



Investment Committee

Item Number 8 – Open Session

Subject: Special Mandates Report

Presenter(s): Stephen McCourt/Meketa Investment Group

Item Type: Information

Date & Time: November 1, 2023 – 15 minutes

Attachment(s): Attachment 1 – Meketa Opinion Memo

PowerPoint(s): None

Item Purpose

This item is required under the reporting guidelines of the [Special Mandate Policy](#). In accordance with the Special Mandate Policy, the general consultant is required to review the special mandates, including an updated review of the original expected economic risks and opportunities and any material developments since approval of the mandate.

Recommendation

Meketa and staff will return to the Committee in 2024 with additional information and recommendations for each special mandate to support the Committee's fiduciary review and decision on whether to continue these programs as a Special Mandate.

Executive Summary

Special Mandates are currently comprised of the Global Equity-Developing Manager Program, Private Equity-Clean Tech legacy investments, and the Private Equity-Proactive Program. Meketa conducted interviews with key staff leading the Special Mandates to discuss the purpose and execution of each program, recent performance, and any issues/concerns with the program moving forward. Over recent time periods, the Developing Manager Program has exhibited strong absolute performance, as it returned +15.9% over the trailing one-year period, and +9.0% over the past three-years. The Non-U.S. Developing Manager program posted a +17.6% trailing one-year return, which attributed to 77% of the Global Equity program's +15.9% performance.

The Proactive Program produced an annualized +23.5% return and outpaced the Private Equity Custom Index by 150 basis points over the most recent three-year period. Meketa's opinion memo provides further discussion of their assessment regarding CalSTRS Special Mandates. This information item is the initial step in the Investment Committee's fiduciary review.

Meketa Investment Group has independently evaluated the two active Special Mandates, which are both operating efficiently and within expectations. Both programs are intended to allow CalSTRS to identify smaller, emerging managers earlier in their development, improving the potential pipeline of future asset managers for CalSTRS, and allowing CalSTRS to benefit from any emerging trends or best practices in the asset management industry.

Background

CalSTRS has a history of considering specialized mandates/investment strategies dating over multiple decades and in December 2015, the Teachers' Retirement Board expressed a desire for a more formalized process for Board members to refer and approve Special Mandates. In June 2016 the Committee adopted a formal [Special Mandate Policy](#) that requires annual reporting. Special Mandates, in addition to the primary objective of appropriate risk adjusted returns with good investment performance, is expected to provide ancillary benefits focused on diversity and ESG principles.

In March 2018, the Investment Committee considered adjustments to the Special Mandate Policy requesting staff to return with proposed Policy changes. In September 2018, the Committee reviewed and adopted:

- a. Addition of Low Carbon strategy as a Special Mandate.
- b. Re-categorized some mandates as mainstream strategies and removed them from Special Mandate Policy.
- c. Merge and re-classify two private equity programs as the Proactive Portfolio.
- d. Removal of Clean Tech investments on a go forward basis for new investments effective July 1, 2018, since these strategies became more commonplace and part of the broader portfolio of investments.

Lastly, in July 2020, the Committee adopted the removal of the Low-Carbon Index strategy from Policy into the construction of the Sustainable Investment & Stewardship Strategies (SISS) Portfolio.

Since the last review of all Special Mandates was conducted in 2018, Meketa has re-evaluated the programs and provided an updated assessment for the Committee's review.

Strategic Plan Linkage: [CalSTRS 2022-25 Strategic Plan](#) Goal 1 - Trusted Stewards: Ensure a well-governed, financially sound trust fund.

Board Policy Linkage: [Special Mandate Policy](#)
