

# INVESTMENT COMMITTEE **PORTFOLIO RISK REPORT**



July 2023

## Contents

Investment portfolio as of May 31, 2023 .....	3
Total fund risk and asset allocation as of May 31, 2023 .....	4
CalSTRS market exposures .....	5
CalSTRS sector portfolio exposures .....	7
Global Equity—Active risk summary .....	8
Fixed Income—Active risk summary .....	9
SISS—Active risk summary .....	10
Real Estate .....	12
Private Equity .....	13
Valuations .....	14
Market volatility .....	15
Fund liquidity .....	16

# Investment portfolio as of May 31, 2023

Chart 1. Portfolio value

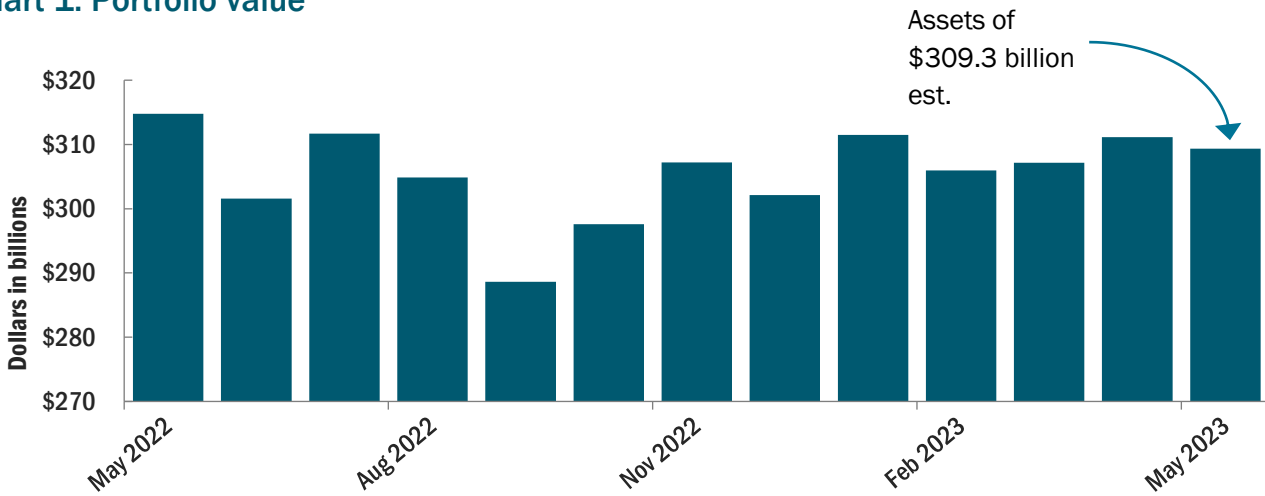


Chart 2. Asset allocation<sup>1</sup>

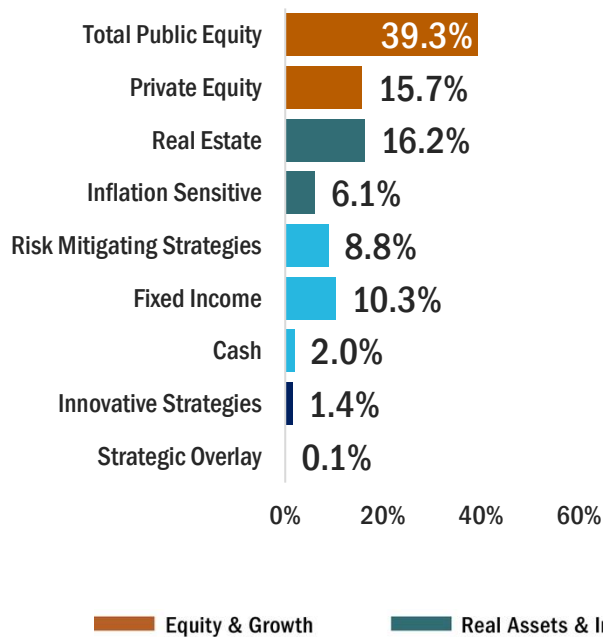
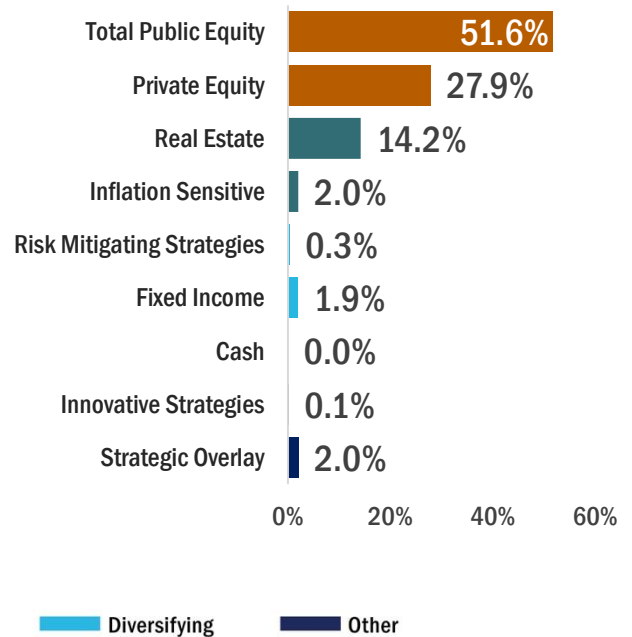


Chart 3. Portfolio risk<sup>2</sup>



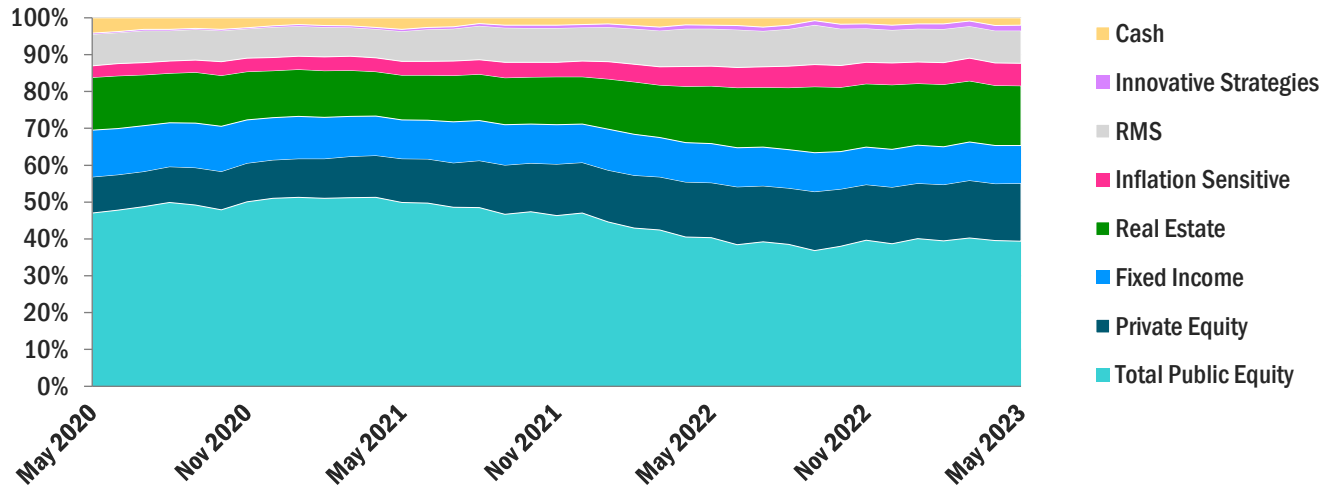
<sup>1</sup> Total Public Equity includes the following sub-units: Global Equity, SISS and Innovation GE. Strategic Overlay includes Currency and Derivatives Overlay.

