



Investment Committee

Item Number 3 – Open Session

Subject: Approval of Minutes of the September 1, 2021, Investment Committee – Open Session

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: November 4, 2021 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board – Investment Committee Meeting

September 1, 2021

OPEN SESSION

LOCATION: Web Conference

COMMITTEE MEMBERS PRESENT

Joy Higa, Chairperson

Sharon Hendricks, Vice Chairperson

Denise Bradford

Harry Keiley

William Prezant

Jennifer Urdan

Karen Yamamoto

Gayle Miller, representing the Director of Finance, Keely Bosler

Frank Ruffino, representing the State Treasurer, Fiona Ma

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

Betty Yee, State Controller

OTHER BOARD MEMBERS PRESENT

Jennifer Whitaker, representing the Director of Finance, Keely Bosler

Karen Greene-Ross, representing the State Controller, Betty Yee

Lynn Paquin, representing the State Controller, Betty Yee

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

Bill Perez, Chief Benefits Officer

Teresa Schilling, Chief Public Affairs Officer

Julie Underwood, Chief Financial Officer

Scott Chan, Deputy Chief Investment Officer

Mike DiRé, Director, Real Estate

Glenn Hosokawa, Director, Fixed Income

Kirsty Jenkinson, Director, Sustainable Investments and Stewardship Strategies

Geraldine Jimenez, Director, Investment Strategy and Risk

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, Interim Head of Investment Operations

Shifat Hasan, Head of Investment Performance & Compliance

Scott Brooks, Senior Counsel

OTHER PRESENT

Allan Emkin, Meketa Investment Group

John Haggerty, Meketa Investment Group

Steve Hartt, Meketa Investment Group

Steven McCourt, Meketa Investment Group

Taylor Mammen, RCLCO

Ben Maslan, RCLCO

Vu Nguyen, State Street

Tiffany Reeves, Reinhart Boerner Van Deuren s.c.

Stephanie Sorg, Meketa Investment Group

Jennifer Baker, CalRTA

Joe Bartell, CTA

Paula Buell

Susie Chow, UTLA-R

Dana Dillon, CTA/NEA-R

Richard Hansen, CCCI
Jane Vosburg
Sandy Keaton
Joan Lohman
Kathleen McCreery, ACSA
Carla Macchello, CFT
Miriam
Peter Morse, FACCC
Lynn Nittler
Doug Orr, CFT
MaryKay Scheid, CTA
Kevin Welch, CTA
Marcy Winograd

A quorum being present, Vice Chairperson Hendricks called the Open Session meeting of the Investment Committee meeting to order at 9:01 a.m.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

MOTION duly made by Ms. Bradford, seconded by Ms. Miller, and carried to approve the Committee Agenda.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Mr. Prezant	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 Yee	X		

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

The committee acknowledged recent written statements it had received from the public regarding divestment from pipelines and fossil fuels, and engagement with companies.

The committee heard from Kevin Welch, CTA, who encouraged CalSTRS to make a pledge to achieve a net zero investment portfolio.

The committee heard from Dana Dillion, CTA/NEA-R, who congratulated CalSTRS on its collaboration with Engine No. 1, and encouraged CalSTRS to complete a transition to a net-zero portfolio.

The committee heard from Marcy Winograd, who urged the committee to divest from fossil fuels.

The committee heard from Lynn Nittler, who urged the committee to divest from fossil fuels.

The committee heard from Joan Lohman, who expressed concerns regarding Enbridge and urged divestment from pipelines.

The committee heard from Carla Macchello, CFT, who urged the committee to divest from fossil fuels.

The committee heard from Paula Buell, who urged the committee to divest from fossil fuels.

The committee heard from Miriam, who urged the committee to divest from fossil fuels and expressed concerns regarding Enbridge and urged divestment from pipelines.

Mr. Keiley joined the meeting at 9:26 a.m.

