

## MEMORANDUM

**TO:** Investment Committee, CalSTRS  
**FROM:** Stephen McCourt, Allan Emkin, Stephanie Sorg, Mika Malone, Eric White;  
Meketa Investment Group  
**CC:** Christopher Ailman, CIO, CalSTRS  
**DATE:** September 13, 2023  
**RE:** Opinion Memo – Investment Policy Statement (IPMP Modernization Project), Total Public Equity Benchmark – Second Reading

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### Summary and Recommendation

In August 2023, Staff provided Meketa with draft language for the second reading of the Investment Policy Statement (“IPS”). The IPS represents the modernization of CalSTRS’ existing Investment Policy and Management Plan (“IPMP”) and is the most current version approved from the July Board offsite. Additionally, Staff provided a proposed update to the existing Total Public Equity (“TPE”) benchmark to reflect the modified Global Equity policy benchmark. This change is in alignment with the implementation of CalSTRS’ net zero goals, approved by the Investment Committee in May 2023 through the adoption of Global Equity and Sustainable Investment & Stewardship Strategies (“SISS”) revised policies. ***After independently evaluating Staff’s proposed edits for the second reading, Meketa Investment Group recommends that the Investment Committee adopt the modernized Investment Policy Statement and Total Public Equity benchmark change.***

### Discussion

Consistent with the items presented at the May 2023 Investment Committee meeting and July 2023 Board offsite, the IPS transitions CalSTRS’ existing IPMP into a modernized policy document that is more consistent with industry peers. The recommended second reading draft is based on significant peer review, best practice provided by the CFA Institute, and feedback received from the Investment Committee. Moreover, the IPS maintains the spirit and policy intent of the existing IPMP.

At the July Board offsite, the Board approved further changes to the existing IPMP that will be incorporated into the IPS. Below is an itemization of the updates and enhancement that have been made to the IPS since the July Board offsite:

- Adoption of the long-term strategic asset allocation approved in May 2023.
- Increasing the total fund illiquidity threshold to 55%.
- Allocation of all investment asset classes for the Cash Balance Benefit Program.



September 13, 2023

Attachment 1  
Investment Committee – Item 4  
September 13, 2023  
Page 2

In addition to the items above, the IPS includes an update discussed at the May Investment Committee meeting. Investment Staff from the Global Equity and SISS teams both presented revisions to their existing policies. The respective policy revisions were necessary to implement the Board's direction to allocate 20% of Public Equity to the MSCI ACWI Low Carbon Target Index ("LCTI"). According to the existing IPMP, the TPE (Total Public Equity) benchmark is a weighted blend of its underlying components (Russell 3000 Custom Index + MSCI ACWI ex-US Custom IMI, MSCI World ex-US Custom Min Vol (USD) Index, and Custom MSCI ACWI IMI). As discussed at the May Investment Committee meeting, consistent with Board approved changes to GE and SISS policies, the TPE benchmark also requires an update to simplify and align with CalSTRS' net zero goals. Staff has proposed changing the TPE benchmark to reflect the modified Global Equity policy benchmark.

Meketa has independently reviewed the proposed second reading of the IPS and Total Public Equity benchmark change and concurs with Staff's recommended changes.

If you have any questions, please feel free to contact us at (760) 795-3450.

SBS/SPM/jls