

CALSTRS

CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

**SECURITIES LENDING
PROGRAM
POLICY**

INVESTMENT BRANCH

April 2023

G. Securities Lending Program Policy

EXECUTIVE SUMMARY

In accordance with the CalSTRS Investment Beliefs and the CalSTRS Investment Policy and Management Plan, IPMP, the California State Teachers' Retirement System Board has established a Securities Lending Program, SLP. The SLP is to be managed in a prudent manner for the sole benefit of its participants and beneficiaries in accordance with the California Constitution, the Teachers' Retirement Law and other applicable statutes. The CalSTRS Investment Beliefs provide a foundational framework to all of CalSTRS investment decision makers and shall guide investment decisions. The SLP was designed to enable CalSTRS to use its existing asset base and investment expertise to generate a steady source of income. CalSTRS' size and presence in the capital markets make it a prime resource for securities lending. No investment instrument or activity prohibited by the IPMP shall be authorized for the Securities Lending Program.

This document is intended to summarize the fundamental objectives and considerations used in the investment, administration, and management of the SLP. These policies are designed to set boundaries for the structure and oversight of the management of the SLP, as well as to manage the risks associated with securities lending.

CalSTRS believes that environmental, social, and governance, ESG, issues can affect the performance of our investments. As a result, the CalSTRS ESG Policy has been developed as a tool that both internal and external investment managers are expected to use to assess the impact of ESG risk when making an investment on behalf of CalSTRS.

Detailed procedures and guidelines for the SLP are maintained separately.

As with all other plan assets, these policies cannot be altered without explicit direction from the Board.

PROGRAM OBJECTIVES

The strategic objective for the SLP is to assist CalSTRS in meeting its investment goals by generating incremental income through collateralized, low-risk, short-term loans using a portion of the lendable assets within the total investment portfolio.

Monitoring and oversight of the implementation of the SLP shall come under the purview of the Director of Fixed Income.

PERFORMANCE OBJECTIVES

There are no explicit goals with respect to the nominal amount of income generated by the SLP.

The performance objective for the program is to achieve lending income commensurate with: 1) the market demand for the securities made available for lending and, 2) the return earned on the investment of the cash collateral within the SLP guidelines.

PROGRAM BENCHMARK

There is no policy benchmark for the Securities Lending Program.

PROGRAM STRUCTURE

The Securities Lending Program shall be designed to provide a balance between risk control and diversification and structured to take advantage of the benefits of both internal and external management in a prudent manner.

Asset Allocation: Under the direction of the Director of Fixed Income, staff has discretion to implement tactical shifts of lendable portfolios among the lending agent(s).

SLP Internal/External Management: The SLP is managed by both internal staff and external investment managers. The decision to hire an external manager or utilize internal investment staff for an investment strategy is made by applying a criteria matrix to evaluate a variety of factors including, but not limited to, cost effectiveness/control, market transparency and liquidity, market efficiency, active risk, and infrastructure/resource requirements. CalSTRS uses active external lending agent specialists as an additional resource and to provide an additional layer of diversification to the SLP.

Within the boundaries and ranges established by these policies, staff is responsible for the selection, allocation, and oversight of the external lending agents. Manager guidelines, objectives, benchmark selection, volatility parameters, constraints and trading activities are to be administered by staff and integrated into the securities lending risk budget. CalSTRS shall also maintain a pool of managers to supplement the existing managers or replace a terminated manager as needed.

Transition Management: Securities Lending Program unit may use internal staff or external managers to prudently administer and liquidate, if advisable, the existing cash collateral portfolios of managers that have been relieved of investment management responsibility for CalSTRS.

Other Strategies: Periodically the Board will approve investment strategies that may or may not be managed within the SLP specifically but are instead designed to take advantage of an opportunity and/or to meet a performance objective. Unless a strategy is addressed by a specific policy of its own, SLP staff is responsible for the implementation of any strategy that may be directed by the chief investment officer, deputy chief investment officer or designee within the boundaries and ranges established by this policy. Investment guidelines, benchmark selection, tracking error, portfolio composition, constraints, and trading activities are to be administered by staff and integrated into the CalSTRS strategic asset allocation process and risk budget.