<sup>2</sup> Total Public Equity includes the following sub-units: Global Equity, SISS and Innovation GE. Strategic Overlay includes Currency and Derivatives Overlay.

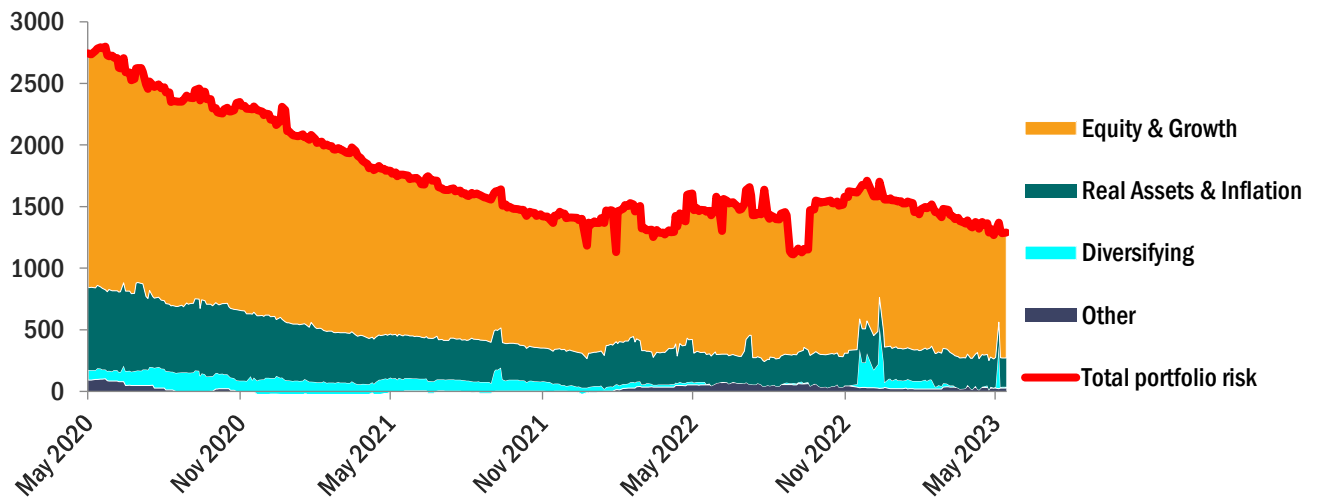
# Total fund risk and asset allocation as of May 31, 2023

The Risk team utilizes the BlackRock Aladdin risk management system for the total plan portfolio. According to the BlackRock risk model, approximately 52% of the total risk in the CalSTRS Investment Portfolio comes from Public Equity, versus an approximately 39% asset weight. Public Equity risk and Private Equity risk combined now comprise about 80% of portfolio risk. Portfolio risk increased significantly due to spiked market volatility in early 2020 and it remains elevated but has decreased significantly from its peak.

**Chart 4. Asset allocation over the past three years (monthly)**



**Chart 5. Sources of portfolio risk<sup>1</sup>**

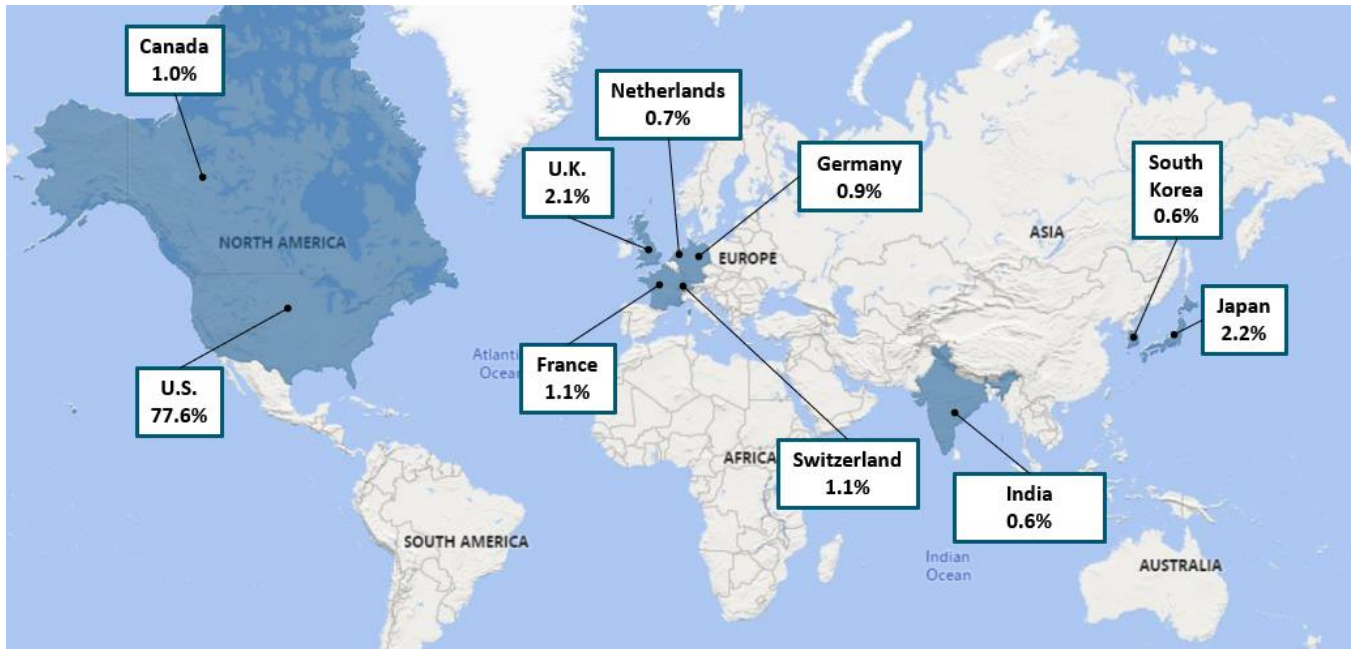


<sup>1</sup> Equity & Growth includes Total Public Equity and Private Equity. Real Assets & Inflation includes Real Estate and Inflation Sensitive. Diversifying includes Risk Mitigating Strategies, Fixed Income & Cash. Other includes Innovative Strategies and Strategic Overlay.

