



Investment Committee

Item Number 7 – Open Session

Subject: Approval of Minutes of the January 27, 2022, Investment Committee – Open Session

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: March 3, 2022 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board – Investment Committee Meeting

January 27, 2022

OPEN SESSION

LOCATION: Web Conference

COMMITTEE MEMBERS PRESENT

Joy Higa, Chairperson

Sharon Hendricks, Vice Chairperson

Harry Keiley

Denise Bradford

William Prezant

Jennifer Urdan

Ken Tang

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

Lynn Paquin, representing the State Controller, Betty Yee

Karen Greene-Ross, representing the State Controller, Betty Yee
Sertan Usanmaz, representing the State Treasurer, Fiona Ma

STAFF PRESENT

Cassandra Lichnock, Chief Executive Officer
Christopher Ailman, Chief Investment Officer
Brian J. Bartow, General Counsel
Lisa Blatnick, Chief Operating Officer
Ashish Jain, Chief Technology Officer
Bill Perez, Chief Benefits Officer
Julie Underwood, Chief Financial Officer
Teresa Schilling, Chief Public Affairs Officer
Melissa Norcia, Chief Administrative Officer
Scott Chan, Deputy Chief Investment Officer
Mike DiRé, Director, Real Estate
Shifat Hasan, Head of 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, Head of Investment Operations
Rosie Lucchesini-Jack, Portfolio Manager, Fixed Income
Rob Ross, Portfolio Manager, Private Equity
Alex Holtz, Senior Counsel

OTHERS PRESENT

Allan Emkin, Meketa Investment Group
John Haggerty, Meketa Investment Group
Stephen McCourt, Meketa Investment Group
Tad Fergusson, Meketa Investment Group
Stephanie Sorg, Meketa Investment Group
Ben Maslan, RCLCO
Dana Dillon, CTA/NEA-Retired
Orval Garrison, President CTA/NEA-Retired
Mary Kay Scheid, Vice Chair, CTA Retirement Committee
Leonard Goldberg, UTLA
Peter Morse, ACCC
Martha Zaragoza Diaz, Delta Kappa Gamma California
Jennifer Baker, CalRTA
Doug Orr, CFT

Joe Bartell, CTA
Kevin Welch, CTA
Sandy Keaton
Richard Hansen, California Community College Independents (CCCI)
Pat Geyer, CalRTA
Rena Meyers-Dahlkamp
Darlene Simpson
Carla McKellar
Tabitha Newman
Joan Lowman
Mario Cacace
Greyson Sims
Jose Lopez
Kevin Garcia

A quorum being present, Chairperson Higa called the Open Session meeting of the Investment Committee meeting to order at 9:15 a.m.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

MOTION duly made by Ms. Hendricks, seconded by Ms. Miller, 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		
Mr. Tang	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, letters and a photobook outside of the committee meeting from members of the public urging divestment from Enbridge and fossil fuels.

The committee heard an audio recording from Omar Elmawi, who spoke about a large oil pipeline being built in Kenya, the need to divest in the companies building the pipeline, and the ongoing violence and negative impacts associated with the oil pipeline.

The committee heard from Rena Meyers-Dahlkamp, a supporter of Earth Guardians, who discussed the ongoing violence associated with the oil pipeline and the fossil fuel industry in the Republic of Congo and urged divestment.

The committee heard from Darlene Simpson, a tenant in a residential property located in Escondido, California owned by Blackstone, who spoke about corporate takeover of residential housing in California, rent problems and conditions that harm tenants, especially minority tenants. She urged CalSTRS to reconsider investing in Blackstone.

The committee heard from Carla McKellar, who spoke about fossil fuel divestment and noted that she was looking forward to the upcoming Sustainability Symposium.

****NOTE:** At this point we lost the public comment line due to technical difficulties. The committee agreed to resume the public comment agenda item for the balance of the allotted time at the end of agenda if the public line was restored. The public comment line was eventually fixed, and the public comment agenda resumed for the balance of the public comment time.*

The committee heard from Tabitha Newman, who spoke about a labor dispute involving Bob's Discount Furniture stores. Ms. Newman spoke about CalSTRS' investment in the parent company that owns Bob's Discount Furniture stores, she questioned whether that investment was appropriate, and she urged the store to resolve the labor dispute.

The committee heard an audio recording from Tony Lang, who spoke about labor issues involving Bob's Discount Furniture stores.

The committee heard from Joan Lowman, who spoke about fossil fuel divestment and urged everyone to attend the upcoming Sustainability Symposium and to review the booklet provided by Fossil Free California.

