



Investment Committee

Item Number 11 – Open Session

Subject: Approval of Minutes of the March 2, 2023, Investment Committee – Open Session

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: May 4, 2023 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board – Investment Committee Meeting

March 2, 2023

OPEN SESSION

LOCATION: Board Room, 100 Waterfront Place, West Sacramento, CA 95605

COMMITTEE MEMBERS PRESENT

William Prezant, Chairperson

Gayle Miller, representing the Director of Finance, Joe Stephenshaw, Vice Chairperson

Michael Gunning

Sharon Hendricks

Denise Bradford

Harry Keiley

Ken Tang

Jennifer Urdan

Karen Yamamoto

Malia M. Cohen, State Controller

Frank Ruffino, representing the State Treasurer, Fiona Ma

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

OTHER BOARD MEMBERS PRESENT

Lynn Paquin, representing the State Controller, Malia M. Cohen

Jennifer Whitaker, representing the Director of Finance, Joe Stephenshaw

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
Melissa Norcia, Chief Administrative Officer
Bill Perez, Chief Benefits Officer
Teresa Schilling, Chief Public Affairs Officer
Julie Underwood, Chief Financial Officer
Scott Chan, Deputy Chief Investment Officer
Julie Donegan, Acting Director, Real Estate
Shifat Hasan, Head of Investment Performance and Compliance
Rosie Lucchesini, Portfolio Manager, Fixed Income
Kirsty Jenkinson, Director, Sustainable Investments and Stewardship Strategies
Geraldine Jimenez, Senior Investment Director, Public Markets
June Kim, Director, Global Equities
Paul Shantic, Director, Inflation Sensitive
Steven Tong, Director, Risk Mitigating Strategies
April Wilcox, Director of Investment Services
Margot Wirth, Director, Private Equity
Kelly Criss, Head of Investment Operations
David Lamoureux, System Actuary
Josh Diedesch, Portfolio Manager, Investment Strategy and Risk
Stephen Hamilton, Senior Counsel

OTHER PRESENT

Allan Emkin, Meketa Investment Group
Tad Fergusson, Meketa Investment Group
Stephen McCourt, Meketa Investment Group
Stephanie Sorg, Meketa Investment Group
Ben Maslan, RFA
Taylor Mammen, RFA
Leonard Goldberg, UTLA/CTA
Kevin Welch, CTA
Paula Buel
Joanie Lohman
Diana Curiel, CTA/NEA Retired
Don Stauffer, CTA/NEA Retired
Alyssa Grachino, PE Stakeholder Project
MaryKay Scheid, CTA
Pat Geyer
Dana Dillon, CTA

A quorum being present, Chairperson Prezant called the Open Session meeting of the Investment Committee meeting to order at 9:11 a.m.

The committee recognized and celebrated Allan Emkin for his forty years of exemplary advisory services to the Teachers’ Retirement Board.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

The Committee Agenda was approved, with flexibility, by consent of the Committee.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	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 Cohen	X		
Chairperson Prezant	X		

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

The committee heard from Ms. Buel who discussed the oil industry’s referendum against SB 1137 and called for CalSTRS to divest from the fossil fuel industry.

The committee heard from Ms. Lohman who expressed concerns about the net zero strategy, stated that carbon capture is a fallacy and 90% of carbon offsets are phantom credits and challenged the board and staff to investigate the issues further.

The committee heard from Ms. Curiel who took issue with CalSTRS engagement strategy with fossil fuel companies, questioned the effectiveness of the recent ExxonMobil board member election campaign, and suggested that net zero by 2050 pledges allow fossil fuel companies to continue their current business models until then, or beyond, without true accountability.

The committee heard from Ms. Grachino, who discussed child labor, health and safety violations at Packer Sanitation, which is owned by a private equity fund (Blackstone Core Equity Partners) in which CalSTRS is invested and called upon CalSTRS to halt any new Blackstone investments until the firm adopts and implements comprehensive policies addressing labor standards, labor compliance and human capital risks.

III. ALM STUDY DISCUSSION (Item 3)

The committee received the ALM Study from Ms. Jimenez, Mr. Diedesch and Mr. Lamoureux, who presented a range of strategic asset allocation risk levels for the Investment Committee's consideration. Mr. Lamoureux discussed key risks to the funding plan, detailing how investment risk constitutes the most significant risk to achieving funding plan goals and Mr. Diedesch detailed potential tradeoffs for the various investment risk and return scenarios and the corresponding impacts on the funding plan. The committee discussed the differences between the current and proposed targets and capital market assumptions, liquidity management and any potential adverse effects on the ability to pay benefits from adopting new asset allocations.

