



Investment Committee

Item Number 7 – Open Session

Subject: Investment Policy Statement (IPMP Modernization Project) – Preliminary Reading

Presenter(s): Geraldine Jimenez, Shifat Hasan, and Melissa DaRonco

Item Type: Information

Date & Time: January 26, 2023 – 20 minutes

Attachment(s): Attachment 1 – Investment Policy Statement
Attachment 2 – Investment Policy and Management Plan to Investment Policy Statement Content Comparison

PowerPoint(s): Investment Policy Statement (IPMP Modernization Project)

Item Purpose

At the [November 2022](#) Investment Committee (IC) meeting, staff presented the need, approach and framework for modernizing the Investment Policy and Management Plan (IPMP). The purpose of this item is to provide the IC a preliminary reading of the modernized IPMP, renamed as the Investment Policy Statement (IPS). Based on feedback from the IC, staff will continue to develop the IPS and draft a first reading for consideration at a subsequent board meeting.

Recommendation

This is an informational item and staff is seeking IC feedback regarding the preliminary reading of the *Investment Policy Statement* (Attachment 1).

Executive Summary

Staff has drafted the preliminary reading of the IPS to reflect the spirit and intent of the IPMP in a fashion that further memorializes the System’s approach to portfolio management. All of the System’s policies and governance that currently exist in the IPMP have been transitioned to, or referenced within, this IPS. We have included the *Investment Policy and Management Plan to Investment Policy Statement Content Comparison* (Attachment 2) to easily reconcile existing IPMP content to the IPS.

For nearly a year, staff has researched and studied IPS documents from our peers, consulted with and received guidance from Meketa Investment Group and the CFA Institute. This research has guided the modernization project and has led to the enhancements relative to the existing IPMP that follow:

- Organized investment policy concepts into a “top-down” approach, beginning with the overarching Investment Beliefs and followed by Governance, Objectives, Measurement, and Risk. Asset class and other investment program policies are referenced and linked to their respective location on CalSTRS.com.
- Restructured the IPMP elements to further emphasize a “Total Fund” perspective, providing the overarching authority over all other investment policies.
- Streamlined content and included tables, graphs and hyperlinked reference material where appropriate. Reduced the size of IPS by nearly 50 percent relative to the existing IPMP by removing duplicative information and linking to publicly available information on CalSTRS.com.
- Delineated a section for “Sustainability” that describes CalSTRS’ activities to promote sustainable business practices and public policies that support long-term value creation. This section further describes CalSTRS management of sustainability risks and CalSTRS Stewardship Priorities.
- Further delineated a “Human Capital Management” section that describes CalSTRS’ perspective on the value of engaged employees and the competitive advantage they create internally, with CalSTRS partners, and within the companies that CalSTRS invests. This section further describes how Diversity, Equity and Inclusion enhances decision making and investment results.

Based on the IC feedback of this preliminary reading, staff will bring forward a first reading of the IPS in late Spring and a final reading in Summer or Fall of 2023. These dates will be aligned with important milestones for the upcoming Asset Liability Management Study.

Background

The IPMP has existed in its current format since the early 2000’s and has not had a comprehensive refresh in many years. Over time, industry best practice for developing investment policy documents has evolved and this effort will transform our existing IPMP into a modernized and best-in-class IPS document. At the July 2022 IC, the Board recognized the importance of modernizing the existing IPMP.

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: *(e.g., prior board items, supplemental educational materials, etc.)*

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](#)