The committee heard from Dana Dillon, who gave kudos to the Net Zero team, applauded efforts to provide better reporting, gave kudos to SISS and its diversity efforts, gave kudos to the investment successes of 2021, and gave kudos for the success with the Exxon Board.

The Committee heard from Mario Cacace, who spoke about a labor dispute and ongoing labor issues with Bob' Discount Furniture stores.

III. PRIVATE EQUITY POLICY REVISION – CO-INVESTMENTS – SECOND READING (Item 3)

The committee received the second reading of the Private Equity Policy Revision – Co-Investments from Ms. Wirth and Mr. Ross. The committee discussed the proposed revisions to increase the delegation of authority limits to accommodate the increased and growing size of the Private Equity portfolio. The committee discussed the projected growth of the Private Equity Program from \$8 billion to \$16 billion within the next 3-4 years. The committee also discussed how the increased delegation of authority is now

expressed as a percentage of the Private Equity portfolio Net Asst Value rather than fixed dollar amounts, which will allow the limits to evolve with continued Private Equity Program growth or contraction.

The committee considered how the revisions will provide more flexibility and enable Private Equity’s co-investment program to be more competitive and continue evolving by permitting more types of co-investing and streamlining processes. The committee also considered how the increasing portfolio size may allow for participation in larger deals and how the changes are consistent with and support the transition to Collaborative Model 2.0.

The committee discussed how the co-investment market has evolved and is more competitive and how Private Equity’s staff has also grown to include highly talented staff members with specific co-investment expertise. The committee also discussed how the increase in delegated authority will accommodate Private Equity’s growth and allow better opportunities to compete for larger co-investment deals.

The committee considered the revisions to expand the range of co-investment sources and allowable strategies by permitting co-investments with both existing General Partners and General Partners that are not in the CalSTRS’ portfolio. The committee discussed building out the co-investment program to a target of 25%-35% co-investments to meet Collaborative Model 2.0 visions. The committee considered the additional risks with the proposed revisions to the policy and discussed how those risks will be mitigated through increased monitoring and enhanced reporting by the independent fiduciary. The committee also considered ESG and reputational risks associated with participating in more co-investments and discussed how to address potential non-alignment issues. The committee discussed how partners will generally invest equally to CalSTRS and the trend with larger limited partners is to acknowledge and embrace ESG policies. The committee considered how CalSTRS will continue to maintain a high level of diversity with the increasing size of the portfolio. The committee was also informed that final approval of co-investments will remain with the DCIO and/or the CIO.

MOTION duly made by Controller Yee, seconded by Ms. Miller, and carried to adopt the proposed Private Equity Policy revisions to increase delegation of authority limits, permit co-investing with other general partners, expand permissible terms of co-investments, provide increased capacity for special mandate co-investing, and update the diversification and reporting sections of the Policy.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Prezant	X		

Ms. Urdan	X		
Ms. Yamamoto	X		
Mr. Tang	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 Rena Meyers-Dahlkamp, who spoke about ESG and reputational risk as it relates to the ongoing violence and crimes against humanity associated with the oil pipeline being built in the Republic of Congo and urged divestment from the companies building the pipeline.

The committee heard from Greyson Sims, who spoke about tenant issues regarding rent and living conditions in residential properties owned by Blackstone and urged Blackstone to communicate with the tenants on these issues.

The committee heard from Jose Lopez, who expressed concern regarding CalSTRS' investments with Blackstone. Mr. Lopez also spoke about his concerns about Blackstone as a landlord and unsuccessful attempts to contact Blackstone regarding tenant issues.

IV. INVESTMENT POLICY & MANAGEMENT PLAN REVISION – ASSET ALLOCATION –FIRST READING (Item 4)

The committee received the first reading of the Investment Policy & Management Plan Revision – Asset Allocation from Ms. Jimenez. The committee discussed the long-term targets and the Implementation Plan with Step shifts to the portfolio that were previously adopted into the Board's Investment Policy and Management Plan at the January 2020 meeting. The committee considered the proposed revision to shift the Asset Allocation Targets and Policy Benchmark to a modified Third Step of the implementation plan. The committee discussed increasing the Private Equity target by 2% to a long-term target of 13%, which is faster than expected due to opportunities available over the last year, and also discussed decreasing the Public Equity target by 2% to fund the increased Private Equity target. The committee discussed Inflation Sensitive will remain at its current target weight of 4% as opportunities were limited over the last year. The committee considered whether to expect further increases in the Private Equity Allocations due to expected large growth in the portfolio. The committee also discussed Inflation Sensitive not meeting its previous target goals but believes the 6% target allocation will likely be met by June 2022. The committee considered adding additional asset classes to the asset allocations and discussed adding an opportunistic portfolio to be nimble and take advantage of unique market opportunities. The committee also discussed the capital market changes and assumptions. The committee discussed that staff and the consultant regularly monitor the asset allocations and will continue making recommended shifts to

the Policy Targets at quarters end where appropriate. Mr. Ailman noted that the single most important decision is picking the asset allocations. The committee discussed the next Asset Liability Management study will happen next year.

