

# MEKETA

INVESTMENT GROUP

## California State Teachers Retirement System (CalSTRS)

January 25, 2023

## Benchmarking Project



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# Introduction

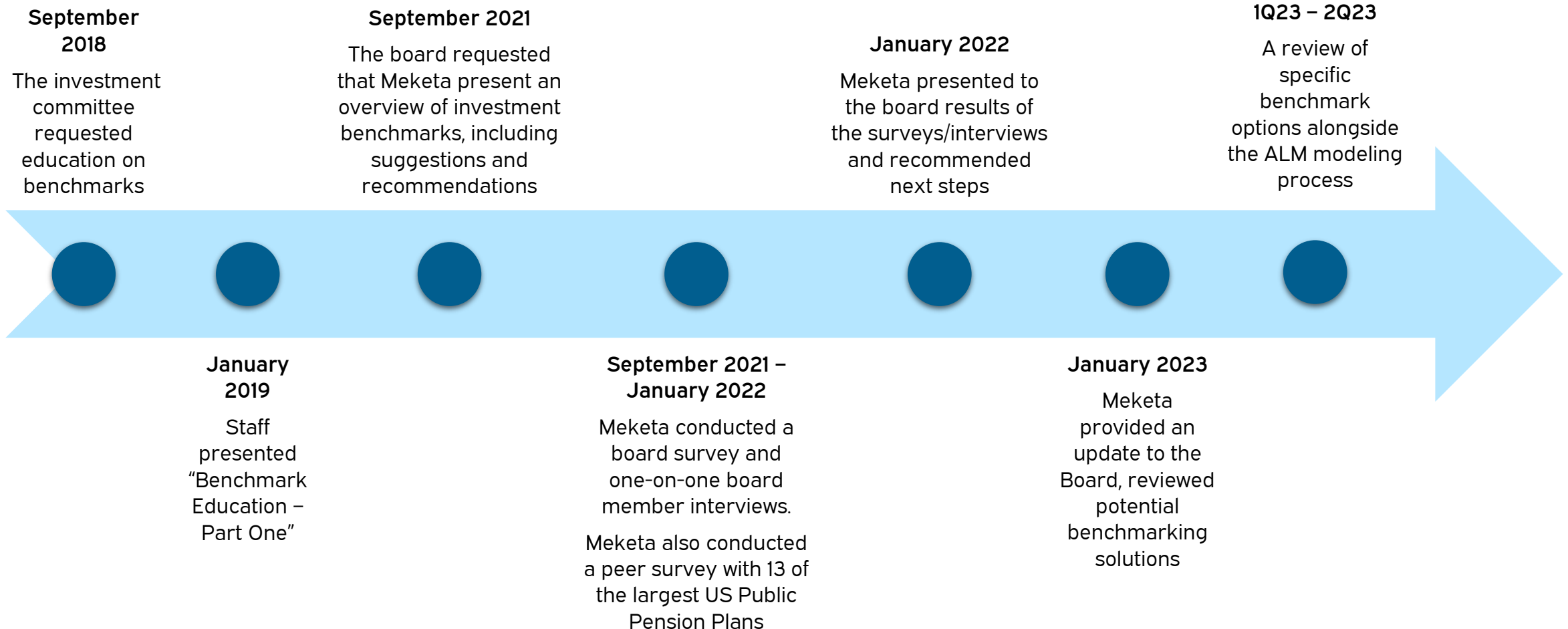


## Introduction

- This presentation, and the Board's discussion, is exclusively on benchmarking CalSTRS' investment performance.
  - The role of benchmarks in determining incentive compensation will be addressed by the Board at a later date.
  - At the Board's request, Meketa began a broad review of benchmarking in September 2021.
    - Board survey
    - Board interviews
- Broad working group including HR Staff, Comp Consultant, and Board representatives.
- This presentation brings the Board up to date on the benchmarking project.