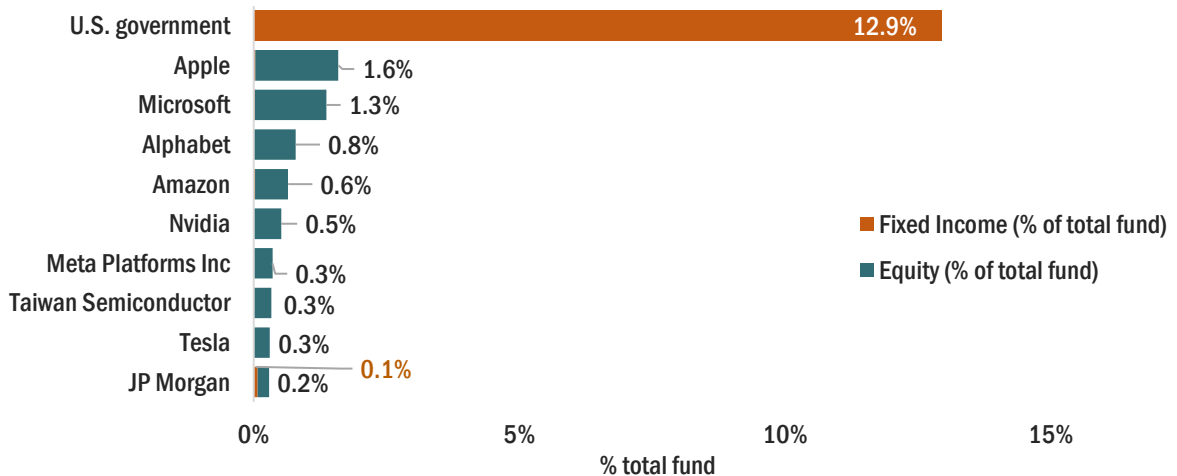
## CaSTRS market exposures

Across all asset classes, the fund has significant exposure to the U.S. with over 77% of the portfolio invested in the U.S. The next largest exposure is 2.2% in Japan. South Korea rounded out the top 10, followed closely by Mexico and Ireland, respectively. Chart 7 shows the top 10 total fund portfolio exposures by parent company, as a percentage of the total portfolio.

**Chart 6. Top 10 market value and revenue exposures by country as of May 31, 2023**



**Chart 7. Total fund top 10 exposures<sup>1</sup>**

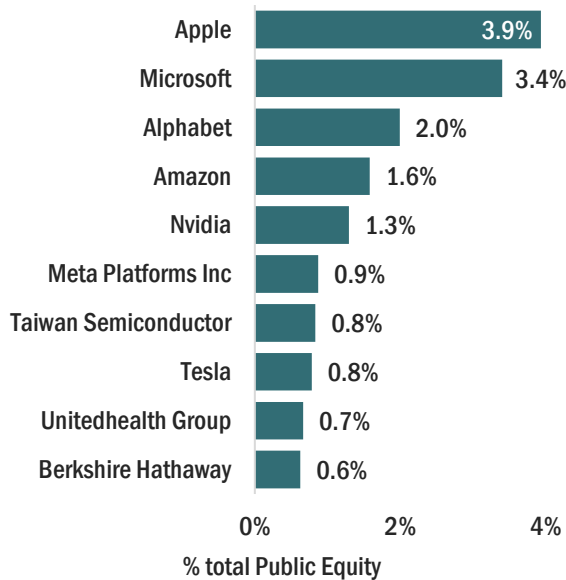


<sup>1</sup> U.S. government includes U.S. Treasuries, Agency MBS and other government agency debt.

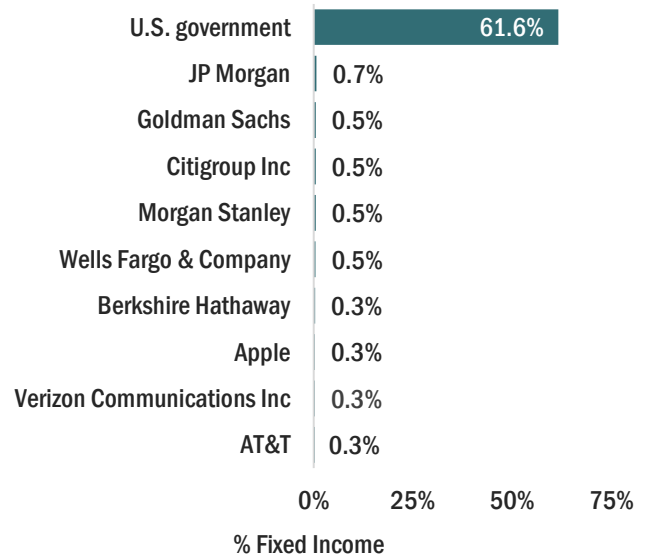
## CaSTRS market exposures

Chart 8 shows the top 10 total Public Equity Portfolio exposures by parent company as a percentage of the total Public Equity Portfolio.

**Chart 8.**  
**Total Public Equity top 10 exposures**

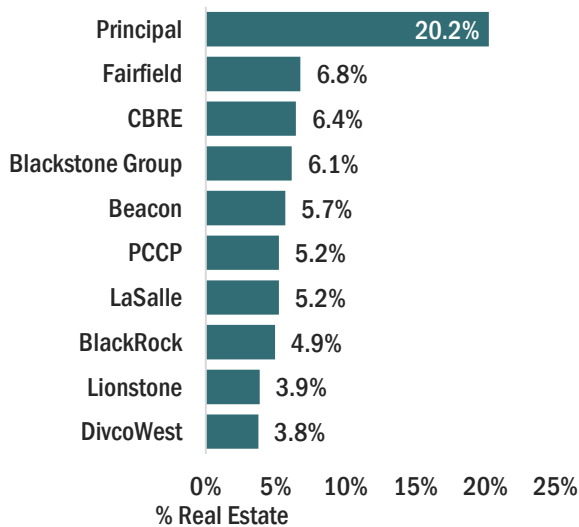


**Chart 9.**  
**Fixed Income top 10 exposures<sup>1</sup>**



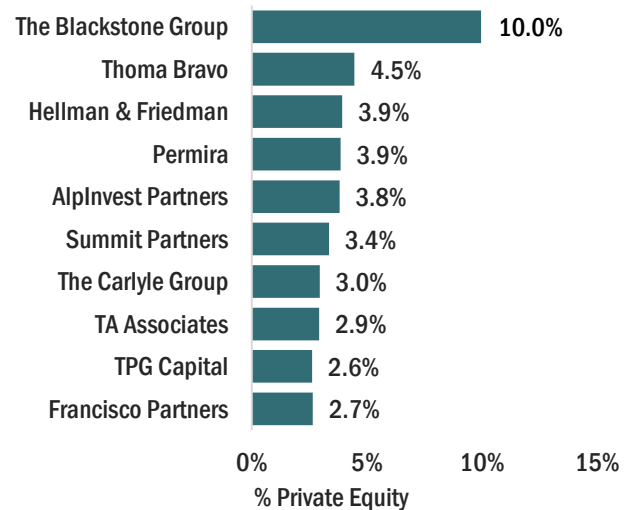
<sup>1</sup> U.S. Treasuries, Agency MBS and other government agency debt.

**Chart 10.**  
**Real Estate top 10 exposures<sup>2</sup>**



<sup>2</sup> As of March 31, 2023.

