

CALSTRS

CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

**CURRENCY MANAGEMENT
PROGRAM
POLICY**

INVESTMENT BRANCH

April 2023

F. Currency Management 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 Currency Management Program (CMP). The CMP 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 CMP was designed to enable CalSTRS to use a strategic allocation to global (i.e., U.S. and non-U.S.) public and private assets. Considering this commitment to non-U.S. assets and the impact that currency fluctuations can have on the total return of dollar-based investors, CalSTRS has recognized the need to implement and maintain strategies designed to address the management of currency risk. No investment instrument or activity prohibited by the IPMP shall be authorized for the Currency Management Program.

CalSTRS believes that the CMP should emphasize the protection of the value of all of its non-US investment assets (e.g., Private Equity and Real Estate) against a strengthening U.S. dollar first yet recognizes that there also exist opportunities for alpha generation within the currency markets.

This document is intended to summarize the fundamental objectives and considerations used in the investment, administration, and management of the CMP. These policies are designed to set boundaries that will ensure prudence and care in the management of the CMP while allowing sufficient flexibility in the management process to capture investment opportunities.

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 CMP are maintained separately.

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

PROGRAM OBJECTIVES

The strategic objectives for the CMP include: 1) the preservation of the diversification benefits of holding foreign denominated (public and private) assets, while protecting the translation value of those underlying assets when there is the risk that the U.S. dollar, USD, may strengthen; 2) return enhancement in a declining USD environment and; 3) the facilitation of currency positions for the acquisition/disposition of non-U.S. denominated investments within the parameters established by these policies.

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

PERFORMANCE OBJECTIVES

The CMP includes core and opportunistic strategies which, in aggregate, are to be structured to add alpha to the total investment portfolio.

Separate and distinct risk-adjusted performance objectives shall be established for each of the program mandates (i.e., core and opportunistic), in order to determine whether the performance objectives have been met.

PROGRAM BENCHMARK

The CMP policy benchmark is a zero percent hedge benchmark. The performance of the CMP shall be evaluated based on risk-adjusted total return versus a zero percent hedge benchmark relative to the notional value (in USD) of the underlying foreign denominated assets over a business cycle of three to five years.

PROGRAM STRUCTURE

Asset Allocation: The CMP will be a blend of two major strategies: 1) core and, 2) opportunistic. The core strategy will be actively managed by internal staff with relatively low annual volatility. The opportunistic strategy is to be composed of active external portfolios with higher levels of annualized volatility and higher expected returns. It is anticipated that allocations to the core and opportunistic strategies will develop over time, as follows:

Strategy	Mgmt. Style	Range
Core	Active (lower volatility)	70% – 100%
Opportunistic	Active	0% – 30%

Eligible Currencies:

The following currencies are authorized:

- a. The core CMP will be limited to those represented by the Australian dollar, the British pound sterling, the Canadian dollar, the euro, the Japanese yen, and the Swiss franc. Positions for any other currencies must be pre-approved by the Investment Committee, on a case-by-case basis.
- b. Currency positions in reference to the facilitation of the acquisition/disposition of non-U.S. denominated investments shall be at the direction of each asset class according to prescribed guidelines and controls. Currency transactions executed for this strategy are not limited to the currencies as stated within Section 5.a above.

CMP Internal/External Management: The CMP 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 currency specialists as an additional resource and to provide an additional layer of diversification to the CMP.

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

Other Strategies: Periodically the Board will approve investment strategies that may or may not be managed within the CMP 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, CMP staff is responsible for the implementation of any currency 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 Currency Management Program is delegated to staff within the boundaries established by policy and the processes described within the relevant investment guidelines.

Counterparty Risk: A counterparty's inclusion within the core CMP shall be evaluated based upon the expertise and financial capacity of the firm. Due to the extended settlement practices, credit quality and size limitations will be established and documented within the CMP guidelines and are subject to change as conditions warrant, as determined by the Director of Fixed Income.

Position Range: The position range within the core CMP has been designed to allow for some degree of symmetry around the underlying exposure to foreign denominated assets within the total investment portfolio in order to both protect the translation value of the assets against a strengthening USD and to enhance returns in a declining USD environment. Therefore, the position range shall be -25 percent to 50 percent of the total notional value (in USD) of the non-U.S. public and non-U.S. private (e.g., Private Equity and Real Estate) equity portfolios.

Diversification: Diversification of currencies is critical in order to control risk and maximize returns. Minimum and maximum ranges, with respect to currency exposures, shall be established for the currency portfolios that are being managed both internally and externally. Such ranges shall be documented within the CMP guidelines and are subject to change as conditions warrant, as determined by the Director of Fixed Income.

Permitted Instruments: Currency futures and forwards, with a maximum value date of up to one year from the spot date, and currency options are permitted to establish the currency positions in the core CMP.

Authorized Staff: Authorization letters which specify who may transact business for the core CMP, shall be sent with a copy of the most recent investment resolution, initially at the time an account is opened, and then periodically to all counterparties with whom CalSTRS conducts currency business. Whenever a change in authorized staff takes place, the counterparties shall be notified in writing within 24 hours in the event of termination and as soon as possible in the event of newly authorized investment staff.

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. **Currency Status Report** - prepared by staff and distributed to the chief investment officer and deputy chief investment officer (monthly)

- b. **Performance Report** - prepared by the master custodian/consultant to the Board (semi-annually)
- d. **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 July 12, 1995
Revised to reflect addition of Italy & Switzerland as approved currencies on January 7, 1998
Revised to reflect policy format changes on June 2, 1999
Revised to reflect Principal Inv. Officer addition to authorized limits on October 11, 2000
Revised to adopt program statement of philosophy on December 4, 2002
Revised to include Private Equity & Real Estate assets & other hedging tools on April 7, 2005
Revised to include return enhancement objective & approve external managers on June 7, 2006
Revised to reflect risk management system process changes on September 7, 2006
Revised to update the trading parameters and oversight responsibilities on February 4, 2010
Revised to add ESG language and Other Strategies on April 4, 2014
Revised to define APM trading limits and updated flowchart (Exhibit 1) to reflect APM in the hierarchy on April 5, 2017
Revised to reflect new policy format on March 27, 2019
Revised for housekeeping (trading parameters, Exhibits, Glossary) on April 7, 2023