## Timeline of the Benchmarking Project at CalSTRS





## Role/Purpose of Benchmarks

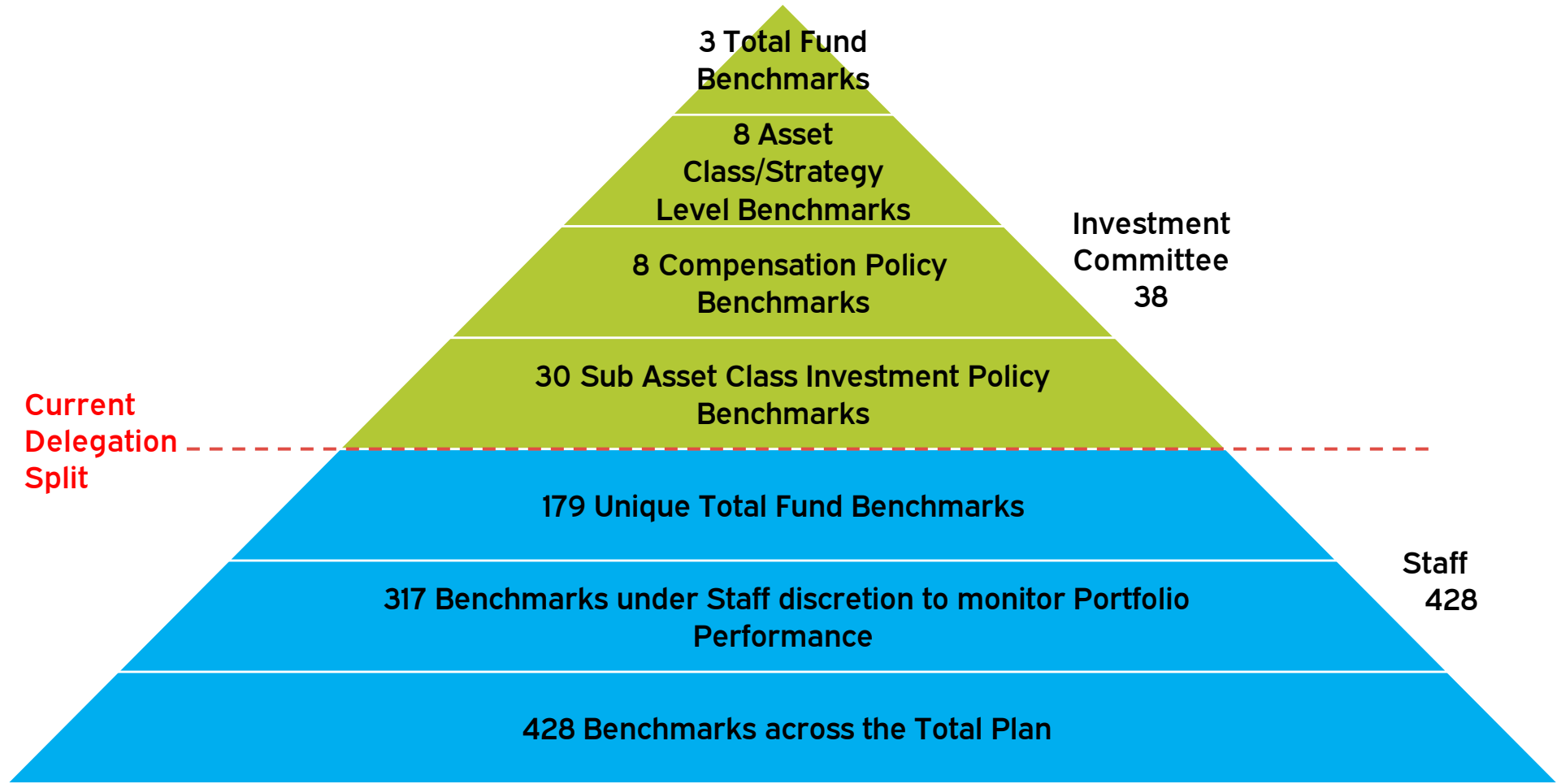
- “You cannot manage what you can’t measure” - Peter Drucker
- This agenda item addresses benchmarks for the Total Portfolio.
- **What is the purpose of a Total Fund benchmark?**
  - To assess both return and risk of the Total Portfolio, as well as to measure asset allocation execution.



# Benchmarking at CalSTRS



Benchmarking at CalSTRS



Current Delegation Split





## **Review of CalSTRS Benchmarking Survey and Interview Results**



## CalSTRS Benchmarking Survey and Interview Results – Areas of Consensus

→ **Simplicity and transparency.**

- The current set of benchmarks are overly complex and difficult to understand.

→ Benchmarks should be reviewed when asset allocation is reviewed.

→ Board should be involved when approving the benchmark for:

- Total Fund
- Incentive Compensation

→ Board should **not** be involved when approving benchmarks for sub-asset classes.

→ Benchmarks should be aligned with the Plan's long-term objectives (not short-term considerations).