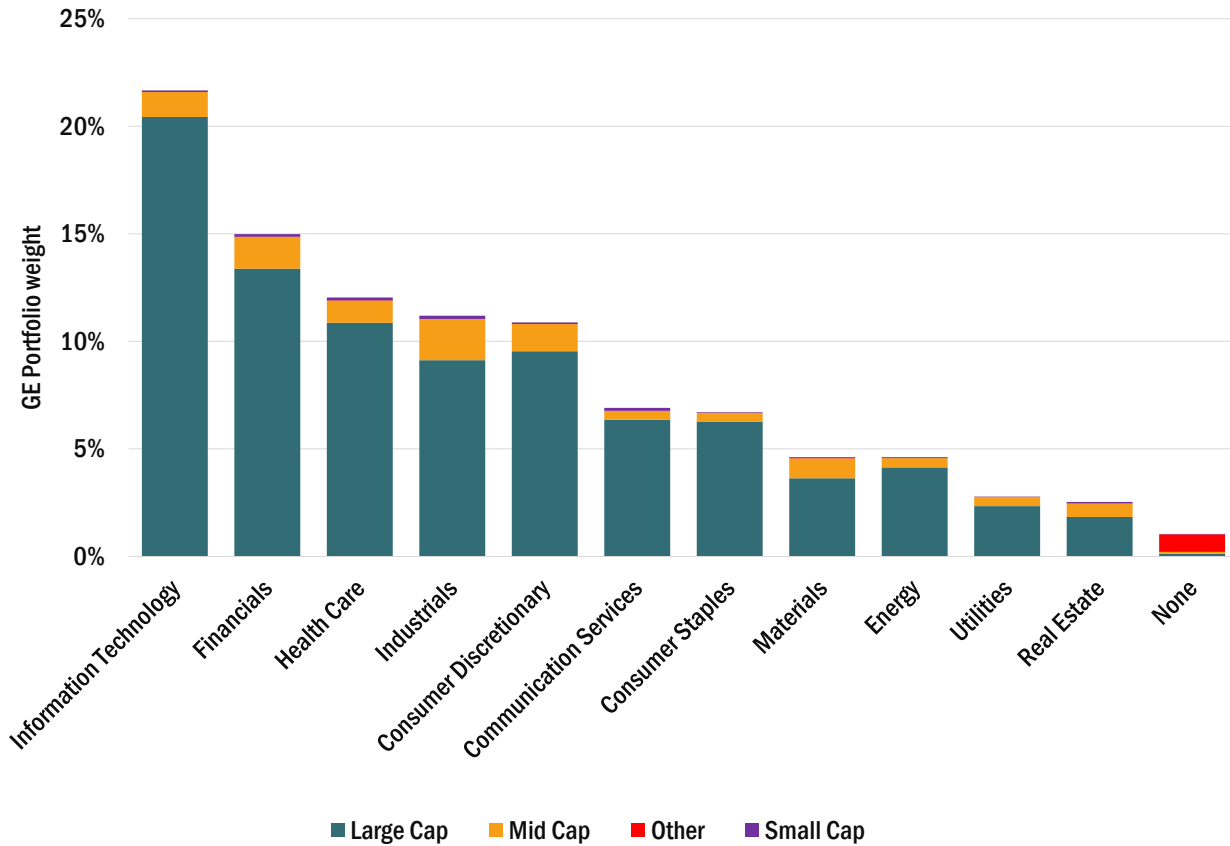
**Chart 11.**  
**Private Equity top 10 exposures<sup>3</sup>**



<sup>3</sup> As of March 31, 2023.

# CalSTRS sector portfolio exposures

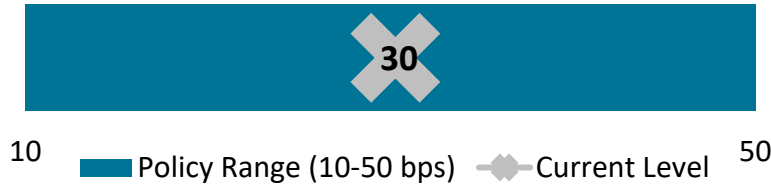
Chart 12. Global Equity—Sector portfolio exposures as of May 31, 2023



# Global Equity—Active risk summary

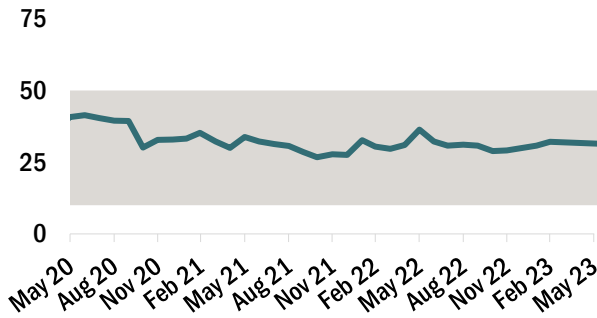
**Chart 13. Current active risk (bps)<sup>1</sup>**

At the July 2021 Investment Committee meeting, the committee approved a new benchmark for Global Equity, effective August 1, 2021. As of May 31, 2023, the expected active risk of the Global Equity Portfolio is 30 basis points.

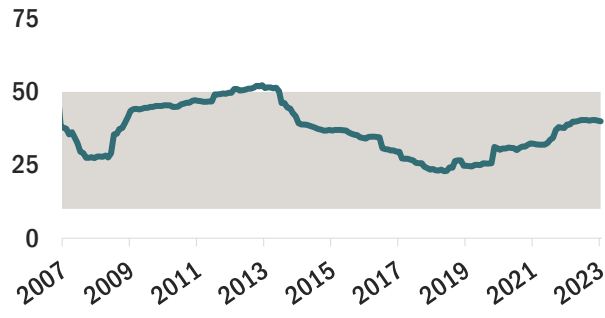


## Historical active risk (bps)

**Chart 14. Forecasted<sup>2</sup>**

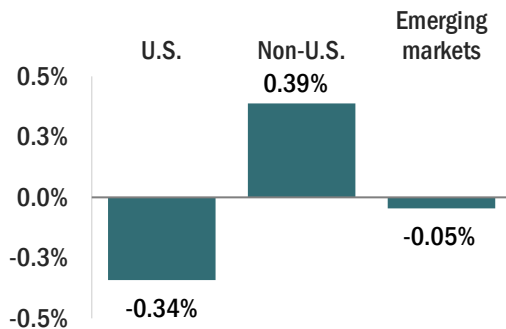


**Chart 15. Realized<sup>3</sup>**

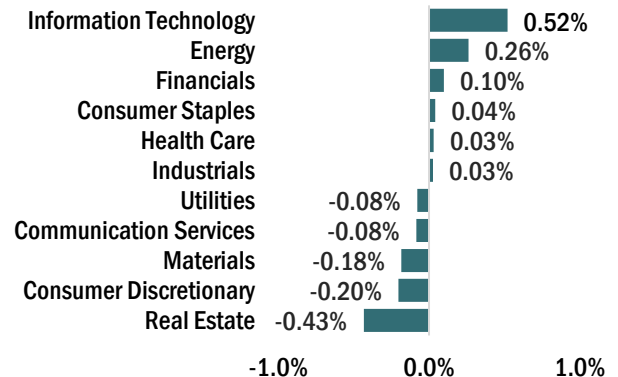


## Exposures vs. benchmark (market value %)

**Chart 16. Geographic active exposures**



**Chart 17. Sector active exposures**



<sup>1</sup> Forecasted active risk based on BlackRock Aladdin model calculation.

<sup>2</sup> Forecasted active risk based on the Global Equity Portfolio and market conditions over time.

