



Investment Committee

Item Number 4 – Open Session

Subject: Investment Policy Management Plan – Asset Allocation Step Change –
First Reading

Presenter(s): Geraldine Jimenez

Item Type: Action

Date & Time: January 26, 2023 – 10 minutes

Attachment(s): Attachment 1 – Meketa Investment Group Concurrence Memo

Attachment 2 – Investment Policy and Management Plan –
Redline Version

Attachment 3 – Investment Policy and Management Plan – Clean
Version

PowerPoint(s): None

Item Purpose

The purpose of this policy change is to adjust the asset class weightings to continue moving toward the long-term strategic asset allocation weights.

The Investment Committee conducts an Asset Liability Management (ALM) study every four years. The 2019 study was completed at the November meeting when the Investment Committee selected new long-term asset allocation targets and implementation plan that are reflected in the current Investment Policy and Management Plan (IPMP). This item is being presented to shift the Asset Allocation Targets and Policy Benchmark to the Final Step of the implementation plan.

Recommendation

Staff and the consultant, Meketa, recommend the Investment Committee adopt the revised IPMP with the final Step in the asset allocation targets effective as of January 1, 2023. The specific changes are:

- Increase the Inflation Sensitive target weight by 1%.
- Decrease the Public Equity target weight by 1%.

Background

After the Committee approved the new long-term asset allocation targets at the January 2020 meeting, it included a course to shift from the January allocation to the new long-term targets over a series of Steps. CalSTRS has learned from experience that setting a rigid timeline is inefficient as investment opportunities ebb and flow and do not follow a calendar time frame. Therefore, the implementation plan is expressed in “Steps” toward the long-term target. The current ALM study in progress is expected to be complete in summer 2023 and will update these long-term targets and implementation Steps.

Today staff is recommending the Committee shift to its final Step in the 2019 ALM study Implementation Plan. The specific changes are increasing Inflation Sensitive target weight by 1% to 6% while decreasing the Public Equity by 1% to fund this increase.

The Table 1 below shows the recommended Implementation Plan and the final Step in the process.

Table 1: The Implementation Plan

Strategic Class	Asset Class/Strategy	Effective Date	Current Target	Effective Date	Effective Date	Effective Date	Long-Term Target
		7/1/2020	7/1/2021	1/1/2022	7/1/2022	1/1/2023	
		Step 1	Step 2	Step 3	Step 4	Step 5	
Economic Growth	Public Equity	49%	47%	45%	43%	42%	42%
	Private Equity	10%	11%	13%	13%	13%	13%
Real Assets	Real Estate	14%	14%	14%	15%	15%	15%
	Inflation Sensitive	3%	4%	4%	5%	6%	6%
Diversifying	Innovative Strategies	0%	0%	0%	0%	0%	0%
	Risk Mitigating Strategies	9%	10%	10%	10%	10%	10%
	Fixed Income	13%	12%	12%	12%	12%	12%
	Cash / Liquidity	2%	2%	2%	2%	2%	2%
	Total Asset Allocation	100%	100%	100%	100%	100%	100%

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](#)

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Optional Reference Material: *(prior board items, supplemental educational materials, etc.)*

July 7, 2022 Investment Committee: [Investment Policy and Management Plan Revision - Asset Allocation - First Reading](#)