III. APPROVAL OF MINUTES OF THE JULY 8, 2021, INVESTMENT COMMITTEE MEETING – OPEN SESSION (Item 3)

MOTION duly made by Ms. Miller, seconded by Ms. Bradford, and carried to approve the July 8, 2021, Investment Committee Meeting – Open Session.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Mr. Keiley	X		
Mr. Prezant	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 Yee	X		

IV. INVESTMENT POLICY REVISIONS (Item 4)

The committee discussed the approval of the Fixed Income and Sustainable Investment & Stewardship Strategies policies revisions and requested Meketa conduct an overview of the respective benchmarks.

MOTION duly made by Mr. Prezant, seconded by Ms. Miller, and carried to approve the Fixed Income Policy Revision – Risk Budget, and the Sustainable Investment & Stewardship Strategies Policy Revision – Risk Budget, and to instruct Meketa conduct an overview of the respective benchmarks and bring any suggestions or recommendations to the committee, no later than by the end of the 2021-22 fiscal year.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Mr. Keiley	X		
Mr. Prezant	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 Yee	X		
Vice Chairperson Hendricks	X		

Chairperson Higa joined the Open Session meeting at 9:41 a.m.

V. PLEDGE TO A NET ZERO GHG PORTFOLIO BY 2050 (Item 5)

The committee received a presentation by Mr. Ailman and Ms. Jenkinson regarding the pledge to achieve a net zero investment portfolio by 2050. The committee discussed the timeline and progression of CalSTRS’s major climate change activities, beginning in 2004, and discussed the pledge as a “North Star”, helping to set a trajectory towards the future, and manage systemic risks and align with an accelerated global movement. The committee also considered its fiduciary responsibilities to the members and its primary focus to earn a 7% annual return on investments. The committee discussed the likelihood that the goal to reach net zero by 2050 may shift, requiring an adaptive approach as transition scenarios evolve.

In considering a pledge of a net zero investment portfolio by 2050 or sooner, the committee discussed implementing a net zero action plan with three core components: risk measurement and management, return opportunities, and influence on market participants; proceeding with a set of actions for the next year focused on five key areas: internal governance structures, methodologies and frameworks to support net zero commitments, measuring portfolio emissions, establishing interim goals, and communicating to multiple audiences; and publishing regular reporting on the progress toward net zero.

The committee heard from Mr. Emkin, who emphasized the collaborative effort in developing the pledge, and supported the committee making the pledge. The committee also heard from Ms. Reeves, who discussed the board’s fiduciary duties in relation to the adoption of a net zero pledge.

The committee applauded staff’s thoughtful approach and attention to governance, including its evaluation of risk and return with a pledge to net zero. The committee emphasized maintaining its leadership in responsible stewardship and attention to the current science while making future decisions and setting milestones to meet its goals. The committee also considered collaboration and alignment with other investors, governments and understanding the physical risk of climate change in investments and interconnection with race and wealth inequality. The committee also inquired as to whether staff has sufficient resources to fully implement and support a pledge to reach the net zero objective.

PUBLIC COMMENT

The committee heard from Jane Vosburg, MaryKay Scheid, CTA, and Marcy Winograd, all of whom urged the committee to make a pledge to achieve a net zero investment portfolio sooner than 2050.

MOTION duly made by Mr. Prezant, seconded by Ms. Miller, and carried to (a) adopt the following Net Zero Pledge: CalSTRS recognizes the risks and opportunities presented by the foreseeable transition to a low-carbon economy, as well as the global acceleration towards alignment with the science-based emissions targets of the Paris Climate Agreement. In order to provide sustainable benefits to California’s educators, CalSTRS is committed to achieving a net zero investment portfolio by 2050 or sooner; and (b) approve the proposed action framework and timeline and consider the climate-related goals of the State of California, to the extent that such goals are consistent with the Board’s fiduciary duties, when implementing the net zero pledge.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Prezant	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 Yee	X		
Chairperson Higa	X		

RECESS

The committee recessed at 10:27 a.m. and resumed at 10:43 a.m.