<sup>3</sup> Based on a rolling 60-month period of realized returns through May 31, 2023



# Fixed Income—Active risk summary

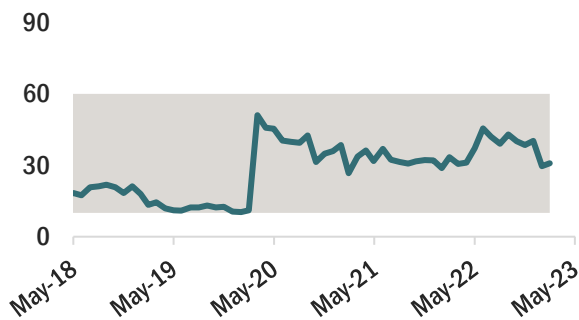
**Chart 18. Current active risk (bps)<sup>1</sup>**

At the September 2021 Investment Committee meeting, the committee approved a new governance policy for Fixed Income, establishing an active risk budget range of 10 to 60 basis points. As of May 31, 2023, the expected active risk of the Fixed Income Portfolio is 26 basis points.

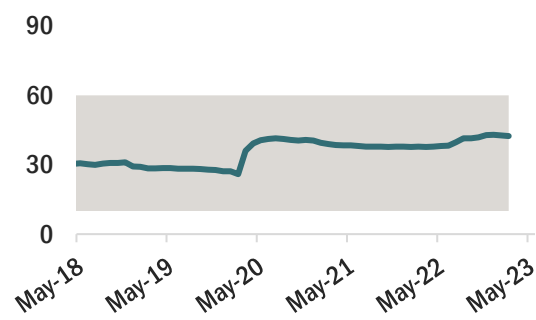


## Historical active risk (bps)

**Chart 19. Forecasted<sup>2</sup>**

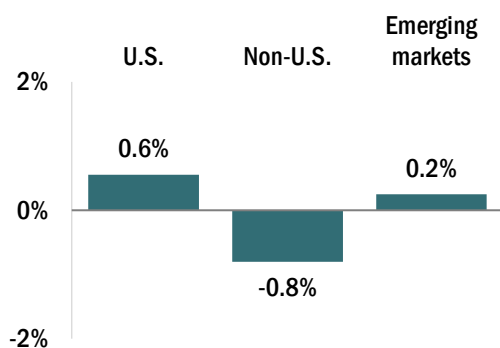


**Chart 20. Realized<sup>3</sup>**

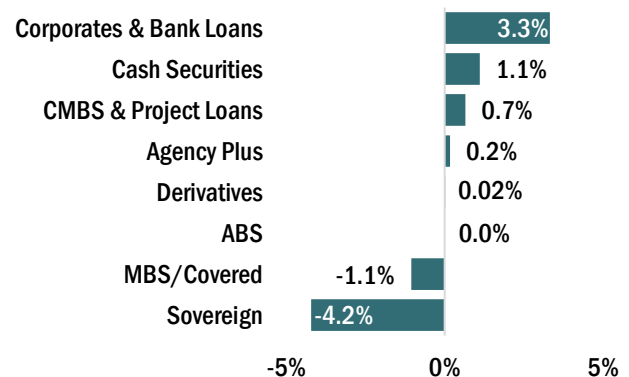


## Fixed Income exposures vs. benchmark (market value %)

**Chart 21. Geographic active exposures**



**Chart 22. Sector active exposures**



<sup>1</sup> Forecasted active risk based on BlackRock Aladdin model calculation.

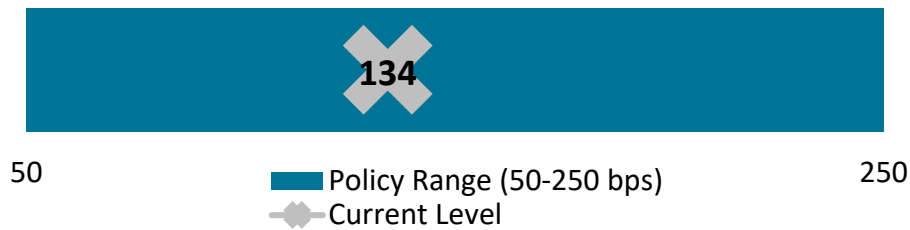
<sup>2</sup> Forecasted active risk based on the Fixed Income Portfolio and market conditions over time.

<sup>3</sup> Based on a rolling 60-month period of realized returns through May 31, 2023

## SISS—Active risk summary

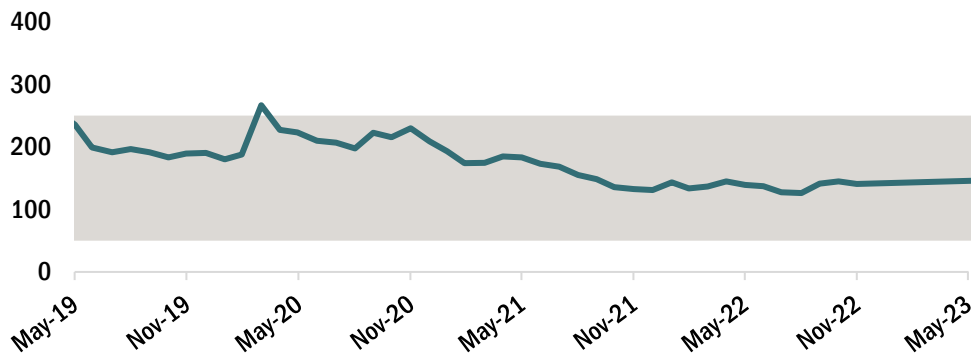
**Chart 23. Current active risk (bps)<sup>1</sup>**

At the September 2021 Investment Committee meeting, the committee approved a new governance policy for SISS, establishing an active risk budget range of 50 to 250 basis points. As of May 31, 2023, the expected active risk of the SISS Portfolio is 134 basis points.

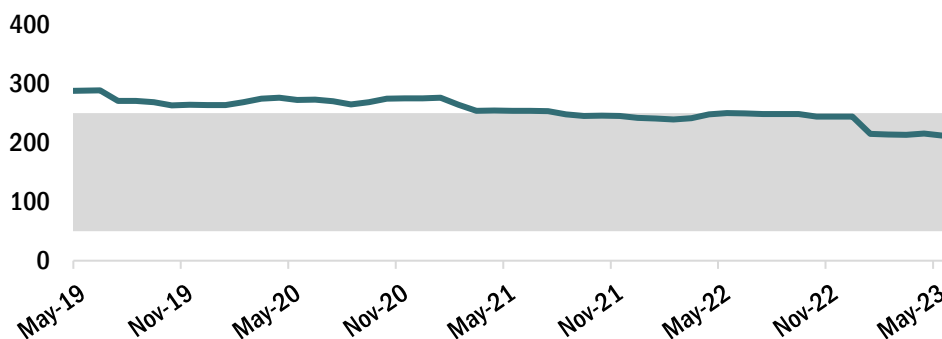


### Historical active risk (bps)

**Chart 24. Forecasted<sup>2</sup>**



**Chart 25. Realized<sup>3</sup>**



<sup>1</sup> Forecasted active risk based on BlackRock Aladdin model.

<sup>2</sup> Forecasted active risk based on current SISS Portfolio and market conditions over time.

<sup>3</sup> Based on a rolling 60-month period of realized returns through May 31, 2023.

