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MEMORANDUM

TO: Investment Committee, CalSTRS
FROM: Stephen McCourt, Allan Emkin, Mika Malone, Eric White, Stephanie Sorg, Meketa Investment Group
CC: Christopher Ailman
DATE: January 26, 2023
RE: Concurrence Memo – Investment Policy and Management Plan Revisions

Summary & Recommendation

In December 2022, Staff provided Meketa with updated draft revision language for the Investment Policy and Management Plan (the "IPMP") to reflect the continued migration of CalSTRS to its long-term strategic asset allocation targets. Staff now recommends migrating the interim target asset allocation to a Step 5, the final step and achievement of the long-term asset allocation target. ***After independently evaluating Staff's proposed changes, Meketa concurs with Staff's proposed IPMP revisions.***

Discussion

In early 2020, after a comprehensive review of asset allocation considerations over the course of 2019, the Investment Committee approved a new long-term strategic asset allocation for CalSTRS. To facilitate the implementation, the Committee adopted an implementation plan to migrate towards the new long-term asset allocation targets over a reasonable period of time.

The long-term targets and the implementation plan, consisting of four interim asset allocation steps, were memorialized within the IPMP. The Committee approved Staff's recommendation to transition the interim asset allocation target to Step 1 on July 1, 2020, to Step 2 on July 1, 2021, and to a modified Step 3 on January 1, 2022, and Step 4 on July 1, 2022.

The Committee has tasked Investment Staff to bring before the Committee recommendations when CalSTRS migrates from one Step to another Step in the implementation plan. Staff's decision to do so is based on a variety of factors, including CalSTRS' current asset allocation, current market conditions, the efficiency of trading certain asset classes, and costs, amongst many other considerations.

Staff is recommending that Step 5 (the final step) progress in the reallocations towards the long-term targets, such that the inflation sensitive's target weight would rise by 1% to 6% (as it aligns to its long-term target of 6%), and fund this increase by moving down public equity by 1%.

In summary, and as expressed in Staff's write-up of the item, the move to Step 5 in the Implementation Plan will involve a decrease in the public equity target from 43% to 42%, and an increase in the inflation sensitive target from 5% to 6%.

Meketa has reviewed the proposed changes in the IPMP and concurs with Staff's recommendations.

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

EW/SBS/SPM/jls