VI. OPEN SESSION SEMI ANNUAL PERFORMANCE REPORTS (Item 6)

a. General Consultant – Semi-Annual Performance Report, Period Ending June 30, 2021

The committee received the General Consultant Semi-Annual Performance Report for the period ending June 30, 2021, from Mr. Emkin and Ms. Sorg, who congratulated staff for its exceptional performance and navigation of an unprecedented environment while working remotely during a global pandemic. The committee congratulated staff on a remarkable performance during extraordinary and unique circumstances, highlighting asset classes outperforming respective benchmarks, staff’s exceptional leadership, and the importance of culture and collaboration. The committee discussed investor challenges

considering historic interest rates and inflation, and the interaction between asset classes to realize opportunities and add value.

b. Real Estate – Semi-Annual Performance Report, Period Ending March 31, 2021

The committee received the Real Estate Semi-Annual Performance Report for the period ending March 31, 2021. The committee heard from Mr. Mammen and Mr. Maslan, who outlined the portfolio's consistent outperformance of the benchmark, underscoring the asset allocation within Real Estate, its use of leverage, and use of risk. The committee discussed the successful performance of multifamily and industrial markets, in contrast to the poorer performance by the office and retail markets. The committee also discussed the current competitive nature of the real estate market and CalSTRS's ability to navigate the challenge. The committee inquired as to predictions of an increase in retail returns and a decrease in industrial, as well as short and medium-term geographical shifts in commuting patterns.

c. Private Equity – Semi-Annual Performance Report, Period Ending March 31, 2021

The committee received the Private Equity Semi-Annual Performance Report for the period ending March 31, 2021. The committee heard from Mr. Hartt and Ms. Sorg, who highlighted Private Equity's strong performance on a relative and absolute basis, both in the short and long-term, encouraging the committee to focus on long-term performance. The committee discussed the program's strong increase in absolute dollar value, due primarily to its underlying asset appreciation. The committee discussed the diversification of the portfolio, and progress towards reaching its long-term asset allocation target of 13%. The committee also discussed Private Equity's evolution with and implementation of the Collaborative Model, challenges of increased competition, and considered the increase of co-investments in the portfolio.

VII. CHIEF INVESTMENT OFFICER'S REPORT (Item 7)

The committee received the Chief Investment Officer's Report from Mr. Ailman, who provided an update on the fund's total assets and asset allocation. Mr. Ailman commented on the stability of the fund's asset allocation, with an increase in Risk Mitigating Strategies and Inflation Sensitive; the fund's overperformance over the short and long-term; the risk budget and report; real estate leverage and limits; and key risks to monitor looking forward, including the global pandemic, virus mutation, and how the economy will react with a return to the office. The committee discussed the potential risk concerning the failure of Congress to reach an agreement to raise the debt ceiling and its impact to the market.

VIII. REVIEW INFORMATION REQUESTS (Item 8)

Pursuant to Item 6a, the committee requested information as to the fund's slight underperformance compared to the State Street Median Fund over the one-year period ending June 30, 2021.

IX. DRAFT AGENDA FOR NEXT INVESTMENT COMMITTEE MEETING (Item 9)

The committee reviewed the Draft Agenda for the next Investment Committee Meeting.

X. OPPORTUNITY FOR ADDITIONAL STATEMENTS FROM THE PUBLIC

There were no additional statements from the public.

RECESS

The Open Session of the committee meeting recessed at 11:55 a.m. and the committee went into Closed Session. The committee meeting reconvened in Open Session at 3:36 p.m.

Chairperson Higa reported there was nothing to report from Closed Session.

XI. ADJOURNMENT

There being no further business to conduct, Chairperson Higa adjourned the meeting at 3:37 p.m.

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

Joy Higa, Chairperson

Prepared by: Scott Brooks, Senior Counsel