# SISS—Active risk summary

## SISS exposures vs. benchmark (market value %)

Chart 26. Geographic active exposures

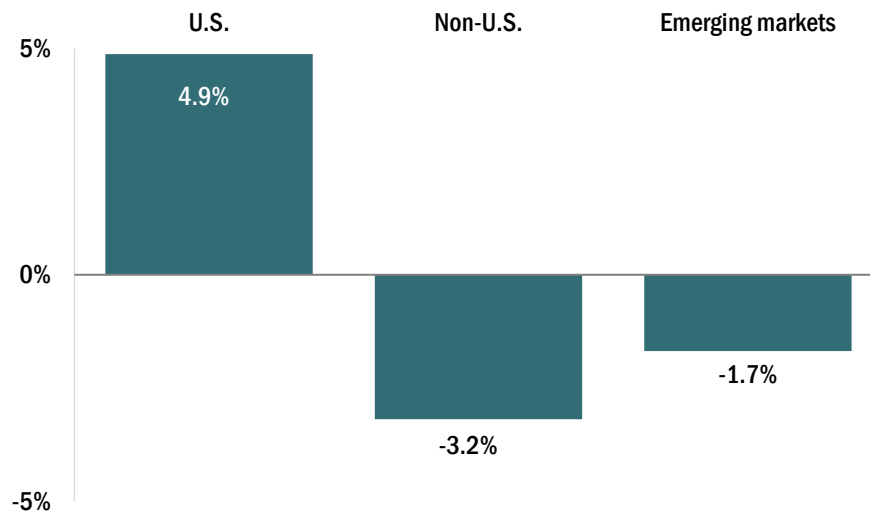
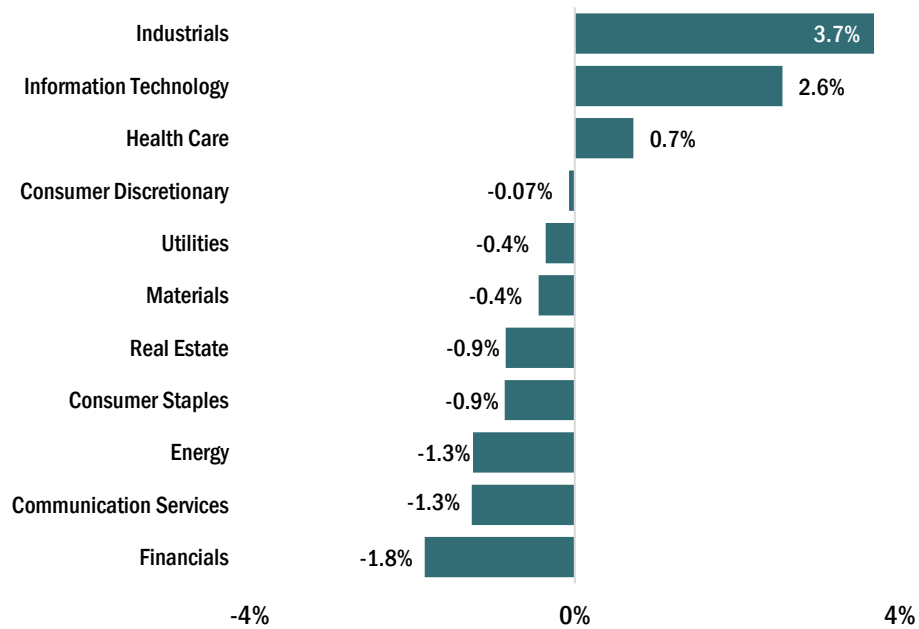


Chart 27. Sector active



# Real Estate

At the July 2021 Investment Committee meeting, the committee approved a new CalSTRS Real Estate Investment Policy. The policy sets limits on Real Estate leverage depending on CalSTRS' level of control. Controlled structures have a leverage limit of 50% and are typically separate accounts and joint ventures where CalSTRS is the majority investor. Non-controlled structures have a leverage limit of 65% and are typically commingled funds where CalSTRS is a minority partner with typical limited-partner rights.

Real Estate data is based on CalSTRS' share of gross asset value as of September 30, 2022.

## Real Estate leverage

Chart 28. Leverage and limits

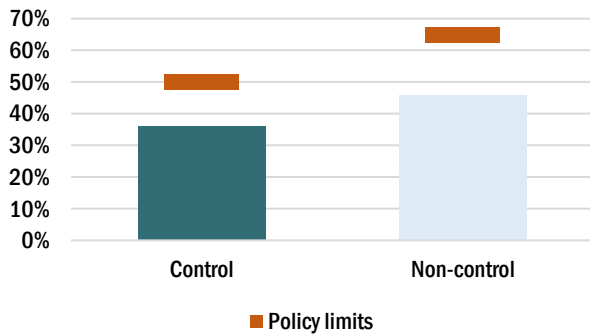
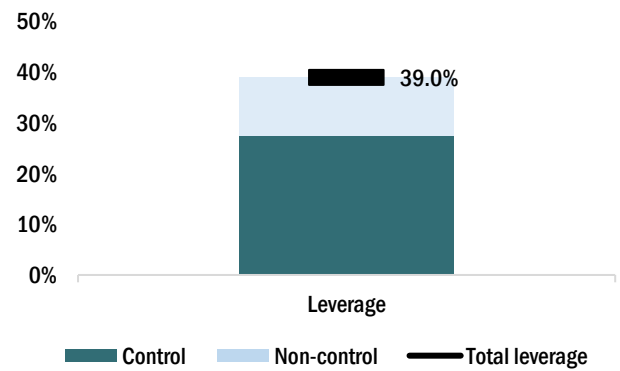


Chart 29. Total leverage



## Real Estate Portfolio exposure

Chart 30. Geographic exposure<sup>1</sup>

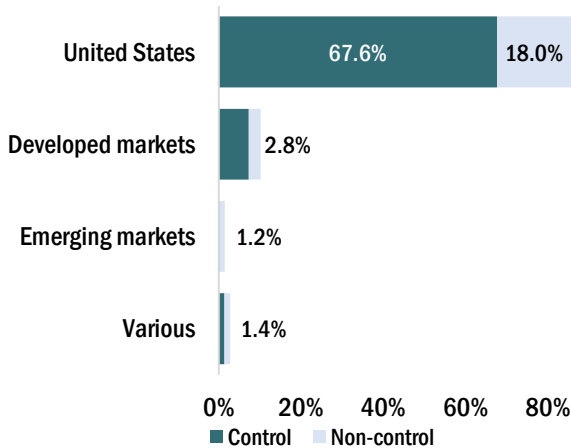
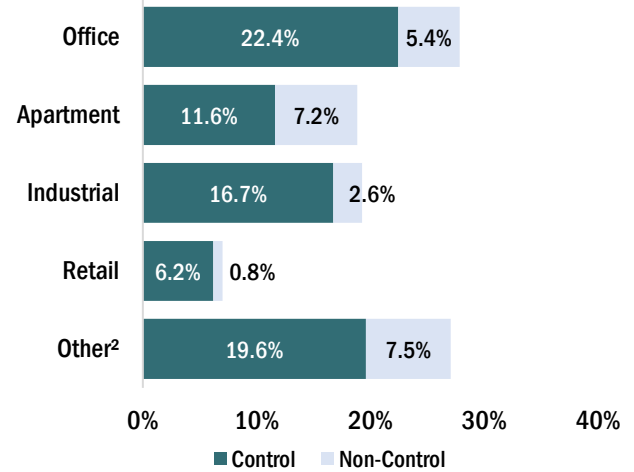


