



Investment Committee

Item Number 6 – Open Session

Subject: Approval of Minutes of the January 26, 2023, Investment Committee – Open Session

Presenter(s): Chairperson

Item Type: Consent Action

Date & Time: March 2, 2023 – 0 minutes

Attachment(s): None

PowerPoint(s): None

PROPOSED MINUTES

Teachers' Retirement Board – Investment Committee Meeting

January 26, 2023

OPEN SESSION

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

COMMITTEE MEMBERS PRESENT

William Prezant, Chairperson

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

Denise Bradford

Harry Keiley

Ken Tang

Jennifer Urdan

Karen Yamamoto

Frank Ruffino, representing the State Treasurer, Fiona Ma

Superintendent of Public Instruction, Tony Thurmond

Lynn Paquin, representing the State Controller, Malia Cohen

COMMITTEE MEMBERS ABSENT

Sharon Hendricks

Michael Gunning

OTHER COMMITTEE MEMBERS PRESENT

Blake Johnson, representing the State Superintendent of Public Instruction, Tony Thurmond

Jennifer Whitaker, representing the Director of Finance, Joe Stephenshaw

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, Director, Real Estate

Shifat Hasan, Head of Investment Performance and Compliance

Glenn Hosokawa, Director, Fixed Income

Kirsty Jenkinson, Director, Sustainable Investments and Stewardship Strategies

Geraldine Jimenez, Director, Investment Strategy and Risk

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

Kristel Turko, Director of Human Resources

Josh Diedesch, Portfolio Manager

Aeisha Mastagni, Portfolio Manager

Melissa DaRonco, Associate Portfolio Manager

Alex Holtz, Senior Counsel

OTHERS PRESENT

Allan Emkin, Meketa Investment Group

Stephen McCourt, Meketa Investment Group

Ben Maslan, RFA

Jennifer Baker, CalRTA

Phyllis Hall, CTA

Leonard Goldberg, CTA

Kevin Welch, CTA

Don Stauffer, CTA/NEA-Retired

Rosalba Martinez, UFLW

Courtney Alexander, UFLW

Gary Fitzgerald

Deborah
Diana Coriel
Lynne Nittler
Doug Orr
Dana Dillon
Pamela Orgill
Jane Vosberg
Bill Vosberg
MaryKay Scheid, CTA
Alyssa Giachino
Jason

A quorum being present, Chairperson Prezant called the Open Session meeting of the Investment Committee meeting to order at 9:08 a.m.

I. APPROVAL OF COMMITTEE AGENDA (Item 1)

The Committee Agenda was received, considered, and approved with modification by the consent of the committee.

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

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

The committee heard from Rosalba, who spoke about CalSTRS’ investment in Apollo funds and expressed concerns about poor working conditions and treatment by her employer, Cardenas Markets, who is owned by Apollo Funds.

The committee heard from Courtney Alexander, who spoke about CalSTRS’ investment in Apollo Investment Fund IX, urging CalSTRS’ to review Apollo’s investment in Cardenas Markets due to allegations of unfair labor practices. She requested that CalSTRS engage with Apollo regarding labor issues at Cardenas Markets.

The committee heard from Gary Fitzgerald of Third Act, who urged CalSTRS to divest from its fossil fuel investments.

The committee heard from Deborah of Third Act and supporting Fossil Free California, who also urged divestment from fossil fuels.

The committee heard from Diana, who discussed concerns about CalSTRS Net Zero goals and urged divestment from fossil fuels.

The committee heard from Lynn, who spoke about climate change concerns, reducing our carbon footprint, and the shift from prevention to adaptation. She questioned CalSTRS' net zero pledge goals and the need to transition away from fossil fuels.

The committee heard from Doug Orr, who spoke about recent legislation in conservative states that purport to block pension funds from considering ESG in its investments. He urged CalSTRS' to lobby against this legislation.

The committee heard from Pamela, who spoke about divestment from fossil fuels, presented an open book net zero quiz prepared by her students, and urged the committee to take the quiz.

