



# Investment Committee

## Item Number 10a – Open Session

**Subject:** Approval of Minutes of the January 11, 2024, Investment Committee – Open Session

**Presenter(s):** Chairperson

**Item Type:** Consent Action

**Date & Time:** March 6, 2024 – 0 minutes

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**Attachment(s):** None

**PowerPoint(s):** None

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### **PROPOSED MINUTES [REVISED]**

#### **Teachers' Retirement Board – Investment Committee Meeting**

**January 11, 2024**

**OPEN SESSION**

**LOCATION: Board Room, 100 Waterfront Place, West Sacramento, CA 95605**

#### **COMMITTEE MEMBERS PRESENT**

William Prezant, Chairperson

Gayle Miller, Vice Chairperson, representing the Director of Finance, Joe Stephenshaw

Denise Bradford

Sharon Hendricks

Harry Keiley<sup>1</sup>

Michael Gunning

Ken Tang

Jennifer Urdan

Karen Yamamoto

Deborah Gallegos, representing the State Controller, Malia Cohen

Frank Ruffino, representing the State Treasurer, Fiona Ma

Elizabeth Sanders, representing the State Superintendent of Public Instruction, Tony Thurmond<sup>2</sup>

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<sup>1</sup> Mr. Keiley joined the dais at 9:40 a.m.

<sup>2</sup> Ms. Sanders joined the dais at 10:10 a.m.

**OTHER BOARD MEMBERS PRESENT**

Superintendent of Public Instruction, Tony Thurmond<sup>3</sup>

**STAFF PRESENT**

Cassandra Lichnock, Chief Executive Officer

Christopher Ailman, Chief Investment Officer

Brian J. Bartow, General Counsel

Lisa Blatnick, Chief Operating Officer

Ashish Jain, Chief Technology Officer

Melissa Norcia, Chief Administrative Officer

Bill Perez, Chief Benefits Officer

Teresa Schilling, Chief Public Affairs Officer

Julie Underwood, Chief Financial Officer

Scott Chan, Deputy Chief Investment Officer

Mike DiRé, Senior Investment Director

Geraldine Jimenez, Senior Investment Director

Julie Donegan, Director, Real Estate

Shifat Hasan, Head of Investment Performance and Compliance

Glenn Hosokawa, Director, Fixed Income

Kirsty Jenkinson, Director, Sustainable Investments and Stewardship Strategies

June Kim, Director, Global Equities

Paul Shantic, Director, Inflation Sensitive

Steven Tong, Director, Risk Mitigating Strategies

April Wilcox, Director of Investment Services

Margot Wirth, Director, Private Equity

Kelly Criss, Head of Investment Operations

David Lamoureux, System Actuary

Tom Baker, Portfolio Manager

Josh Diedesch, Portfolio Manager

Aeisha Mastagni, Portfolio Manager

LaShae Badelita, Investment Officer III

Alex Holtz, Senior Counsel

**OTHER PRESENT**

Allan Emkin, Meketa Investment Group

Tad Fergusson, Meketa Investment Group

John Haggerty, Meketa Investment Group

Mika Malone, Meketa Investment Group

Ben Maslan, RFA

Stephen McCourt, Meketa Investment Group

Stephanie Sorg, Meketa Investment Group

Indhira Arrington, Ares Management

Catherine Cai, Pzena Investment Management

John Winkelried of TPG

Jennifer Baker, CalRTA

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<sup>3</sup> Superintendent Thurmond replaced Ms. Sanders on the dais at 10:41a.m.

Maria Brambilla, UNITE HERE Local 11  
Dana Dillon, CTA/NEA-R  
Suzie Dixon, CalRTA  
Ed Foglia, CTA/NEA-R  
Pat Geyer, CalRTA  
Jesus Gonzalez, UNITE HERE Local 11  
Jordan, UNITE HERE Local 11  
Kathy Kinley, CalRTA  
Dora Mendez, UNITE HERE Local 11  
Peter Morse, FACCC  
Don Stauffer, CTA/NEA-R  
Kevin Welch, CTA

A quorum being present, Chairperson Prezant called the Open Session meeting of the Investment Committee meeting to order at 9:36 a.m.