Chart 31. Property type exposure<sup>2</sup>



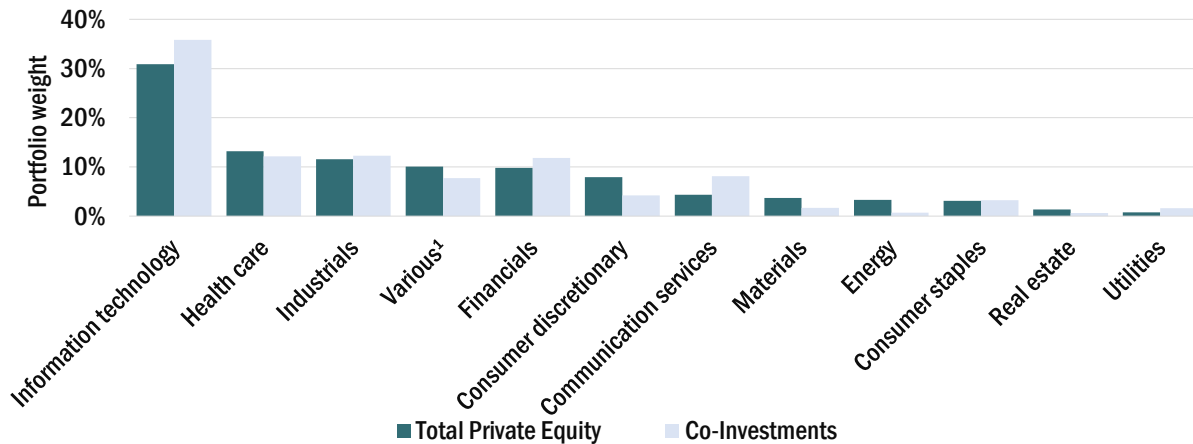
<sup>1</sup> Various investments have properties in multiple countries that could be in multiple regions.

<sup>2</sup> Other property type includes diversified investments that include multiple property types and all other property types (for example, hotels or land).

## Private Equity

Private Equity Portfolio company level data as of December 31, 2022.

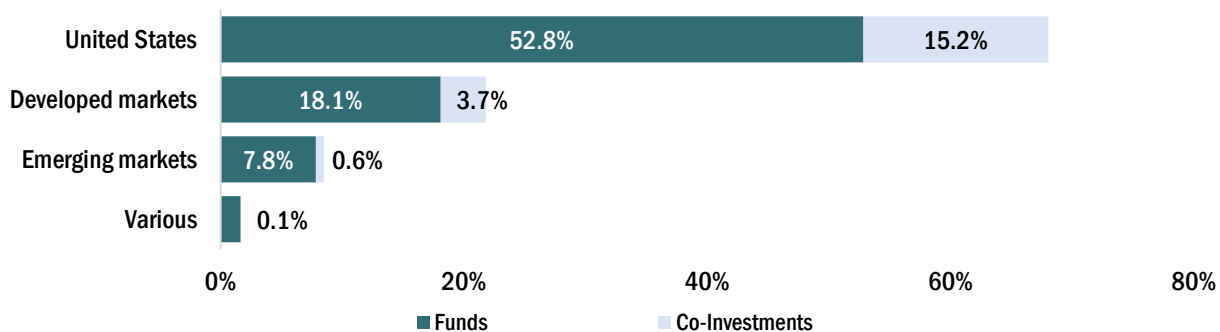
**Chart 32. Sector exposure**



**Table 1. Top 10 portfolio company exposure**

Company	Investment vehicle	Market value (millions)	% of Private Equity
1	Co-Investments & funds	\$520	1.06%
2	Co-Investments & funds	\$384	0.79%
3	Co-Investments	\$331	0.68%
4	Co-Investments & funds	\$309	0.63%
5	Funds	\$293	0.60%
6	Co-Investments & funds	\$253	0.52%
7	Co-Investments & funds	\$251	0.51%
8	Co-Investments & funds	\$229	0.47%
9	Co-Investments & funds	\$228	0.46%
10	Co-Investments & funds	\$211	0.43%

**Chart 33. Geographic exposure<sup>1</sup>**



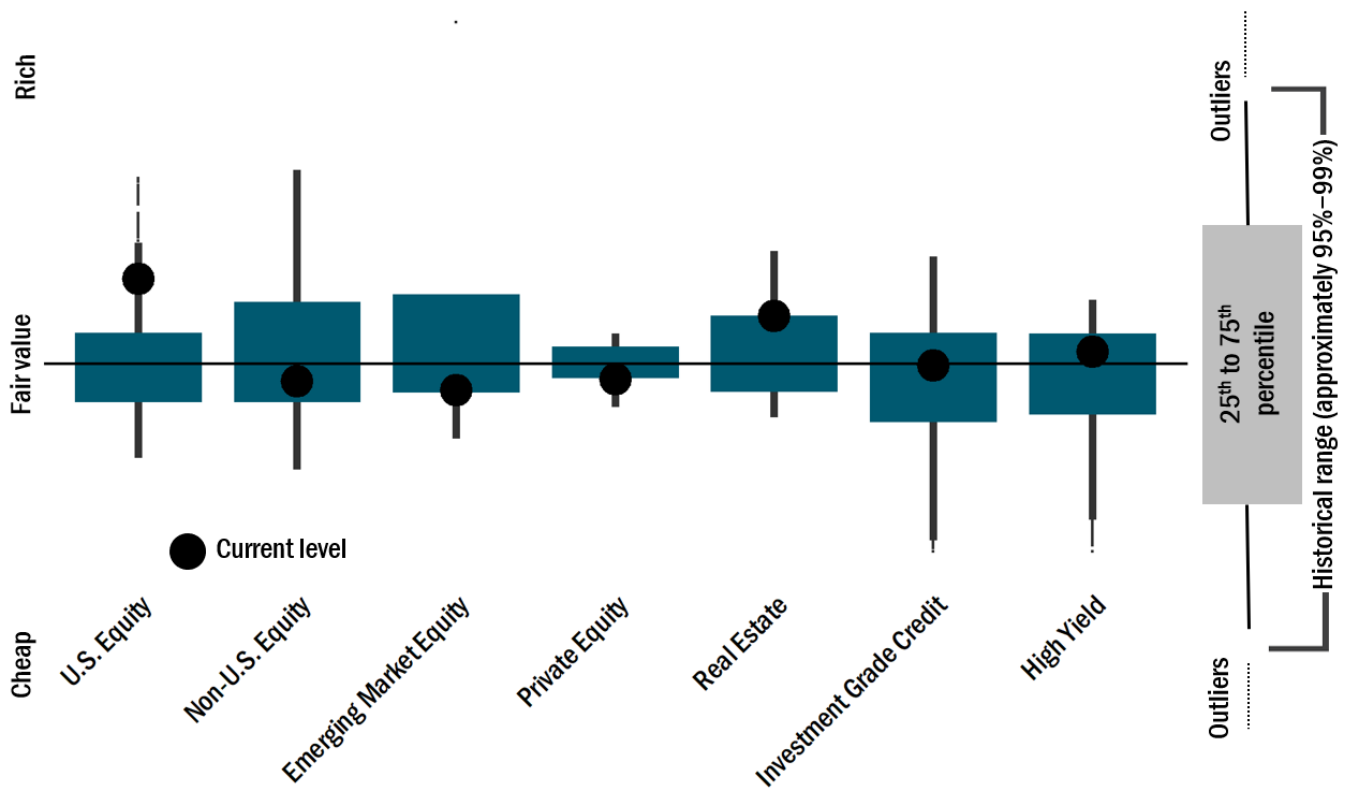
<sup>1</sup> Various includes investments in which the sector or geography data is not available at the level of detail of the data set.

