

## CALSTRS SPEAKS ON BUILDING USD 8BN 'HEDGEHOG' INFRA PORTFOLIO

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### USA & Canada

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The California State Teachers' Retirement System (CalSTRS) aims to build its infrastructure portfolio with a few key principles in mind, including a broad sense of unification and perseverance, said Paul Shantic, Director of Inflation Sensitive investments during his keynote presentation at the Pension Bridge Annual conference on 11 April.

The pension has generated about USD 3.6bn in commitments to infrastructure investment vehicles to date since the launch of the asset class' program in 2010. The USD 215bn system recently approved a 4% target asset allocation for infrastructure investments, which equates to about USD 8.6bn, one of the most capital-intensive allocations for a pension plan in the United States.

"What we're trying to do is build a hedgehog [infrastructure] portfolio in the end – across sectors, geographies, risk classifications, and including ESG in our analysis," Shantic stated during his address. "I want it to be unified and I want it to make some sense...Hedgehogs will not settle, and their lives may not be very happy."

CALSTRS's infrastructure portfolio returned 12.9% for the fiscal year ending on 30 June 2017, according to the system's 2017 annual financial report, beating its benchmark by 615 basis points.

Part of the system's strategy moving forward includes moving from a commingled fund-heavy method to one which better incorporates co-investments and managed accounts, allowing the pension to achieve a position of better governance in asset selection and cash flow modeling.

Shantic's presentation included plans to adopt a direct investment strategy, however the idea is "more aspirational" for the present time being. "What we're trying to do is get as close as we can in co-investments and working with managers to get closer to the assets."

Part of the strategy includes a shift from engaging in brownfield opportunities to greenfield developments since they tend to provide higher returns.

“We’re always concerned about the downside,” Shantic continued. “It’s nice that you can show me on the model that the upside is 13%, that’s fantastic...I’m more concerned with what happens to the asset in the worst case scenario. Are we still going to be able to get cash flow from that asset?”

CalSTRS has made commitments to at least 14 infrastructure-focused funds so far, according to Inframation Deals. Those include arrangements with Basalt Infrastructure Partners II (USD 200m), Meridiam Infrastructure North America II (100m), IFM Global Infrastructure Fund (500m), and Argo Infrastructure Alliance Energy North America (150m).

## Investor Profile

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