III. 2023 ALM STUDY – CAPITAL MARKET ASSUMPTIONS (Item 3)

The committee received the staff recommended Capital Market Assumptions as a part of the 2023 Asset Liability Management (ALM) study from Ms. Jimenez and Mr. Diedesch. Ms. Jimenez noted that this is a long-term process that looks out 30 years to attempt to forecast where we are headed. Ms. Jimenez noted that forming capital market assumptions is as much art as it is science and is a process subject to significant uncertainty. Mr. Ailman noted that the committee was being asked to approve the recommended capital market assumptions for the ALM modeling. It was also noted that the recommendations focus on key inputs into the modeling process that are forward-looking assumptions about the behavior of CalSTRS' asset classes. Mr. Diedesch informed the committee that the assumptions are a key building block for determining the long-term strategic asset allocations for the portfolio. The committee discussed three main attributes of each asset class's long-term behavior: (i) expected long-term return, (ii) expected return volatility over time; and (iii) how the asset classes are expected to relate/correlate with other asset classes. The committee also discussed how staff arrived at the proposed assumptions, which entailed, among other things, (i) gathering capital market assumptions from consultants and other institutional investment managers, etc.; (ii) complex modeling utilizing well-known, industry-accepted economic models for building expected rates of return for each major asset class; and (iii) engaging in

collaborative efforts and receiving input from Meketa for its independent views and opinions.

Mr. McCourt stated that Meketa supported the recommended capital market assumptions and viewed staff’s process for developing the capital market assumptions and the results as thorough, thoughtful, and prudent. Mr. McCourt indicated that the process is a very data rich analysis and staff utilized a best practices process. He also noted that the level of interest rates projected is the most important variable, and the outcomes that staff arrived at are reasonable and defensible. In Meketa’s opinion, the recommendations incorporate quantitative factors, and qualitative judgments.

Mr. Emkin concurred with Mr. McCourt and stated that the process of arriving at the recommended assumptions was a robust dialogue and debate with staff. Mr. Emkin informed the committee that it is key to find a portfolio that is truly diversified. According to Mr. Emkin, this process has evolved over the years and has become a very collaborative effort which he noted is the best process that he has been involved in.

The committee discussed the potential impacts to the recommended assumptions before final adoption of the ALM study, and the need to keep an eye on inflation. The committee also considered the correlations of the recommended assumptions between each of the asset classes. The committee also discussed the higher return assumptions compared to the 2019 return assumptions and considered how the yield curve informed the assumptions. It was also noted that the range of volatility in all other asset classes besides fixed income was higher. The committee discussed the impacts resulting from the Federal Reserve aggressively increasing interest rates and shifting from quantitative easing to quantitative tightening. The committee also considered how diversification and the “go-slow” approach is key, especially in an ever-changing world.

MOTION duly made by Ms. Miller, seconded by Mr. Keiley, and carried to approve the three components of the capital market assumptions for the 2023 ALM Study, as recommended by staff.

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

None.

IV. INVESTMENT POLICY MANAGEMENT PLAN – ASSET ALLOCATION STEP CHANGE – FIRST READING (Item 4)

The committee received the first reading of the Investment Policy Management Plan – Asset Allocation Step Change from Ms. Jimenez. The committee discussed the long-term targets and the implementation plan with step shifts to the portfolio that were previously adopted into the Board’s Investment Policy and Management Plan at the January 2020 meeting. The committee considered the recommended shift to its final step in the reallocations towards the long-term targets set forth in the 2019 ALM study Implementation Plan. The committee discussed the recommended final step by increasing the Inflation Sensitive target weight by 1% to 6% while decreasing the Public Equity by 1% to fund this increase.

Meketa reported that they independently reviewed staff’s recommended asset allocation changes and concurred with staff’s proposed Investment Policy Management Plan revisions.

MOTION duly made by Ms. Paquin, seconded by Ms. Miller, and carried to approve the revised Investment Policy Management Plan with the final step in the asset allocation targets effective as of January 1, 2023, as recommended by staff.

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

PUBLIC COMMENT

None.

