



Investment Committee

Item Number 4 – Open Session

Subject: Investment Policy Statement (IPMP Modernization Project), Total Public Equity Benchmark – Second Reading

Presenter(s): Shifat Hasan and Melissa DaRonco

Item Type: Action

Date & Time: September 13, 2023 – 20 minutes

Attachment(s): Attachment 1 – Meketa Investment Group Concurrence Memo
Attachment 2 – Investment Policy Statement – Redline Version
Attachment 3 – Investment Policy Statement – Clean Version

PowerPoint(s): Investment Policy Statement- IPMP Modernization Project, Total Public Equity Benchmark

Item Purpose

The purpose of this item is to present the Investment Committee (IC) with a second reading of the Investment Policy Statement (IPS) for adoption. The IPS represents the modernization of the existing Investment Policy and Management Plan (IPMP).

Additionally, staff is proposing to update the existing Total Public Equity (TPE) benchmark to reflect the modified Global Equity policy benchmark. This change is in alignment with the implementation of CalSTRS net zero goals, approved by the IC in May 2023 through the adoption of [Global Equity](#) (GE) and [Sustainable Investment & Stewardship Strategies](#) (SISS) revised policies.

Recommendation

Staff recommends the board review the modernized IPS document and the updated TPE benchmark. Staff also emphasizes that this IPS modernization item provides the policy structure in which other Total Fund Initiatives are being linked to and contingent upon. The TPE update and Item 6 - Reference Portfolio Benchmark at this meeting as well as future Investment Branch initiatives are crafted to align with the structure of the modernized IPS to enhance board

governance and transparency. If there are no suggestions or changes, staff recommends approve and adopt the modernized IPS and the TPE benchmark.

Executive Summary

There are two components in this agenda item for board consideration. The first is the adoption of the modernized IPS document and the second is an update to the existing TPE benchmark. Attachment 1 is the proposed IPS document and represents the most current IPMP as approved from the July Board offsite. In addition, redline edits are included for consideration of the updated TPE benchmark.

Modernized Investment Policy Statement

As presented at prior IC meetings, the objective of the IPS is to transition our existing IPMP into a modernized and best-in-class policy document. The recommended IPS is based on significant peer review, best practices provided by the CFA Institute, and feedback received from the IC. The proposed IPS maintains the spirit and policy intent of the existing IPMP.

Staff presented a preliminary read of the IPS at the [January](#) IC meeting. At the [May](#) IC meeting, staff presented the first reading of the IPS. Feedback and concerns from both board meetings have been addressed and incorporated into the IPS. No further changes were made as part of the modernization project, however, housekeeping changes were included as outlined below.

At the [July Board](#) offsite, the board approved the following policy changes to the existing IPMP, which are included in this second reading of the IPS:

- Adoption of the long-term strategic asset allocation approved in May 2023.
- Increasing the total fund illiquidity threshold to 55%.
- Allocation of all investment asset classes for the Cash Balance Benefit Program.

Total Public Equity Benchmark Change

In addition to the items above, this IPS includes an update discussed at the May IC meeting. Investment staff from Global Equity (GE) and Sustainable Investment & Stewardship Strategies (SISS) both presented revisions to their existing policies. These policy revisions were necessary to implement the board's direction to allocate 20% of Public Equity to the MSCI ACWI Low Carbon Target Index (LCTI).

Within the existing IPMP, the TPE benchmark is a weighted blend of its underlying components (*Russell 3000 Custom Index + MSCI All Country World Index (ACWI) ex-U.S. Custom Investable Market Index (IMI), MSCI World ex-U.S. Custom Min Vol (USD) index, and Custom MSCI ACWI IMI*). As discussed at the May IC meeting, consistent with board approved changes to GE and SISS policies, the TPE benchmark also requires an update to simplify and align with CalSTRS' net zero goals. Staff proposes changing the TPE benchmark to reflect the modified Global Equity policy benchmark.

Background

Modernized Investment Policy Statement

The process of modernizing the existing IPMP has been an ongoing and collaborative effort for more than a year. Significant research of industry best practice and peer review has guided the process into the IPS document that is before the IC today. The IPS, when adopted, will represent the core components of our investment program, board governance over investments, and a clear structure for which staff will make investment decisions.

Total Public Equity Benchmark Change

At the September 2021 Investment Committee, CalSTRS adopted a pledge to achieve a net zero investment portfolio by 2050 or sooner. Subsequently, at the August 2022 Investment Committee, an action item was approved to set an interim reduction goal of 50% less emissions by 2030 for the Total CalSTRS Fund. Additionally, the Board approved allocating 20% of Public Equity to LCTI to assist in achieving this goal. Staff has developed an implementation plan and reviewed the impacts on benchmarks and risk budgets. Updating the TPE benchmark is part of the implementation plan.

Strategic Plan Linkage: Goal 1 of the strategic plan. Trusted stewards – Ensuring a well-governed, financially sound trust fund.

Board Policy Linkage: [CalSTRS Investment Policy and Management Plan](#)

Optional Reference Material:

November 3, 2022 Investment Committee: [Investment Policy and Management Plan Modernization Project](#)

July 7, 2022 Investment Committee: [Investment Policy & Management Plan Revision – Asset Allocation – First Reading](#)

[CFA Institute: Elements of an Investment Policy Statement for Institutional Investors](#)