

MEMORANDUM

TO: Investment Committee, CalSTRS
FROM: Mika Malone, Stephen McCourt, Allan Emkin, Eric White, Stephanie Sorg;
Meketa Investment Group
CC: Christopher Ailman, CIO, CalSTRS
DATE: July 25, 2023
RE: Opinion Memo – IPMP Changes

Text Summary and Recommendation

As the Board and Investment Committee are aware, there has been a significant review of the IPMP and a proposed revision to an Investment Policy Statement. However, given the timing of the recently approved asset allocation, it is prudent to approve the below changes to the IPMP while the document is under review. Based on the new strategic asset allocation, the Investment Policy and Management Plan needs to reflect the new target allocation approved by the Investment Committee, the new targets and ranges that have been added, along with the implementation plan for moving to the new policy targets over time. Additionally, the target illiquidity allocation of the portfolio has increased. ***After our review of Staff's proposed edits to the IPMP, Meketa Investment Group recommends that the Investment Committee adopt the revised asset allocation targets and the implementation plan highlighted within the document. Additionally, we recommend the approval of the new illiquidity target and asset allocation within the Cash Balance Benefit Program.***

Discussion

The addition of the new target allocation and its implementation plan are the administrative outcome of the asset allocation decision that the Investment Committee adopted. There are a limited number of "clean up" adjustments within the IPMP, updating correlation tables, and footnotes, that are reasonable and appropriate.

The issues surrounding the Cash Balance Benefit Program ("CBBP") require a bit more history and discussion. With the exception of the CBBP, all of the funds which comprise the Teachers' Retirement Fund are invested together, in the full asset allocation that CalSTRS approves in its ALM. According to Staff, in the 1990s, when the program was created, the Board elected that due to cash flow concerns, that plan would not participate in Real Estate and Private Equity asset classes. After an internal analysis, Staff from Investments, Financial Services, and Actuarial Resources recommend including Private Equity and Real Estate asset classes in the CBBP. Changes are included in the revised IPMP; the Board must approve the change. The total market value of that program, as of June 2022, was \$437 million.



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In summary, Meketa reviewed the various language adjustments to the IPMP, as well as the proposed adjustment to the Cash Balance Benefit Plan, and recommends that the Board approve both the language changes memorializing the new asset allocation, the illiquidity target of the program, and the Cash Balance asset allocation change.

If you have any questions, please feel free to contact us at (760) 795-3450.

MLM/SPM/AE/EW/SS/jls