V. CHIEF INVESTMENT OFFICER’S REPORT (Item 5)

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 informed the committee that the fund size now is \$310 billion and the fund was up to \$8 billion since June 30, 2022. As of December 2022, total fund assets were \$302 billion compared to \$301 billion as of June 2022. Calendar year return is -6.7. Mr. Ailman discussed the asset allocation of the fund as of December 31, 2022, including the trend over the past three years, noting that Public Equity had reduced its asset allocation. Mr. Ailman indicated that inflation remains the focus for investors and the Fed. Mr. Ailman also reported that inflation fell to 6.5%, as the market expected, and noted that the Consumer Price Index-Energy has led the recent fall in inflation. Mr. Ailman stated that the Fed will likely continue to raise rates as inflationary numbers are still far above the Fed target of 2%. Mr. Ailman indicated the U.S. Stock Market remains a bear market even through the various rallies. Mr. Ailman also discussed the labor market uncertainty and noted that the single digit layoff numbers being reported are unusual as generally we would expect double digit numbers in a bear market. Mr. Ailman discussed that the leading indicators are pointing to a downturn with the Eurozone weaker than the U.S. Mr. Ailman noted that a recession is likely but there is a lot of uncertainty as to whether it will be a hard or soft recession. According to Mr. Ailman, the market has already priced in a soft landing.

The committee discussed risk premiums and fund liquidity. Mr. Ailman noted that tight liquidity is a common issue and private markets do affect liquidity. The committee also considered how the Consumer Price Index-Energy was the best indicator for where inflation is heading.

Looking out to the horizon, the committee discussed key risks to monitor such as inflation, Central Bank/Fed policies and the Fed continuing to raise interest rates. Mr. Ailman noted potential positives moving forward, such as a continued strong labor market, corporate balance sheets, and whether the Fed rate hikes might already be priced into the market. Mr. Ailman also discussed uncertainties moving forward such as how long will the Fed continue to raise rates and will it take a recession to slow inflation.

The committee also discussed inevitable surprises to the portfolio such as climate extremes, digital virus/cyber-attacks, income inequality, pandemics, domestic terrorism, broken political system leading to social unrest and protests, Russia/Ukraine, North Korea/Iran aggression, China/Taiwan/U.S. tensions, and greater geopolitical tensions. Mr. Ailman indicated that systemic cyber-attacks should be considered a top risk.

Mr. Johnson replaced Superintendent Thurmond on the dais at 10:35 a.m.

PUBLIC COMMENT

The committee heard from Doug Orr, who spoke about the inevitable risks regarding the ongoing debt ceiling issue and potential impacts resulting from a default given the makeup of the current House of Representatives and when it will occur.

VI. OPERATIONALIZING THE PILLARS PROJECT (Item 6)

The committee received the informational report about Operationalizing the Pillars Project from Mr. Chan, Ms. Wilcox, Ms. Turko, Mr. DiRe, and Ms. Blatnick. The committee received a report that the Pillars Project broadly met its objectives and completed the planned work schedule as of December 31, 2022. The committee also received information that a majority of the Pillars Project objectives have become fully operationalized with ongoing monitoring and maintenance efforts.

Mr. Chan discussed the accelerated implementation of the Collaborative Model and becoming the “partner of choice”, which has enabled the investment teams to capture the best investment opportunities globally. Mr. Chan also discussed the hiring and staffing requirements to support the Collaborative Model, as well as the major cost savings to CalSTRS since implementing the Collaborative Model.

Ms. Wilcox provided an overview of the Human Resources Pillar and highlighted the numerous accomplishments. Ms. Turko discussed succession planning and the achievements of the succession planning pilot program that was completed within the Real Estate Investment branch and subsequently rolled out to the other asset groups within the investment branch. Mr. DiRe reported that the succession planning pilot program that was completed within the Real Estate Investment branch was beneficial and informative. Ms. Blatnick also provided an overview of the successes of the Pillars Project and noted how the project has been an outstanding model of teamwork providing a framework for communication and collaboration.

The committee considered whether the Pillars Project has helped the timing and efficiency of the contracting process for our advisors and consultants. The committee also discussed areas of the project that may not have been fully completed or need additional work. The committee thanked the staff for their efforts and discussed how well received the Pillars Project has been.

PUBLIC COMMENT

None.

VII. INVESTMENT POLICY STATEMENT (IPMP MODERNIZATION PROJECT) – PRELIMINARY READING (Item 7)

The committee received the Investment Policy Statement (IPMP Modernization Project) preliminary reading from Ms. Jimenez, Ms. Hasan, and Ms. DaRonco. Ms. Jimenez discussed the background of the IPMP Modernization Project. Ms. Jimenez requested feedback from the committee regarding the preliminary reading of the Investment Policy Statement, which will guide in the continued development of the draft Investment Policy Statement for consideration at a subsequent meeting. The committee discussed the reasons for the IPMP Modernization Project, which include the application of best practices, greater accessibility and usability, and the need to streamline administrative updates. The committee also considered the policy structure.