**I. APPROVAL OF COMMITTEE AGENDA (Item 1)**

The Committee Agenda was received, considered, and approved with flexibility by the committee.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Ms. Sanders, for the Superintendent of Public Instruction	X		
Ms. Gallegos, for the State Controller	X		
Chairperson Prezant	X		

**II. OPPORTUNITIES FOR STATEMENTS FROM THE PUBLIC (Item 2)**

The committee heard from Jordan of UNITE HERE Local 11, who spoke about ongoing labor disputes involving certain Los Angeles hotels and urged CalSTRS to engage with Blackstone and Aimbridge Hospitality, and to write letters to encourage resolution of the ongoing labor disputes.

The committee heard from Jesus Gonzalez of UNITE HERE Local 11, who spoke about the onerous work demands, poor wages and poor working conditions at certain Los

Angeles hotels and requested CalSTRS to provide support and engage with Blackstone and Aimbridge Hospitality.

The committee heard from Maria Brambilla of UNITE HERE Local 11, who spoke about Aimbridge Hospitality, the poor working conditions and poor wages impacting service workers at the LAX Holiday Inn, the ongoing strike, and the use of refugees to replace striking workers. Ms. Brambilla requested CalSTRS to provide support and engage with Blackstone and Advent International.

The committee heard from Dora Mendez of UNITE HERE Local 11, who spoke about the ongoing labor dispute, poor working conditions and poor wages impacting service workers at the LAX Holiday Inn. Ms. Mendez requested CalSTRS to engage with Blackstone and Advent International to resolve the ongoing labor disputes.

### **III. CHIEF INVESTMENT OFFICER'S REPORT (Item 3)**

The committee received the Open Session Chief Investment Officer report from Mr. Ailman, including a discussion regarding the Investment Portfolio Risk Report, the recent portfolio asset allocation, critical financial market updates and potential risks on the horizon.

Mr. Ailman recognized Mr. Tong's 40 years of service at CalSTRS and highlighted several of Mr. Tong's accomplishments during his tenure at CalSTRS.

Mr. Ailman also informed the committee that he will be retiring on June 30, 2024, after more than 23 years as the CIO for CalSTRS. Mr. Ailman also announced that at the committee's request he will stay on as an advisor to the new CIO until December 31, 2024, to ensure a smooth transition for the portfolio and program. Mr. Ailman discussed that he and the committee have developed a detailed succession plan and the Board will immediately form a committee to conduct a global search for a new CIO. Mr. Ailman informed the committee that following the Board's selection, the new CIO will start on July 1, 2024.

Mr. Ailman informed the committee that as of today the total fund assets were approximately \$324 billion, which was up from \$317.8 billion as of November 30, 2023. Mr. Ailman discussed the total fund risk and asset allocation as of October 31, 2023, and reported that approximately 51% of the total risk in the CalSTRS' investment portfolio comes from Public Equity, versus an approximately 37% asset weight. Mr. Ailman noted that Public Equity and Private Equity risk account for roughly 81% of portfolio risk. Mr. Ailman also noted that portfolio risk increased significantly due to spiked market volatility in 2020 and has since markedly decreased from its peak.

Mr. Ailman discussed market exposures and reported that across all asset classes the fund has significant exposure (82.6%) to the U.S., with the next largest exposure in Japan (1.7%), while Mexico and Korea rounded out the top 10, followed closely by Ireland and South Korea, respectively. Mr. Ailman noted that China was the 18th largest country exposure.

Mr. Ailman discussed the recent pivot by the Fed from raising rates to multiple rate cuts being forecasted in 2024. Mr. Ailman also informed the committee that inflation rates continue to decrease and noted that the Fed funds rate remained at 5%.

Looking out to the horizon, the committee considered key risks to monitor, including inflation, two major wars, the China economy slowing, election tensions, AI concerns, and the impacts on the Panama Canal due to climate changes. The committee discussed how to best navigate these risks in 2024. The committee considered potential positives on the horizon, such as the steady labor market, consumer spending and potential rate cuts by the Fed.

