

CALSTRS

**CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM**

**GLOBAL EQUITY
INVESTMENT
POLICY**

INVESTMENT BRANCH

MAY 2023

B. Global Equity Investment 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 an allocation for global equity securities. CalSTRS' global equity assets are to be invested, administered, and 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. No investment instrument or activity prohibited by the IPMP shall be authorized for the Global Equity portfolio.

This document is intended to summarize the fundamental objectives and considerations used in the investment, administration, and management of the Global Equity portfolio. These policies are designed to set boundaries that will ensure prudence and care in the management of the global equity assets 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 each of the portfolios are maintained separately. As with all other plan assets, these policies cannot be altered without explicit direction from the Board. Words and terms that may be unfamiliar to the reader are referenced in the glossary.

PROGRAM OBJECTIVES

The global equity assets shall be invested to improve the diversification of the total investment portfolio and to enhance its risk-adjusted total return. The assets shall be managed to provide long-term capital appreciation as well as generate current income. Consistent with a prudent level of risk, global equity assets shall be managed to achieve optimum performance through diversification across equity market regions, styles, and capitalization.

PERFORMANCE OBJECTIVES

The CalSTRS Global Equity Portfolio includes public equity strategies which, in aggregate, are to be structured to achieve a long-term total return in excess of the Global Equity Policy benchmark.

Separate and distinct performance objectives and benchmarks shall be established for each equity mandate in order to determine whether each portfolio is representative of the market style adopted, and whether the performance objectives have been met.

PROGRAM BENCHMARK

The Global Equity Policy benchmark is a market value weighted blend of the Global Equity Core and the ACWI Low Carbon Target portfolio's benchmarks.

The Global Equity Core portfolio benchmark is the Custom MSCI All Country World Investable Market Net Index (MSCI ACWI IMI), and the Global Equity Low Carbon portfolio benchmark is the Custom MSCI ACWI Low Carbon Target Index (MSCI ACWI LCT).

PROGRAM STRUCTURE

Asset Allocation: Under the direction of the chief investment officer, staff has discretion, within the range, to implement tactical allocations in the Global Equity portfolio.

The Total Public Equity Portfolio shall be managed within an annualized forecast active risk range of 10 to 60 basis points as measured by the CalSTRS risk management system. The Total Public Equity Portfolio is an aggregate of the Total Fund's public equity portfolios, which includes Global Equity and Sustainable Investments Stewardship Strategies (SISS).

Utilizing both active and passive strategies, the Global Equity Portfolio shall be managed within an annualized forecast active risk range of 10 to 50 basis points as measured by the CalSTRS risk management system.

If there is an anticipated change in the CalSTRS risk management system or a material change in the methodology used to calculate active risk, staff will notify the Investment Committee.

Eligible Securities: The following securities are authorized:

- i. All equity securities including listed Exchange Traded Funds, ETFs, and securities that exhibit characteristics of equity securities traded on the local market(s).
- ii. Domestic equity securities consisting of all stocks domiciled in the U.S. plus eligible securities including ADRs of international securities traded on the U.S. and Canadian exchanges.
- iii. International securities including GDRs of international securities traded on the exchanges of all countries contained in the MSCI All Country World Index ex U.S. and the MSCI Frontier Markets Index.
- iv. Units of participation in commingled index funds or trusts.
- v. Derivatives. The objectives for using derivatives, including the use of equitization of cash held by passive and active portfolios through the use of derivatives, are to assist in the efficient management of risk, asset allocation and market exposures in the Global Equity portfolio through the use of any derivative tools such as, but not limited to, futures, options, swap agreements, structured notes, warrants, asset trusts, or forward agreements. The implementation of the derivatives strategies shall be thoroughly vetted by staff to conform to the risk management guidelines of the Global Equity portfolio, along with

the ranges specified within CalSTRS Global Equity Portfolio Procedures Manual (Procedures). In addition, these strategies may not increase or decrease the global equity exposure to the total fund outside the ranges identified within the IPMP. Further limitations with respect to aggregate risk control and counterparty exposure shall be documented within the Procedures.

- vi. Investment restrictions included in the IPMP are hereby incorporated by reference.

Global Equity Internal/External Management: The Global Equity portfolio is managed by both internal staff and external investment managers. Within the boundaries established in the Procedures, approved by the CIO or designee, the decision to hire an external manager or utilize internal investment staff for an investment strategy is made by applying the board-approved decision criteria matrix to evaluate a variety of decision factors including, but not limited to, cost effectiveness/control, market transparency and liquidity, market efficiency, active risk, and infrastructure/resource requirements.

