



Investment Committee

Item Number 6 – Open Session

Subject: Investment Policy Statement Revision: Liquidity Language – First Reading

Presenter(s): Geraldine Jimenez

Item Type: Information

Date & Time: March 6, 2024 – 20 minutes

Attachment(s): Attachment 1 – Meketa Opinion Memo

Attachment 2 – Investment Policy Statement – Redline Version

Attachment 3 – Investment Policy Statement – Clean Version

Attachment 4 – Sample Liquidity Report

PowerPoint(s): None

Item Purpose

The purpose of this item is to present the Investment Committee (IC) with a first reading of a recommended revision to the Investment Policy Statement (IPS). This recommendation is to align the IPS with the strategic asset allocation (SAA) policy approved in July 2023 and is intended to support the total portfolio positioning, and liquidity management and build on related discussions at the [September 2023](#), [November 2023](#), and [January 2024](#) IC meetings.

Recommendation

Staff recommends that the Board approve new liquidity language as reflected in the redline and clean updated IPS (Attachments 2 and 3).

Executive Summary

Liquidity constraints are already inherently embedded into the total portfolio within the bands of the strategic asset allocation (SAA) and reviewed every four years during the Asset Liability Management Study. The proposed IPS change is shifting from a quantitative liquid asset-based policy to a principles-based liquidity policy. Specifically, the recommended policy language:

1. Removes the current language that states: “No more than 55 percent of the total fund shall be invested in instruments that are not regularly publicly traded on a daily basis.”
2. Replace with principles that state “The total allocation to liquid assets (as defined in the glossary) is driven and constrained by the Asset Liability Management Study conducted at least every four years. The Portfolio’s liquidity needs and allocation risks are prudently managed and governed through internal staff committees, policy, guidelines, and periodic reporting. The primary objectives of liquidity management include meeting financial obligations, taking advantage of market opportunities, and portfolio rebalancing.”

Background

The Investment Committee approved the new long-term strategic asset allocation targets and policy at the July 2023 meeting, with an implementation plan that included increasing the illiquidity threshold from 50% to 55%. The current allocation to illiquid assets was approximately 43% as of 12/31/23. An illiquid asset is defined as investments not traded on a daily basis and includes assets from private asset classes such as private equity and real estate. It also includes some assets from “hybrid” asset classes such as Inflation Sensitive, SISS, and RMS. The current IPS sets the illiquid asset exposure to a maximum of 55%. Staff monitors illiquidity across the entire portfolio based on investments that are not publicly traded on a daily basis.

At the September and November Investment Committee meetings, Staff presented education on the topic of liquidity oversight and leverage to frame the challenges and the potential tools that could add significant value in managing the SAA and liquidity.

At the January meeting, Staff recommended, and the IC approved, two changes to the IPS aimed at creating greater flexibility to manage the SAA and liquidity to achieve CalSTRS’ objectives: (1) Widening asset allocation ranges and (2) Adopting an explicit 10% leverage limit at the total fund. Taken together, the two policy changes provide staff with tools to create more value by leveraging staff’s expertise and judgment in adapting to a wide range of market environments.

Today as part of the continued evolution in managing the SAA and liquidity, staff is recommending the Committee approve principles-based liquidity language rather than the quantitative-based liquidity threshold since the quantitative constraints of liquidity are already inherently embedded within the approved SAA and asset allocation ranges of the policy. This recommendation is based on peer universe research showing:

- Generally, peers address “how” liquidity and associated risks are managed to ensure adequate liquidity.
- Liquidity risk is primarily addressed with principles-based language versus a defined numeric threshold in policy.

Staff’s recommended IPS changes are principles-based and shown in Attachment 2 and 3.

For reporting the Investment Committee Portfolio Risk Report will be enhanced as shown in the Sample Liquidity Report (Attachment 4). Additionally, Investment Compliance monitors and reports deviations from the SAA to the Investment Committee through the Semiannual Investment Compliance Report and other appropriate communication channels for timely reporting.

Strategic Plan Linkage: [Trusted Stewards](#)

Board Policy Linkage: [CalSTRS Investment Policy Statement](#)

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

[May 2023 Investment Committee Meeting – Item 3 – 2023 ALM Study Discussion](#)

[July 2023 Offsite Regular Meeting – Item 9 – Investment Policy Management Plan – Asset Allocation – First Reading](#)

[Sept 2023 Investment Committee Meeting – Item 5 – Liquidity Oversight Management](#)

[Nov 2023 Investment Committee Meeting – Item 5 – Liquidity and Leverage Education](#)

[Jan 2024 Investment Committee Meeting – Item 5 – Investment Policy Statement Revision: Leverage & Asset Allocation Bands – First Reading](#)