The committee also considered inevitable surprises to the portfolio such as climate extremes, U.S. and Global energy transition, digital virus/cyber-attacks, income inequality, biological virus, domestic terrorism or extremism, earthquakes, Russia/Ukraine, North Korea/Iran aggression, China/Taiwan/U.S. tensions, lethal drones-micro drones, and near-earth objects.

#### PUBLIC COMMENT

None.

#### **IV. SUSTAINABLE INVESTMENT & STEWARDSHIP STRATEGIES – CORPORATE GOVERNANCE UPDATE: UPDATED CORPORATE GOVERNANCE PRINCIPLES (Item 4a)**

The committee received the Sustainable Investment & Stewardship Strategies -- Corporate Governance Update regarding the updated Corporate Governance Principles from Ms. Jenkinson and Ms. Mastagni.

Ms. Jenkinson and Ms. Mastagni discussed the proposed revisions to the Corporate Governance Principles, including the references to ESG versus sustainability. Ms. Mastagni discussed how the Corporate Governance Principles lay the foundation for CalSTRS stewardship activities, including, but not limited to, proxy voting, portfolio company engagement, and advocacy efforts. Ms. Mastagni also discussed how staff undertook significant research, including reviewing the principles and policies of multiple global peers as a part of the revision process. The committee also considered how the principles are based on best practices in the marketplace and support long-term value creation and mitigate risks to the portfolio.

Ms. Mastagni discussed how CalSTRS continues to support market-wide corporate governance initiatives that improve the investing landscape for shareholders and our beneficiaries. Ms. Mastagni also discussed that the Corporate Governance Principles are designed to provide staff flexibility when executing proxy votes, implementing portfolio company engagements, and advancing advocacy efforts.

Ms. Mastagni informed the committee that while the Corporate Governance Principles are a ‘living document’ that can be updated frequently, staff anticipates significant

updates will occur every three to five years. Meketa concurred with staff’s recommended changes.

**MOTION** duly made by Ms. Miller, seconded by Ms. Hendricks and carried to approve the revisions to the CalSTRS Corporate Governance Principles with modifications as recommended by staff.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Superintendent Thurmond	X		
Ms. Gallegos, for the State Controller	X		
Chairperson Prezant	X		

PUBLIC COMMENT:

None.

**V. SUSTAINABLE INVESTMENT & STEWARDSHIP STRATEGIES – CORPORATE GOVERNANCE UPDATE: REVISED STEWARDSHIP PRIORITIES (Item 4b)**

The committee received the Sustainable Investment & Stewardship Strategies -- Corporate Governance Update regarding the revised Stewardship Priorities from Ms. Jenkinson and Ms. Mastagni.

Ms. Jenkinson and Ms. Mastagni discussed the proposed revised priorities, including (1) Corporate & Market Accountability, (2) Net Zero Transition, and (3) Workforce & Communities. Ms. Mastagni informed the committee that the proposed Stewardship Priorities are not materially different from the previous Stewardship Priorities and have been repositioned to adapt to the evolving sustainability environment while empowering staff to use their influence to achieve the highest level of positive change. Ms. Mastagni also informed the committee that the Responsible Firearms priority is now incorporated into the Workforce & Communities priority. Ms. Mastagni also discussed how the purpose of the revised Stewardship Priorities is to help staff prioritize and utilize resources to implement the stewardship activities for the next three years.

The committee considered the long history of CalSTRS’ proactive engagement with portfolio companies on sustainability issues that impact long-term company performance and with policymakers to ensure efficient markets and proper shareholder rights. The

committee also considered the tools and tactics that are utilized by staff to successfully implement the stewardship priorities. Ms. Mastagni informed the committee about several stewardship accomplishments that were successful because of staff engagements.

The committee discussed workforce concerns such as ongoing labor disputes and workplace issues impacting some of CalSTRS’ investments. The committee also discussed the importance of human capital issues and how CalSTRS engages with its investment partners to address such concerns.