The committee discussed whether the review of the current policy revealed any deficiencies in best practices and, if so, how those deficiencies were addressed and updated in the new Investment Policy Statement. The committee also considered the policy structure and discussed how the Investment Policy Statement is a “big picture” policy.

PUBLIC COMMENT

None.

VIII. REVIEW INFORMATION REQUESTS (Item 8)

None.

IX. DRAFT AGENDA FOR NEXT INVESTMENT COMMITTEE MEETING (Item 9)

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

X. APPROVAL OF MINUTES OF THE NOVEMBER 3, 2022, INVESTMENT COMMITTEE MEETING – OPEN SESSION (Item 10)

The Minutes of the November 3, 2022, Investment Committee Meetings – Open Session were received, considered, and approved by the consent of the committee.

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

PUBLIC COMMENT

None.

XI. SELECTION OF REAL ESTATE CONSULTANT (Item 11)

The committee received, considered, and approved by the consent of the committee the selection of RFA/RCLCO as the specialty real estate consultant to assist the committee in the oversight of the real estate asset class.

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

PUBLIC COMMENT

None.

XII. SISS – 2023 STEWARDSHIP PRIORITIES, 2022 HIGHLIGHTS (Item 12)

Note: The committee modified the agenda by removing Item 12 from the consent agenda. Items 10 and 11 remained on the consent agenda and were approved by the consent of the committee as noted above.

The committee received the SISS – 2023 Stewardship Priorities, 2022 Highlights report from Ms. Jenkinson and Ms. Mastagni. Ms. Jenkinson and Ms. Mastagni discussed the policy hierarchy and noted that there are two parts to the SISS policy: Stewardship and the SISS portfolio. Ms. Mastagni reported that net-zero, corporate and market accountability, board effectiveness and responsible firearms are Stewardship priorities. Ms. Mastagni also discussed the tactics that are utilized to implement the Stewardship priorities such as proxy voting, direct engagement, and collaborative engagement.

The committee discussed the politicization of ESG and considered our role in firearms safety. The committee also discussed our continued progress and engagement with Exxon. The committee considered the SEC’s proposal regarding climate disclosure and the anti-ESG backlash and how these issues are affecting how we do business with our partners. The committee was also informed that we are actively engaging with our partners and strategizing appropriate responses.

MOTION duly made and carried to approve the SISS – 2023 Stewardship Priorities, 2022 Highlights report.

Members Voting	Aye	Nay	Abstain
Ms. Bradford	X		
Ms. Urdan	X		
Mr. Keiley	X		

Ms. Yamamoto	X		
Mr. Tang	X		
Ms. Miller, for the Director of Finance	X		
Mr. Ruffino, for the State Treasurer	X		
Mr. Johnson, for the Superintendent of Public Instruction	X		
Ms. Paquin, for the State Controller	X		
Chairperson Prezant	X		

PUBLIC COMMENT

None.

XIII. OPPORTUNITY FOR ADDITIONAL STATEMENTS FROM THE PUBLIC

The committee heard from Jane Vosberg, who discussed fossil fuels and the climate change crisis, holding big oil accountable, and urged divestment from fossil fuels.

The committee heard from Bill Vosberg, who spoke about climate change, net-zero, the inadequacy and expense of carbon capture storage, the need to transition to a low carbon economy, and urged CalSTRS to divest from fossil fuels.

Mr. Keiley paid tribute to Rich Hansen who passed away suddenly. Before his recent retirement, Rich was a community college professor and advocate for community colleges. Mr. Keiley wanted to adjourn in Rich Hansen’s memory for his tremendous service to community colleges, students and the State of California.

RECESS

The Open Session of the committee meeting recessed at 1:06 p.m. and reconvened in Open Session at 1:25 p.m. The Open Session of the committee meeting recessed again at 1:26 p.m. and the committee went into Closed Session. The committee meeting reconvened in Open Session at 2:02. Chairperson Prezant stated that there was nothing to report out as the committee took no action while in Closed Session.

ADJOURNMENT

There being no further business to conduct, Chairperson Prezant adjourned the meeting at 2:02 p.m.

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

William Prezant, Chairperson

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Prepared by: Alex Holtz, Senior Counsel