Investment Committee Semi-Annual Activity Report

as of June 30, 2023 | 6. Inflation Sensitive

INFLATION SENSITIVE PROGRAM SUMMARY

Market Indicators:

- (YOY) US CPI: +3.0%
- (Ann.) Infrastructure Benchmark: +9.17%
- (FYTD) Bloomberg Commodity Index: -13.30%
- (FYTD) US TIPS Index: -1.25%

CalSTRS Portfolio Allocation:

- Long-term Target: 6% of the overall CalSTRS portfolio
- Currently 6.1% of the overall portfolio

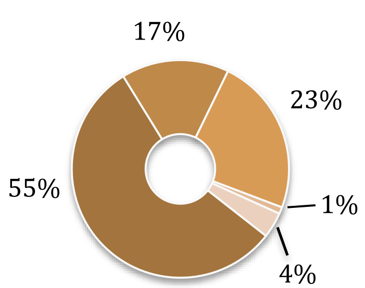
US CPI on a year-over-year (YOY) basis continues to decline from the high print of 9.1% last summer, to a 6.5% print in December of last year to its current YOY reading of 3.0%. Fed funds have moved from a low in July 2022, of 1%, to its current target level of 5.25%, reflecting the persistent and quick pace of Federal Reserve activity directed at cooling the economy and lowering the general level of prices. While inflation has cooled over the year, economic activity remains more robust than most economists had expected and there is less chatter about an inevitable recession and perhaps a slowdown in 2H of 2023. The Federal Reserve has been clear that they intend to seek an inflation level of 2%. The current 3% level is still considered unacceptable. Therefore, the Fed may look to either increase or hold the Fed Funds level for longer than expected.

The infrastructure benchmark (CPI+400) returned 9.17% in last fiscal year, reflective of a move higher in US CPI early in 2022 and a persistent decline through the latter half of 2022 and the first half of 2023. Commodities reacted to inflationary expectations earlier in the cycle and commodity returns were negative by -13.30% in fiscal 2023. Furthermore, Chinese commodity demand has been anemic and was thought to be a driver in 2023, that did not occur. Bonds were down -1.25% reflective of the general rise in interest rates instigated by the Federal Reserve, but also indicative of a market that has seen the value and desirability of owning U.S Treasuries, with yields between 4.5% to 5%, as particularly attractive. The long-term target for Inflation Sensitive assets is at 6% of the Total Fund and the allocation is slightly over that target level at 6.1%.

Inflation Sensitive Risk Factors:

- Rapid and uncontrolled rise in interest rates
- Persistent currency volatility
- Rapid technological advancements in power and transportation industries

Inflation Sensitive Portfolio Allocation



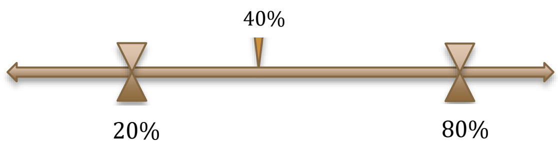
Portfolio Value as of June 30, 2023

Asset Type	Market Value ($)	Committed Amount ($)
U.S. Treasury Inflation Protected Securities	3,181,241,883	--
Infrastructure*	10,656,297,338	14,000,979,707
Commodities	4,507,121,307	--
Agriculture and Timber*	782,813,953	875,000,000
Credit	117,570,274	800,000,000
Total	19,245,044,755	15,675,979,707

**Market value based on Q1 pricing*

Current Allocation

Public Inflation Sensitive Assets



Private Inflation Sensitive Assets