RISK MANAGEMENT

Delegation of Authority: The investment, administration and management of the Securities Lending Program is delegated to staff within the boundaries established by policy and the processes described within the relevant investment guidelines.

Authorized Staff: Authorization letters which specify who may transact business on behalf of CalSTRS shall be sent to the appropriate parties, initially at the time an account is opened, and then periodically to all Securities Lending counterparties with whom CalSTRS conducts business. Whenever a change in authorized staff occurs, the affected parties shall be notified within 24 hours in the event of termination, and as soon as possible in the event of newly authorized investment staff.

Diversification: Diversification within investment portfolios is critical in order to control risk and maximize returns. Minimum and maximum ranges, with respect to security types, credit exposure, and security maturity, shall be established for the Cash Collateral portfolios that are being managed both internally and externally. Such ranges shall be documented within the SLP guidelines and are subject to change as conditions warrant, as determined by the Director of Fixed Income.

Trading Parameters: Given that the trade activity for this program is governed by the investment and securities lending markets, no daily limits with respect to the approval of trade activity within CalSTRS' internally managed Cash Collateral portfolio shall be established.

Collateralization: The collateral shall be marked-to-market daily in order to maintain the negotiated margin level. Given the dynamic nature of the securities lending markets, any nontraditional (traditional being defined as cash, U.S. Treasury and U.S. Agency securities denominated in U.S. dollars) collateral must be reviewed and approved by the Director of Fixed Income.

Borrower Concentration: Borrower diversification shall be reviewed in order to evaluate and control the borrower exposure within the SLP. Given the increasingly broad utilization of these firms throughout the SLP, this exposure is to be reviewed periodically, with CalSTRS reserving

the right to exclude or limit any borrower from the SLP.

Counterparty Risk: Each loan shall be collateralized by securities and/or cash delivered to CalSTRS' custodian/sub-custodian bank prior to or simultaneously with the release of CalSTRS' assets. To protect CalSTRS, the borrower must post collateral in the form of cash and/or other approved securities in an amount that exceeds the market value of the securities borrowed. The margin percentages shall be documented within the SLP guidelines and are subject to change as conditions warrant, as determined by the Director of Fixed Income.

MONITORING AND REPORTING

The following reports will be prepared and presented to the Board, unless otherwise stated, in order to facilitate visibility of compliance monitoring and reporting according to this document:

- a. **Securities Lending Status Report** – prepared by staff and distributed to the chief investment officer and deputy chief investment officer (monthly)
- b. **Securities Lending Program Annual Report** – prepared by staff and posted to CalSTRS.com (annually)
- c. **Business Plan** – prepared by staff (annually)

[Link to INVESTMENT TERMS GLOSSARY at CalSTRS.com](#)

BOARD REVIEW

Consistent with all other plan assets and programs, the Board or the Investment Committee will review and/or alter this policy periodically, as deemed appropriate, and in keeping with its fiduciary duties and standards.

Adopted by the Teachers' Retirement Board on February 9, 1994
Revised to combine Credit Enhancement and Currency Management with Securities Lending into "Off Balance Sheet Programs" on September 11, 1996
Revised to reflect the internal management of a portion of the cash taken as collateral on January 7, 1998
Revised to separate Credit Enhancement, Currency Management and Securities Lending into their own Policies on May 5, 1999
Revised to reflect Board review but no Policy changes on May 1, 2002
Revised to reflect new standard Policy format across the Unit on June 7, 2006
Revised to reflect Board review in keeping with the investment standard on July 12, 2012
Revised to add ESG language on April 4, 2014
Revised flowchart (Exhibit 1) to reflect APM in the hierarchy on April 5, 2017
Revised to reflect new policy format on March 27, 2019

Revised housekeeping (reporting, glossary, exhibits) April 7, 2021