

California State Teachers Retirement System (CalSTRS)

January 25, 2023

Benchmarking Project



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Introduction



Introduction

- → This presentation, and the Board's discussion, is exclusively on benchmarking CalSTRS' investment performance.
 - The role of benchmarks in determining incentive compensation will be addressed by the Board at a later date.
 - At the Board's request, Meketa began a broad review of benchmarking in September 2021.
 - Board survey
 - Board interviews
- → Broad working group including HR Staff, Comp Consultant, and Board representatives.
- → This presentation brings the Board up to date on the benchmarking project.



Timeline of the Benchmarking Project at CalSTRS

September 2018

The investment committee requested education on benchmarks

September 2021

The board requested that Meketa present an overview of investment benchmarks, including suggestions and recommendations

January 2022

Meketa presented to the board results of the surveys/interviews and recommended next steps

1023 - 2023

A review of specific benchmark options alongside the ALM modeling process









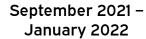






January 2019

Staff presented "Benchmark Education – Part One"



Meketa conducted a board survey and one-on-one board member interviews.

Meketa also conducted a peer survey with 13 of the largest US Public Pension Plans

January 2023

Meketa provided an update to the Board, reviewed potential benchmarking solutions



Role/Purpose of Benchmarks

- ightarrow "You cannot manage what you can't measure" Peter Drucker
- → This agenda item addresses benchmarks for the Total Portfolio.
- → What is the purpose of a Total Fund benchmark?
 - To assess both return and risk of the Total Portfolio, as well as to measure asset allocation execution.

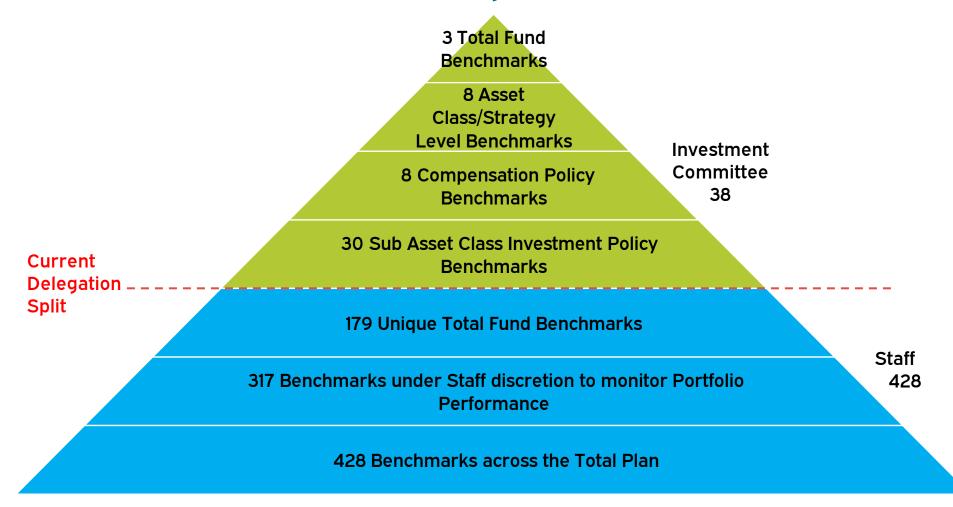




Benchmarking at CalSTRS



Benchmarking at CalSTRS







Review of CalSTRS Benchmarking Survey and Interview Results



CalSTRS Benchmarking Survey and Interview Results – Areas of Consensus

- → Simplicity and transparency.
 - The current set of benchmarks are overly complex and difficult to understand.
- → Benchmarks should be reviewed when asset allocation is reviewed.
- → Board should be involved when approving the benchmark for:
 - Total Fund
 - Incentive Compensation
- \rightarrow Board should **not** be involved when approving benchmarks for sub-asset classes.
- \rightarrow Benchmarks should be aligned with the Plan's long-term objectives (not short-term considerations).



