



Regular Meeting

Item Number 7 – Open Session

Subject: Benchmarking Review Project

Presenters: Kristel Turko / Stephen McCourt, Meketa Investment Group

Item Type: Information

Date & Time: May 3, 2023 – 30 minutes

Attachment(s): None

PowerPoint(s): Benchmarking Review Project

Item Purpose

The purpose of this item is to continue the board's conversation from its January 2023 meeting regarding investment benchmarking and to provide potential options to simplify the Total Fund benchmark.

Recommendation

Meketa Investment Group (Meketa) and Human Resources seek feedback and direction on next steps. Meketa recommends the following:

- Consider benchmarking options provided in this presentation
- Once selected, modify Policy documents to reflect new Total Fund benchmark
- Benchmark would be reflected in Staff reports to the Investment Committee (e.g., CIO reports) and in Consultant Semi-Annual Reviews

Executive Summary

For this item, Stephen McCourt of Meketa will provide a presentation and updates regarding the Benchmarking Review Project. For today's discussion, Mr. McCourt will present potential policy benchmarking options for the Total Fund along with back tested performance data for the board's consideration. Per board direction, the options being presented today are focused on a simplified, less complex approach. This item is intended to be exclusively focused on benchmarking CalSTRS' investment performance. The role of benchmarks in determining incentive compensation will be addressed by the board at a future meeting.

Background

To assist the board in its review of the benchmarking program, Mr. McCourt provided a presentation at the January 2022 Regular Meeting with focus on three areas 1) Current state of CalSTRS benchmarks, 2) Key themes solicited from a board member survey and one-on-one interviews from board members who requested them, and 3) A survey of peer public pension systems. Based on Meketa's findings and analysis, the board members agreed that the current state of benchmarking is overly burdensome and complex. The board expressed interest in simplification and directed Meketa to explore options to streamline and simplify the benchmarking program to be presented at a future meeting.

At the January 2023 Regular Meeting, Mr. McCourt provided the board with an update on the benchmarking project and presented a potential benchmarking framework for the board to consider. The framework defined four potential benchmarking options for the Total Fund that ranged from a simplistic approach (stock/bond split) to the most complex structure (CalSTRS' current Total Fund Benchmark). The board affirmed its desire for simplified benchmarks, more transparency, and continued alignment with CalSTRS' long-term objectives. The board directed Meketa to return to a future meeting with potential benchmark options with a simplified, less complex, approach to include back tested performance data of CalSTRS' investment returns versus proposed benchmarks.

Strategic Plan Linkage: Goal 1: Trusted Stewards – Ensure a well-governed, financially sound trust fund. with Objective A: Achieve full funding of the Defined Benefit Program by June 30, 2046.

Board Policy Linkage: [CalSTRS Investment Policy and Management Plan](#), [Compensation Policy for Designated Executive Management and Investment Staff](#) and its [Administrative Procedures](#).

Reference Material:

January 2023 Regular Meeting:

- Item 5 – [Benchmarking Review Project](#)
- Item 5 – [Attachment 1 – Meketa Opinion Memo](#)
- Item 5 – [PowerPoint - Benchmarking Project](#)