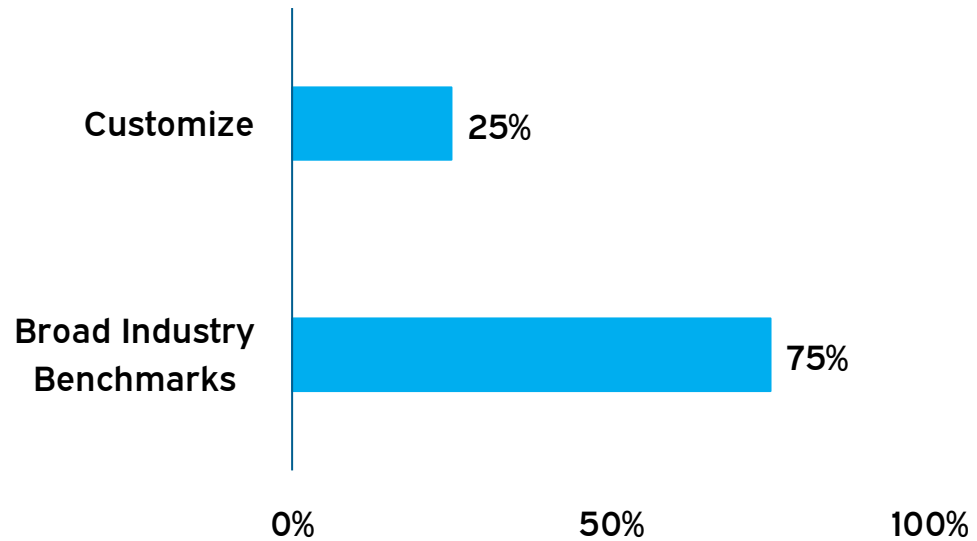
# Potential Benchmarking Options



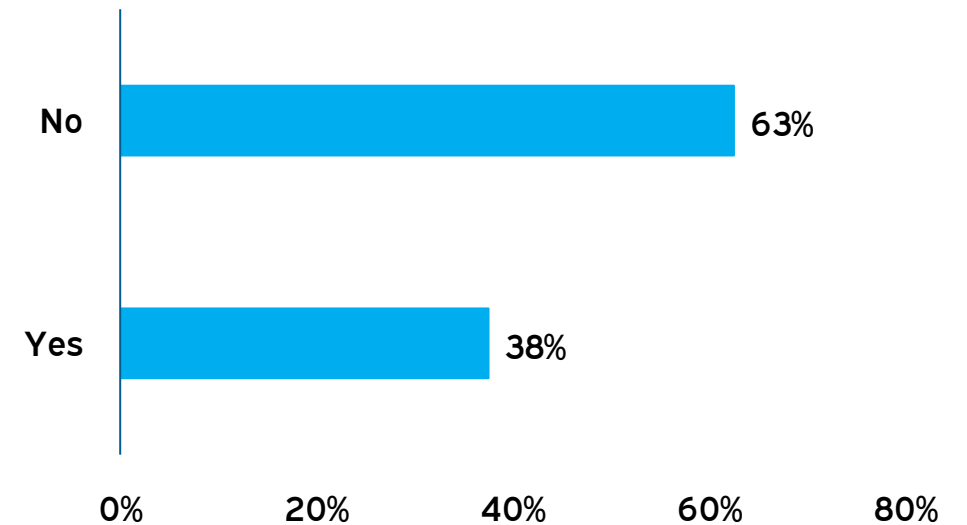
## Potential Benchmarking Options – Peer Public Fund Benchmarks

→ Meketa surveyed 13 of the largest US Public Pension Plan on general benchmarking practices.

**Does the organization customize benchmarks for plan-specific constraints/preferences, or use broad industry benchmarks at the Total Fund level?**



