating good returns and where returns are not good. The committee discussed how the policy change provides a holistic way of managing risk taken by staff. The committee considered how the adoption of a risk budget allows the committee to assess the relative risk that staff can take under delegated authority. The committee also discussed the recommendation by Meketa to harmonize the benchmarks with the proposed policy changes and requested follow up regarding benchmarking and compensation during this fiscal year.

XV. INVESTMENT POLICY REVISIONS SUSTAINABLE INVESTMENT & STEWARDSHIP STRATEGIES – RISK BUDGET – FIRST READING (Item 13b)

The committee received the first reading of the Sustainable Investment & Stewardship Strategies Policy Revision – Risk Budget from Ms. Jenkinson. The committee discussed the proposed revisions to include a risk budget and considered the proposed risk budget range of 50 to 250bps. The committee discussed how staff is currently managing the portfolio to be compliant with the proposed risk budget. The committee considered and discussed the compensation and benchmarking recommendations discussed in the report from Meketa. The committee discussed what makes a benchmark and how risk and return go together.

Controller Yee replaced Ms. Paquin at 1:36 p.m.

XVI. INVESTMENT POLICY REVISIONS PRIVATE EQUITY POLICY REVISION – STAFF DISCRETION – FIRST READING (Item 13c)

The committee received the first reading of the Private Equity Policy Revision – Staff Discretion from Ms. Wirth and Mr. Ross. The committee discussed the substantial growth in the private equity program and private equity portfolio since 2017. The committee discussed what is needed to implement the Collaborative Model 2.0, increasing the percentage of co-investments within the Private Equity portfolio, and decreasing external fees. The committee considered the need for greater flexibility to improve competitiveness within co-investment opportunities. The committee also discussed the risk of concentration and diversity allocation. The committee considered the evolution of the Private Equity program consistent with the transition to Collaborative Model 2.0. The committee also considered the increased financial and reputational risks associated with the proposed increase in delegation limits and the removal of certain oversight requirements by fiduciary counsel. The committee discussed the increased need for internal expertise to carry out the program without external oversight, which is driven by the Collaborative Model. The committee considered the rationale for eliminating the fiduciary counsel for co-investments and discussed oversight industry standards within co-investments. The committee discussed how Private Equity would keep the committee updated and Mr. Hartt of Meketa reported that Private Equity frequently works with Meketa who does report back to the committee. The committee

considered how the current third-party oversight of fiduciary counsel in the co-investment program is not efficient and creates roadblocks to investment opportunities. The committee also considered how Meketa did not provide a blanket recommendation in its report and discussed having Meketa conduct further review and ultimately provide a recommendation on the proposed policy change.

XVII. DIVERSITY IN MANAGEMENT OF INVESTMENTS (Item 14)

The committee received the Diversity in Management of Investments report from Mr. Ailman, Ms. Kim and Ms. Badelita. Mr. Ailman provided opening remarks and discussed the forming of a steering committee to address improving diversity and also provided historical background. Mr. Ailman indicated the focus of this report is on the diversity of investment staff and the diversity of the investment industry while the diversity of corporate boards falls under the SISS team as part of their work plan. Ms. Badelita discussed the creation of the CalSTRS Investment Branch diversity definition. Ms. Badelita also presented the strategic road map of the core objectives (clarity, priority, relevance and implementation) and discussed each objective. The committee acknowledged its unfettered support of the Diversity, Equity and Inclusion mission. The committee also discussed the need to address Diversity, Equity and Inclusion in CalSTRS recruitment efforts and considered the need to take deliberate efforts now and be collaborative internally. Ms. Norcia noted that the Diversity, Equity and Inclusion mission will be part of the business plan going forward. Mr. Bartow also noted working with Ms. Norcia and others to develop a Diversity and Inclusion policy and an enterprise wide training program as well as working through various legal issues and Diversity and Inclusion continues to be a major focus for the organization.

XVIII. REVIEW INFORMATION REQUESTS (Item 15)

Regarding Item 4(b), with the adoption of risk budgeting across multiple asset classes the committee requested staff to follow up with Meketa to form a small working group to review compensation and to address Meketa's suggestion that the committee review incentive compensation target levels early in the next fiscal year to harmonize these targets with the active risk budgets set across asset classes.

Regarding Item 9, the committee requested follow up on the benchmarks referenced in the work plan and to address other details and critical pieces not discussed.

Regarding Item 10a-10k, the committee requested staff to explore the possibility of a diversity forum in collaboration with ILPA, CalSTRS and CalPERS

Regarding Item 13a-13c, the committee requested staff to follow up on items related to coordinating compensation and benchmarking and to report back to the committee on recommended review/action. The committee recommended that staff talk with Meketa and the General Counsel about benchmarks and compensation and possibly form a small subcommittee workgroup on this topic. The committee requested staff receive suggestions from Amy McDuffee of Global Governance Advisors on how to address the

overall benchmarking and compensation issues holistically across the proposed Fixed Income, SISS and Private Equity policy revisions.

Regarding Item 13c, the committee requested that staff identify additional risks that may be taken by implementing the proposed policy revisions. Committee requested that this Item be discussed in the future in Closed Session to confer with counsel. Committee requested that staff obtain additional comments and recommendations from Meketa.

XIX. DRAFT AGENDA FOR NEXT INVESTMENT COMMITTEE MEETING (Item 16)

The committee reviewed the draft agenda for the next meeting. Mr. Ailman highlighted that the upcoming meeting is the performance measurement meeting and also noted the net zero and climate action work plan discussion as well as the Private Equity discussion in Closed Session.

XX. OPPORTUNITY FOR ADDITIONAL STATEMENTS FROM THE PUBLIC

There were no additional statements from the public.

RECESS

The Open Session of the committee meeting recessed at 2:52 p.m. and the committee went into Closed Session. The committee meeting reconvened in Open Session at 3:54 p.m.

Chairperson Higa stated the committee took-action on a confidential litigation matter while in Closed Session.

XXI. ADJOURNMENT

There being no further business to conduct, Chairperson Higa adjourned the meeting at 3:55 p.m.

Cassandra Lichnock, Chief Executive Officer
And Secretary to the Teachers' Retirement Board

Joy Higa, Chairperson

Prepared by: Alex Holtz, Senior Counsel