The committee also discussed how each of the proposed portfolio models could impact various classes of CalSTRS membership disproportionately, the distinction between the portfolio driven targeted investment returns and the assumed rate of return for the funding plan and the impact of the materially higher interest rates on the committee's risk appetite. Ultimately, the committee directed staff to come back with portfolio models within the range of 7.0 - 7.4% total expected return.

IV. OPEN SESSION SEMI-ANNUAL PERFORMANCE REPORTS (Item 4)

a. Receive General Consultant Semi-Annual Performance Report, Period Ending December 31, 2022

The committee received the General Consultant Semi-Annual Performance Report for the period ending December 31, 2022, from Mr. McCourt and Mr. Emkin. Mr. McCourt highlighted the historic performance of the past year where both stocks and bonds experienced double digit negative returns. Mr. Emkin detailed the components of the negative total fund return for the year, noting that the fund sustained materially lower losses than the overall market, due in large part to the nearly ten percent return of the system's private investments and the marginally positive return of the RMS asset class. The committee discussed the importance of a strong long-term return, the potential impacts of a government debt ceiling-imposed default, ongoing politization efforts surrounding ESG investing, the structure and innovation of the RMS asset class as well as the importance of liquidity management.

The committee meeting recessed at 10:50 a.m. and reconvened at 11:02 a.m.

b. Receive Real Estate Semi-Annual Performance Report, Period Ending September 30, 2022

The committee received the Real Estate Semi-Annual Performance Report for the period ending September 30, 2022. The committee heard from Mr. Mammen and Mr. Maslan, who detailed the performance of the portfolio during the third quarter, noting that the asset class underperformed against the benchmark due to a smaller allocation to industrial

properties, but that the real estate portfolio substantially outperformed public investments, which experienced negative returns over the same timeframe. Mr. Mammen provided the committee with a market outlook, noting that returns are expected to moderate due to the gap between appraisal values and transactional values within the market and that future write downs in book values are expected. The committee discussed expectations for potential future market declines overall, as well as the current state and expected declines for the office property segment of the portfolio. The committee also discussed conversions of various commercial property types into housing as well as potential default risk within the system’s housing portfolio.

c. Receive Private Equity Semi-Annual Performance Report, Period Ending September 30, 2022

The committee received the Private Equity Semi-Annual Performance Report for the period ending September 30, 2022. The committee heard from Mr. Haggerty, who highlighted the negative short-term performance of the portfolio, outperformance of the portfolio as compared to the benchmarks, continued effective implementation of the collaborative model, growth and performance of co-investments, and achievement of the long-term asset allocation target of 13 percent. Ms. Sorg highlighted the calendar year portfolio implementation details, noting that significantly more capital was committed as compared to past years and staff is executing at a high level within all policy range expectations. The committee discussed the importance of consultant judgment within performance reporting and the preference for visual aids in performance reporting.

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

The committee received the Chief Investment Officer’s Report from Mr. Ailman, who provided an update on the fund’s total asset values and allocations and detailed the historic accelerated rise in interest rates, the state of the bear market and recent market rebound and the prevailing uncertainty in the capital markets. Mr. Ailman also highlighted the potential threat of digital virus/cyber-attacks, noting the risk was identified as the number one risk at the recent World Economic Forum.

VI. CONSENT AGENDA - APPROVAL OF MINUTES OF THE JANUARY 26, 2023, INVESTMENT COMMITTEE MEETING – OPEN SESSION (Item 6)

The Minutes of the January 26, 2023, Investment Committee Meeting – Open Session were approved by consent of the committee.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	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 Cohen	X		
Chairperson Prezant	X		

VII. REVIEW INFORMATION REQUESTS (Item 7)

Pursuant to Item 3, there was a request for more detailed information relating to the performance and structure of the RMS asset class, as well as liquidity management and the use of leverage within the fund, each as they relate to the ongoing Asset Liability Management Study.

VIII. DRAFT AGENDA FOR NEXT INVESTMENT COMMITTEE MEETING (Item 8)

The committee received the draft agenda for the next committee meeting.

RECESS

The Open Session of the committee meeting recessed at 11:41 a.m. and the committee went into Closed Session. The committee meeting reconvened in Open Session at 2:26 p.m. Chairperson Prezant stated that there was nothing to report out as the committee took no action while in Closed Session.

IX. ADJOURNMENT

There being no further business to conduct, Chairperson Prezant adjourned the meeting at 2:27 p.m.

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

William Prezant, Chairperson

Prepared by: Stephen Hamilton, Senior Counsel