Meketa informed the committee that it concurred with staff’s proposed revisions to the Stewardship Priorities that will be put in place for the next three years.

**MOTION** duly made by Mr. Tang, seconded by Ms. Bradford and carried to approve the revised CalSTRS’ Stewardship Priorities for the next three years as recommended by staff.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Superintendent Thurmond	X		
Ms. Gallegos, for the State Controller	X		
Chairperson Prezant	X		

**PUBLIC COMMENT:**

None.

**VI. INVESTMENT POLICY STATEMENT REVISION: LEVERAGE & ASSET ALLOCATION BANDS – FIRST READING (Item 5)**

The committee received the first reading of the revisions to the Investment Policy Statement (IPS) regarding leverage and asset allocation bands from Ms. Jimenez, Ms. Wilcox, Mr. Diedesch and Mr. Chan.

Mr. Chan, Ms. Jimenez, Ms. Wilcox and Mr. Diedesch discussed the proposed IPS changes to (1) widen the allocation ranges to provide flexibility in deciding when to rebalance back to the Strategic Asset Allocation (SAA) targets, and (2) add policy language to allow for the use of leverage, on a temporary basis, up to a maximum of 10% of the total fund to provide the flexibility to position the portfolio and manage liquidity over a business cycle. The committee was informed that CalSTRS’ peers utilize similar

leverage policies to mitigate risks. The committee also discussed the rationale for the 10% maximum on total fund leverage in relation to the recent ALM study. The committee considered how using leverage to mitigate risks and rebalance within the expanded asset allocation ranges assuages the need to liquidate long term assets to pay short term obligations while preserving liquidity to deploy capital to invest in opportunities. The committee also considered how the use of leverage can magnify gains as well as losses.

The committee was informed that the additional policy language adds transparency and codifies CalSTRS’ current use of leverage to manage total fund positioning, while providing the committee with enhanced reporting and oversight. The committee discussed how the enhanced reporting and oversight requirements will be used to update and advise the committee. Meketa also informed the committee that staff is ultimately accountable and responsible for the use of leverage in accordance with the IPS, which is a tactical decision.

The committee considered how the proposed revisions to the IPS will increase staff’s ability to optimally manage the portfolio and support prudent risk management and oversight drawing on (1) the proven expertise of the team, (2) enhanced risk mitigants, (3) good governance, and (4) monitoring and reporting. Meketa concurred with staff’s recommendations regarding revising the IPS to incorporate new target asset allocation bands and defining the leverage maximum allowance at 10%.

**MOTION** duly made by Ms. Gallegos, seconded by Ms. Hendricks and carried to approve two changes to the Investment Policy Statement to widen the asset allocation ranges to manage and rebalance the Strategic Asset Allocation targets and to add a maximum leverage limit of 10% for total fund portfolio positioning and liquidity management as recommended by staff.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Superintendent Thurmond	X		
Ms. Gallegos, for the State Controller	X		
Chairperson Prezant	X		

PUBLIC COMMENT:

None.

**VII. GENERAL CONSULTANT CONTRACT EXTENSION (Item 6)**

The general consultant contract extension involving the committee’s consultant, Meketa Investment Group, was received, considered, and approved by the consent of the committee.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Superintendent Thurmond	X		
Ms. Gallegos, for the State Controller	X		
Chairperson Prezant	X		

**PUBLIC COMMENT:**

None.

**VIII. APPROVAL OF MINUTES OF THE NOVEMBER 1, 2023, INVESTMENT COMMITTEE MEETING – OPEN SESSION (Item 7)**

The Minutes of the November 1, 2023, Investment Committee Meeting – Open Session were received, considered, and approved by the consent of the committee.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Hendricks	X		
Mr. Keiley	X		
Mr. Gunning	X		
Mr. Tang	X		
Ms. Urdan	X		
Ms. Yamamoto	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Superintendent Thurmond	X		
Ms. Gallego, for the State Controller	X		
Chairperson Prezant	X		

**PUBLIC COMMENT:**

None.