Potential Benchmarking Options

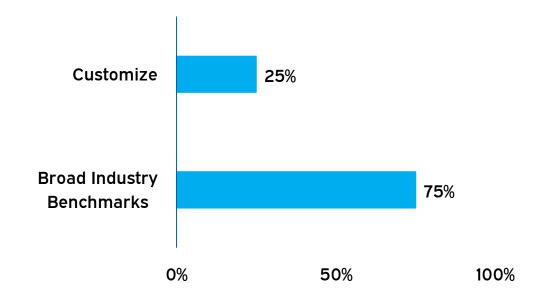


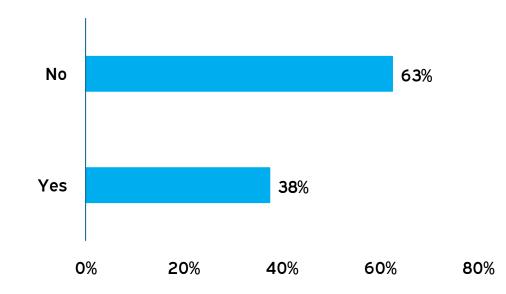
Potential Benchmarking Options – Peer Public Fund Benchmarks

→ Meketa surveyed 13 of the largest US Public Pension Plan on general benchmarking practices.

Does the organization customize benchmarks for plan-specific constraints/preferences, or use broad industry benchmarks at the Total Fund level?

Are there multiple benchmarks at the Total Fund level?

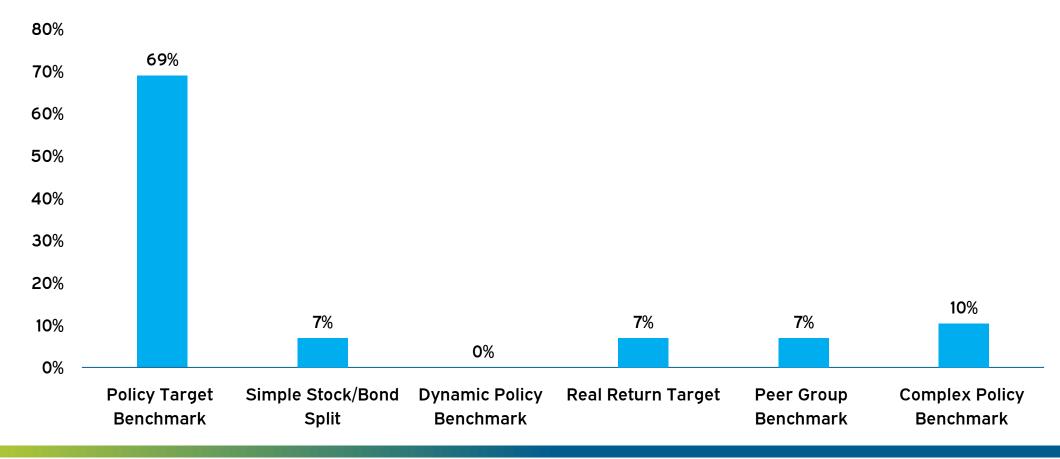






Benchmarking Options – Peer Public Fund Benchmarks

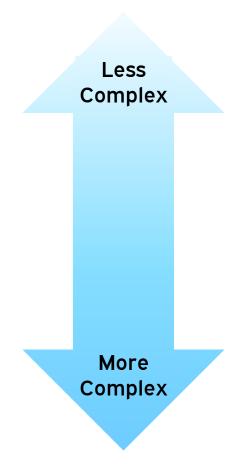
→ Total fund benchmarking was assessed from 25 of the largest domestic public pension systems:





Potential Benchmarking Options

- 1. Stock / Bond Split
 - 2 Underlying Benchmark Components
- 2. Major Asset Class Policy Targets
 - 7 Underlying Benchmark Components
- 3. Sub-Asset Class Policy Targets
 - 17 Underlying Benchmark Components
- 4. Complex Policy Benchmark (CalSTRS Current Benchmark)





Next Steps



Next Steps

→ Board adopts a Total Fund benchmark (slide 14).

→ Meketa to provide potential benchmark options to the Board, with back tested performance data.