## Valuations

For most of the larger asset classes in the portfolio, the price of the asset at any given time is an important component of expected return, particularly over the medium term (three to five years). Higher prices tend to precede periods of lower returns, an important consideration for the risk-return opportunities across the portfolio.

Chart 34 shows several common measures of valuation converted to a common scale for comparability. In the past few months, the valuations for investment grade and high yield credit have increased while the valuation for real estate has decreased. U.S. equity continues to have higher valuations than non-U.S. developed and emerging market equity.

**Chart 34. Asset class valuations**

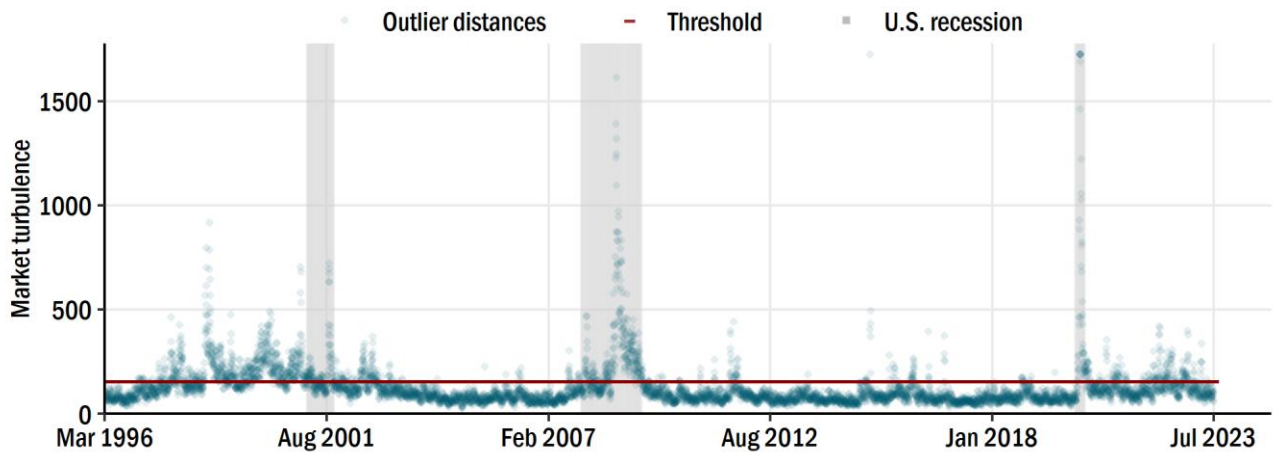


Valuation metrics: Long-Term P/E Ratio for Public Equity; Total Value/EBITDA for Private Equity; Transaction Cap Rate for Real Estate; Credit spreads for Investment Grade and High Yield Credit.

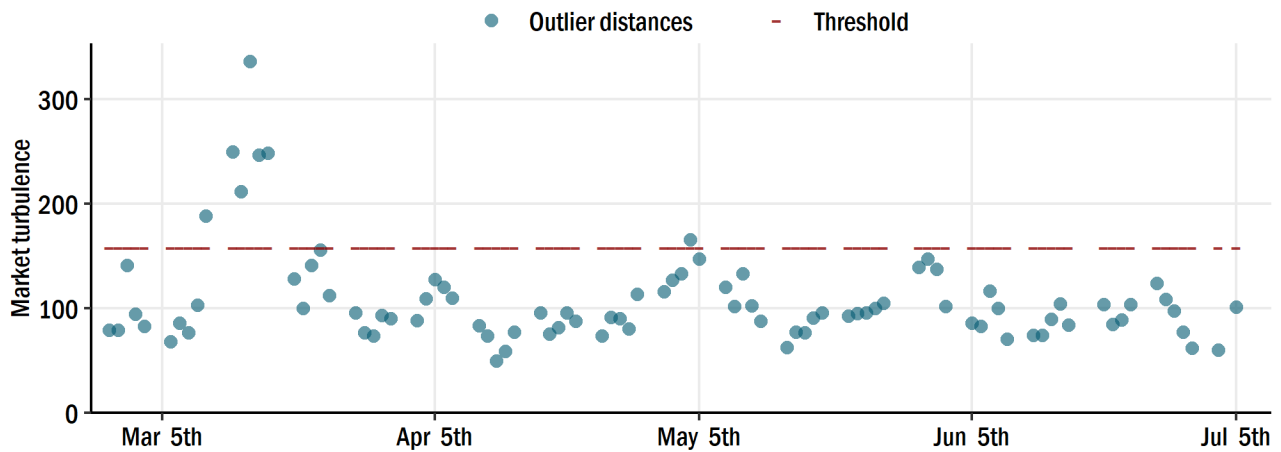
## Market volatility

The volatility index presented in Chart 35 and Chart 36 is an indicator of general market turbulence. The red lines provide a threshold by which to judge whether a day is an outlier or not. The long-term chart shows that, historically, periods of higher turbulence tend to cluster in time. The clustering of turbulent periods means that if a particular day is an outlier, the following day is much more likely to be an outlier. Several days in a row of outliers are a strong indicator that market turbulence could persist for many weeks or months. Economic concerns over the persistence of inflation, the number of additional interest rate hikes in the United States, slowing global growth and further banking sector turmoil are the major causes of recent turbulence.

**Chart 35. Market turbulence—long term**



**Chart 36. Market turbulence—recent**



## Fund liquidity

Paying timely benefit payments is a key objective that requires an appropriate level of cash or liquid assets that can be readily converted to cash. To ensure the fund has an appropriate level of liquidity, the Investment Policy specifies minimum levels of cash and other liquid assets. In addition to required policies, the Risk Allocation Committee manages portfolio rebalancing and timing in order to ensure cash is available when needed. A convenient framework for measuring how much liquidity is available is to break down the assets into multiple tiers:

- Cash.
- Tier 1 assets: Securities that trade frequently and can be readily converted to cash.
- Tier 2 assets: Generally liquid securities that can still trade at prevailing price levels even in periods of modest market stress.
- Less liquid assets: Securities that are by their nature illiquid, such as Private Equity Portfolio partnerships and otherwise liquid assets that become illiquid in periods of stress.

Table 2 shows the liquidity profile of the total portfolio. The combination of cash and Tier 1 assets provide a substantial cushion to ensure timely benefit payments, even in periods of extended market stress.

**Table 2. Fund liquidity**

Asset	Portfolio value (billions)	Months of benefit payments
Cash	\$6.2	4.2
Tier 1 assets	\$172.3	116.9
Tier 2 assets	\$8.6	5.8
Less liquid assets	\$109.3	74.1