**IX. CASES IN DIVERSITY, EQUITY, AND INCLUSION – STAFF BRIEFING (Item 8a)**

The committee received the Cases in Diversity, Equity, and Inclusion – Staff Briefing from Mr. Chan and Ms. Badelita. Mr. Chan discussed how diversity, equity, and inclusion (DEI) has been included as a major initiative of CalSTRS’ strategic plan. Mr. Chan informed the committee that DEI efforts drive organizational performance. The committee also heard from Ms. Badelita who provided an overview of the CalSTRS’ Diversity in Management of Investments (DIMI) pillars, including (1) internal branch, (2) industry and portfolio company engagement, and (3) portfolio management. Ms. Badelita also provided a review of the key takeaways from the November investment committee meeting and discussed how building teams and external relationships that exhibit DEI are essential in achieving CalSTRS’ financial and return objectives. The committee acknowledged the efforts of staff.

**X. CASES IN DIVERSITY, EQUITY, AND INCLUSION – BEST PRACTICES IN DIVERSITY, EQUITY, AND INCLUSION (Item 8b)**

The committee received a presentation on best practices in diversity, equity, and inclusion from Ms. Kim, Catherine Cai of Pzena Investment Management, Indhira Arrington of Ares Management, and John Winkelried of TPG.

The panel discussed how each of their respective business organizations have worked to incorporate DEI into their organizations and who is responsible for driving DEI implementation within their organizations. The panel discussed how each of their business organizations view DEI with respect to their portfolio companies and discussed what an investor like CalSTRS can do to continue to support DEI efforts within the industry. The panel also identified the challenges to implement DEI into a business organization as a fiduciary given the current divisiveness surrounding this topic.

The panel discussed the politicization of ESG and DEI initiatives and how the continued implementation of these initiatives is of critical importance. The panel informed the committee that the implementation of ESG and DEI policies is good business.

The panel discussed the impacts of pay equity and ownership within their organizations and possible enforcement mechanisms for DEI initiatives. The panel informed the committee that enforcement can be achieved by implementing best practices and to trust and verify.

The committee discussed potential fiduciary obligations to implement DEI initiatives.

*Note: Following the lunch break, Ms. Sanders replaced Superintendent Thurmond on the dais. Ms. Hendricks left the dais at approximately 1:58 p.m. Mr. Keiley left the dais at approximately 2:30 p.m.*

**XI. PRIVATE EQUITY PACING REPORT (Item 9)**

The committee received the Private Equity Pacing Report from Ms. Wirth and Mr. Baker. Ms. Wirth discussed the pacing process and how staff makes extensive use of cash flow and net asset value (NAV) exposure models to help manage the Private Equity portfolio. The committee was informed that the models show that the Private Equity portfolio could potentially net a positive return of approximately \$10 to \$20 billion over the next 10 years.

*Note: Chairperson Prezant left the dais at 3:07 p.m.*

**XII. REVIEW OF INFORMATION REQUESTS (Item 10)**

Regarding Item 4a, the committee requested to work with staff to coordinate a further discussion regarding ongoing human capital management issues confronting our partners.

Regarding Item 8b, the committee requested the General Counsel to review and update the fiduciary memorandum.

**XIII. DRAFT AGENDA FOR THE NEXT COMMITTEE MEETING (Item 11)**

The committee received and reviewed the draft agenda for the next meeting.

**XIV. OPPORTUNITY FOR ADDITIONAL STATEMENTS FROM THE PUBLIC**

None.

**RECESS**

The Open Session of the committee meeting recessed at 3:24 p.m. and the committee went into Closed Session. The committee meeting reconvened in Open Session at 3:30 p.m.

No action or information was reported by Vice Chairperson Miller.

**ADJOURNMENT**

There being no further business to conduct, Vice Chairperson Miller adjourned the meeting at 3:30 p.m.

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Cassandra Lichnock, Chief Executive Officer  
And Secretary to the Teachers' Retirement Board

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William Prezant, Chairperson

Prepared by: Alex Holtz, Senior Counsel