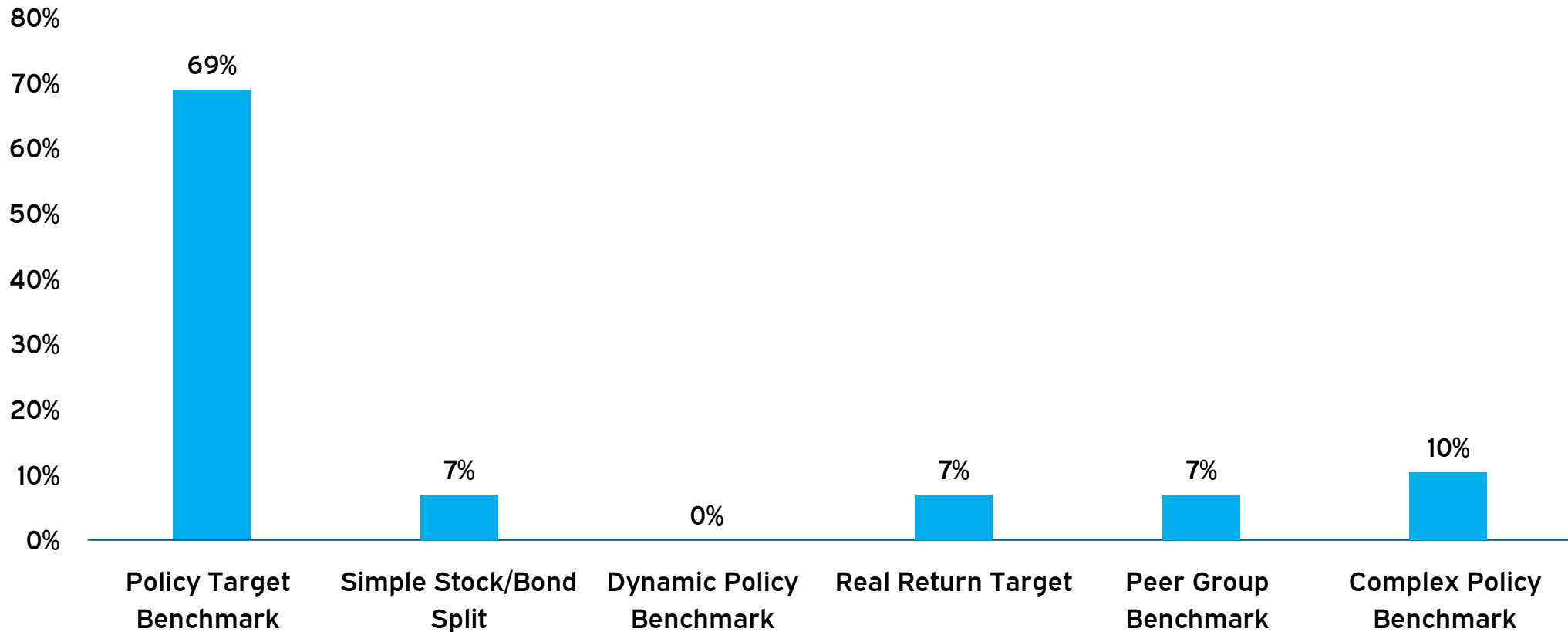
**Are there multiple benchmarks at the Total Fund level?**





### Benchmarking Options – Peer Public Fund Benchmarks

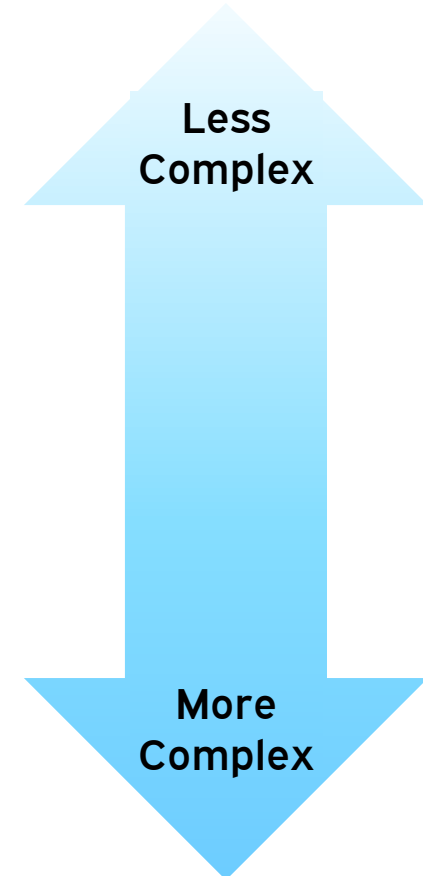
→ Total fund benchmarking was assessed from 25 of the largest domestic public pension systems:





## Potential Benchmarking Options

- 1. Stock / Bond Split**
  - *2 Underlying Benchmark Components*
- 2. Major Asset Class Policy Targets**
  - *7 Underlying Benchmark Components*
- 3. Sub-Asset Class Policy Targets**
  - *17 Underlying Benchmark Components*
- 4. Complex Policy Benchmark (CalSTRS Current Benchmark)**





## Next Steps



## Next Steps

- Board adopts a Total Fund benchmark (slide 14).
- Meketa to provide potential benchmark options to the Board, with back tested performance data.