MOTION duly made by Ms. Miller, seconded by Ms. Bradford, and carried to adopt the revised Investment Policy & Management Plan with allocation targets and implementation plan changes effective as of January 1, 2022.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Prezant	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Mr. Tang	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 Garcia, who asked the committee to reconsider CalSTRS investment in Blackstone and urged Blackstone to contact tenants in Blackstone owned properties.

V. CHIEF INVESTMENT OFFICER’S REPORT (Item 5)

The committee received the Open Session Chief Investment Officer’s report from Mr. Ailman. Mr. Ailman informed the committee that the portfolio reached an all-time high value of \$327 billion in December 2021 and noted that the market has since been very volatile. The committee reviewed the asset allocation over the past three years, noting its stability, along with the slow, steady growth in Private equity over the past two years, despite a dip due to the pandemic.

Mr. Ailman provided a recap of 2021 economic performance and highlighted the steady rise of the U.S. stock market throughout 2021, which was up 27%, due in part to stimulus provided by the Federal Reserve during the pandemic. Mr. Ailman informed the committee that the 2021 investment returns outperformed the benchmarks with strong overall returns, noting that the U.S. market outperformed the non-U.S. market. The committee considered the increased volatility and negative market performance since the beginning of 2022. The committee discussed potential impacts to the portfolio, such as

The committee also discussed risks on the horizon, including pandemics, domestic

terrorism, Russia, North Korea, Iran, digital virus/cyber-attacks and their respective potential impacts on the portfolio. Mr. Ailman noted the best defense to “inevitable surprises” is to diversify the portfolio. The committee discussed China’s easing of their economic policy and how it affects the portfolio. The committee also considered whether emerging markets have been additive to the portfolio, and the prospects for markets to move from emerging to developed markets.

PUBLIC COMMENT

None.

VI. APPROVAL OF MINUTES OF THE NOVEMBER 4, 2021, INVESTMENT COMMITTEE MEETING – OPEN SESSION (ITEM 6)

The committee received and considered the proposed minutes of the November 4, 2021, Investment Committee Meeting – Open Session.

Item 6 was 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		
Mr. Tang	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. NET ZERO STRATEGY – PROGRESS AND PLANNING UPDATE (Item 7)

The committee received the Net Zero strategy progress and planning update. The committee praised the progress and planning update report and encouraged everyone to review the report in its entirety.

PUBLIC COMMENT

The committee heard from Kevin Welch, who expressed support for the CalSTRS’ Net Zero pledge and urged the committee to invest in sound, responsible investments.

VIII. SISS – 2022 STEWARDSHIP PRIORITIES, 2021 HIGHLIGHTS (Item 8)

The committee received the SISS-2022 Stewardship Priorities, 2021 Highlights report. The committee praised the report and encouraged everyone to review the report in its entirety.

PUBLIC COMMENT

The committee heard from Mary Kay Scheid, who spoke in support of CalSTRS' Net Zero pledge and spoke about investing in sound, responsible investments.

IX. REVIEW INFORMATION REQUESTS (Item 9)

Regarding Item 3, the committee requested that the enhanced semi-annual reporting that will be used to mitigate risks, as noted by Meketa, include a report on special mandates and delineate certain information such as the number of co-investments with existing General Partners, the number of co-investments with new General Partners, the percentage of General Partners investing less than CalSTRS, the percentage of General Partners investing equal to CalSTRS, etc.

Regarding Item 3, it was suggested that newly hired investment staff be introduced to and meet the committee during future meetings.

Regarding Item 4, the committee requested a future agenda item regarding an opportunistic asset class/portfolio and to look at what others are doing in this area to address opportunistic investments.

Regarding Item 5, the committee requested an analysis regarding the risks and benefits of emerging market investments next year.

X. DRAFT AGENDA FOR THE NEXT INVESTMENT COMMITTEE MEETING (Item 10)

The committee reviewed the draft agenda for the next meeting.

XI. 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 11:38 a.m. and the committee went into Closed Session. The committee meeting reconvened in Open Session at 12:29 p.m.

Chairperson Higa stated the committee took no action while in Closed Session.

XII. ADJOURNMENT

There being no further business to conduct, Chairperson Higa adjourned the meeting at 12:30 p.m.

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

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Joy Higa, Chairperson

Prepared by: Alex Holtz, Senior Counsel