

PORTFOLIO RESTRICTIONS INVESTMENT POLICY

Preamble

The California State Teacher’s Retirement System, through action of the Teachers’ Retirement Board Investment Committee, has established Investment Beliefs for the organization. These beliefs provide a foundational framework for CalSTRS investment decision-makers to prudently invest in a manner that reflects CalSTRS’ views of the global investment markets and its vision for participating in these markets to accomplish our fiduciary goal.

Commented [Staff1]: New language aligned with our Investment Beliefs.

1.1 Portfolio restrictions investment policy

As set forth in Section 17 of Article XVI of the California Constitution, and California Education Code section 22250, the CalSTRS Retirement Board, its Investment Committee, and staff have fiduciary duties with respect to the system and the plan.

Commented [Staff2]: Language is included from the Divestment Policy.

The Board must discharge its duties in the sole and exclusive interest of the members and beneficiaries, while defraying reasonable expenses of administering the system, and “with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims.” (Cal. Const., art. XVI, § 17; Ed. Code, § 22250.) The Board shall also “diversify the investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.” (Cal. Const., art. XVI, § 17; Ed. Code, § 22250.)

Commented [Staff3]: Similar language was in the Divestment Policy.

The Investment Committee views engagement as a strategy for the prudent management of risk-adjusted returns and opposes any efforts that would either implicitly or explicitly attempt to direct or influence it to pursue investment activities that would violate and breach its fiduciary duties. CalSTRS’ opposition to such efforts is based on several considerations:

- The California Constitution and Education Code require the Board to “diversify the investments of the system” and divestment may adversely affect diversification by limiting the investible universe and its ability to seek the best risk-adjusted returns;
- The California Constitution and Education Code require the Board to discharge its fiduciary duties in the sole and exclusive interest of the members and beneficiaries, while defraying reasonable expenses of administering the system, and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims, and divestment could violate the Board’s fiduciary duties if the Board reasonably concludes that it would not benefit the members or beneficiaries directly by improving risk-adjusted return;
- Divestment would eliminate CalSTRS’ standing and rights as a shareowner and foreclose further engagement;
- CalSTRS’ investment may be sold to another investor that may not share CalSTRS’ views, which would result in fewer opportunities for engagement; and
- Divestment may result in significant associated costs.

Commented [Staff4]: Language has been enhanced to focus on the Investment Committees’ fiduciary duties and the view that engagement is a strategy in the prudent management of the portfolio. In addition, the considerations have been enhanced.

Based on appropriate due diligence and consistent with its fiduciary duties, CalSTRS acknowledges that there may be circumstances when it is prudent, to restrict, exclude, or exit certain holdings, sectors, sub-

sectors, industries, regions, and/or jurisdictions. If a recommendation, demand, or other such request to restrict, exclude, or exit is proposed to the Investment Committee, then in its exercise of its fiduciary duty the Investment Committee may decide whether to initiate further analysis, study, and assessment of restricting, excluding, or exiting the certain holdings, sectors, sub-sectors, industries, regions, and/or jurisdictions, and the risk-return implications of continued exposure.

Any analysis, study, and assessment may include, but are not limited to:

- Determination of the appropriate definition of the certain holdings, sectors, sub-sectors, industries, regions, and/or jurisdictions, and the scope of the review; establishment of minimum standards, key performance indicators, and metrics for measurement; and engagement.
- In conducting its due diligence, the Investment Committee may receive consultation from, among other persons: investment managers, investment consultants, investment staff, legal counsel, academics, and/or experts in the field or issue.

Based on its analysis, study, and assessment, the Investment Committee may decide to restrict, exclude, or exit such holdings, sectors, sub-sectors, industries, regions, and/or jurisdictions, or take no action as it deems appropriate and consistent with its fiduciary duties.

A decision to restrict, exclude, or exit certain holdings, sectors, sub-sectors, industries, regions, and/or jurisdictions shall be accomplished when feasible and consistent with its fiduciary duties, with due consideration given to the availability of markets and/or indices capable of facilitating any such portfolio restrictions.

1.2 Statutory restrictions

Consistent with this Policy, CalSTRS will restrict, exclude, or exit investments pursuant to a State or Federal law only to the extent that such action is consistent with its fiduciary duties. CalSTRS will sponsor, support, adopt a neutral position or no position, or oppose legislation and regulations consistent with its established guidelines in Section 5, Legislation, of its Board Governance Manual.

1.3 Review and reporting

The Investment Committee will continue to monitor any restriction action taken under this Policy to ensure any such action remains consistent with its fiduciary duties. On at least an annual basis, the Chief Investment Officer will provide the Investment Committee with a comprehensive report that shows the estimated performance difference between any restriction action taken under this Policy and the unmodified CalSTRS benchmark of the respective asset class. The Investment Committee may, at any time, request further study and analysis and may make a subsequent determination regarding any restriction action.

Commented [Staff5]: New and enhanced language that focuses on the Investment Committee's fiduciary duties and modernizes the process for how CalSTRS analyzes any type of portfolio restriction.

Commented [Staff6]: Language has been updated to align with current policies and practices.

Commented [Staff7]: Language has been updated to be aligned with current practices.