Asset Allocation Assumptions

Total Return and Risk Estimates*

Assumed inflation level: 2.75% per year Adopted in January 2023

Strategic Class	Asset Class	Expected Geometric Return	Volatility
Economic Growth	Public Equity	8.0%	16.2%
	Private Equity	9.5%	21.1%
Real Assets	Real Estate	6.8%	11.6%
	Inflation Sensitive	6.4%	10.5%
Diversifying	Fixed Income	5.2%	6.2%
	Risk Mitigating Strategies (RMS)	5.0%	7.4%
	Cash / Liquidity	2.8%	0.5%

Expected Correlation Among the Asset Classes: **Adopted in January 2023**

Strategic Class		Economic Growth		Real Assets		Diversifying		
	Asset Class	Public Equity	Private Equity	Real Estate	Inflation Sensitive	Fixed Income	Risk Mitigating Strategies (RMS)	Cash / Liquidity
Economic Growth	Public Equity	1	0.77	0.40	0.42	0.16	0.08	-0.03
	Private Equity		1	0.42	0.39	0.16	0.15	0.07
Real Assets	Real Estate			1	0.36	-0.06	0.18	0.03
	Inflation Sensitive				1	0.20	0.18	0.02
Diversifying	Fixed Income					1	0.44	0.09
	Risk Mitigating Strategies (RMS)						1	0.12
	Cash / Liquidity							1

**These return and volatility estimates are only for asset allocation modeling purposes.*

These returns and volatility estimates reflect several basic relationships:

1. Investors or lenders of capital require an incremental real return premium as a reward for making capital available
2. Equity-oriented investments should, over long periods, produce return premiums that are higher than their fixed income counterparts
3. The return assumptions for the publicly traded asset classes do not account for added value opportunities within each asset class

Review of Asset Allocation Policy

Over the last 30 years, CalSTRS' asset allocation policy has shifted modestly.

CalSTRS Asset Allocation Policy Trends (in %)

Strategic Class	Asset Class/Strategy	Long-Term*	2020	2019	2015	2013	2008	1999	1993	1986
Economic Growth	Public Equity	38%	42%	51%	55%	51%	60%	63%	51%	55%
	Private Equity	14%	13%	9%	13%	13%	9%	5%	7%	5%
Real Assets	Real Estate	15%	15%	13%	13%	13%	11%	5%	10%	10%
	Inflation Sensitive	7%	6%	3%	1%	6%	0%	0%	0%	0%
Diversifying	Innovative Strategies	0%	0%	0%	0%	0%	0%	0%	0%	0%
	Risk Mitigating Strategies	10%	10%	9%	0%	0%	0%	0%	0%	0%
	Global TAA	0%	0%	0%	0%	0%	0%	0%	1%	0%
	Fixed Income	14%	12%	13%	17%	16%	20%	26%	30%	30%
	Cash / Liquidity	2%	2%	2%	1%	1%	0%	1%	1%	0%
	Total Equity**	67%	70%	73%	81%	77%	80%	73%	68%	70%
	Other Assets	33%	30%	27%	19%	23%	20%	27%	32%	30%
	Total Asset Allocation	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

The long-term target was established in May 2023.

*** Total Equity includes Public Equity, Real Estate and Private Equity.*

CalSTRS' investment policy has remained consistent from an equity/stable asset allocation viewpoint. In 1986, CalSTRS had a strategic allocation of 70 percent equities and 30 percent stable assets. In 1997, CalSTRS' board adopted and reaffirmed a policy of 73 percent equity and 27 percent stable assets. During the 2006 Asset Liability Study, the Investment Committee approved a shift to a long- term plan of 80 percent equity and 20 percent stable assets to optimize the likelihood of success in meeting the investment goals listed at the beginning of the policy. In 2009, the Investment Committee added a new asset group, Inflation Sensitive, to help improve the overall diversification and reduce volatility. In 2015, the Committee added Risk Mitigating Strategies to reduce the risk of decline in significant negative investment periods. The 2019 Asset Liability study continued the shift toward a more diversified portfolio. The 2023 study increased the allocation to private assets and increased the allocation to Fixed Income to accommodate an allocation to Direct Lending. Further, the board approved the asset allocation to be implemented consistently within the Defined Benefit Program, the Defined Benefit Supplement Program and the Cash Balance Program.