Internal staff shall only implement index-based investment strategies with a maximum forecast active risk of 50 basis points.

Within the boundaries and ranges established by this Policy, staff is responsible for the selection, allocation, and oversight of internally and externally managed portfolios. Comprehensive procedures, manager guidelines, objectives, benchmark selection, forecast active risk, portfolio composition, constraints, and trading activities are to be monitored across all Global Equity portfolios. CalSTRS shall also maintain a pool of external managers to supplement the existing external managers or replace a terminated manager, as needed.

Investment managers are required by contract terms and investment guidelines to seek best net execution and act as a fiduciary under California law over plan assets.

Global Equity staff will assess the need for each Global Equity manager to utilize soft dollars for research and then amend each manager's Investment Guidelines as necessary.

Transition Management: The Global Equity unit may use internal or external transition managers to prudently administer, liquidate, and adjust portfolio allocations as warranted to achieve the desired Global Equity Portfolio structure within the active risk budget framework.

Other Strategies: Periodically the Board will approve investment strategies that may or may not be managed within the global equity asset class 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, Global Equity staff is responsible for the implementation of any strategy that may be directed by the chief investment officer, within the boundaries and ranges established by this Policy. Investment guidelines, benchmark selection, active risk, 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 chief investment officer or designee has the authority to manage the Global Equity asset category and may use other investment personnel to implement these policies and the processes described in the Procedures.

Forecast Active Risk: Portfolios shall be managed within predefined risk or active risk guidelines. Forecast active risk is used as a way to control overall portfolio risk. This quantifiable risk is budgeted among the various sub-asset classes of the Global Equity portfolio. These risks are monitored on a daily basis by each portfolio manager and reported weekly to the director of global equity.

Diversification: Diversification within investment portfolios is critical in order to control risk and maximize returns. For the U.S. portfolio, minimum and maximum ranges with respect to investment management style and capitalization size shall be established within the context of the characteristics of the performance benchmark as identified in the Procedures. For the Non-U.S. portfolio, minimum and maximum ranges with respect to geographic region shall be established within the context of the characteristics of the performance benchmark. Such ranges, for both the U.S. and Non-U.S. portfolios, shall be documented within the Procedures and are subject to change as conditions warrant, as determined by the director of global equity.

Authorized Traders: Authorization letters which indicate who may transact business for the portfolio, including a copy of the most recent IPMP, shall initially be sent to the broker at the time the account is established. Whenever there is a change in authorized personnel, CalSTRS will notify all brokers in writing within 24 hours in the event of termination, and as soon as possible in the event of a newly authorized trader(s).

Trading Parameters: Non-cumulative daily trade limits within the internally-managed Global Equity portfolios are specified in the IPMP.

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:

- i. **Global Equity Semi-Annual Report** – prepared by staff (posted to CalSTRS.com)
- ii. **Performance Report** – prepared by master custodian/consultant (semi-annually)
- iii. **Business Plan** – prepared by staff (annually)

[Link to Investment Terms Glossary at CalSTRS.com](#)

BOARD REVIEW

Consistent with all other plan assets, 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 June 2, 1999*
- Revised to approve co-investment program for the CG/Relational Program on July 7, 2004*
- Revised to approve the structure of the emerging markets portfolio on April 7, 2005*
- Revised to clarify passive/active allocations on June 7, 2006*
- Revised address to disposition of securities in CG/Relational Program on July 13, 2007*
- Revised to include Non-U.S. co-investments in CG/Activist Program and increase discretion on July 10, 2008*
- Revised to define allowable securities and combine internal and external policies on February 4, 2009*
- Revised to delegate staff authority regarding U.S./Non-U.S. allocation ranges February 4, 2009*
- Revised to incorporate cash equitization policy April 1, 2009*
- Revised to clarify delegation of Corporate Governance trade ticket daily limits August 2009*
- Revised to update Trading Parameters on April 8, 2010*
- Revised to update int./ext. mgmt. process, update Trading Parameters, and define Corp Gove Activist Mgrs. on Apr 13, 2012*
- Revised to confirm Special Situation Investment Authority for Corporate Governance on July 12, 2012*
- Revised to support additional internal asset management on April 4, 2014*
- Revised to support the transition to global index weights and to define APM trading limits June 8, 2016*
- Revised language on soft dollars, updated flowchart (Exhibit 1) to reflect APM in the hierarchy and reflect new reporting frequency on April 5, 2017*
- Revised to move Corporate Governance Investment Program from Global Equity Policy to the Corporate Governance Policy November 1, 2017*
- Revised to reflect new policy format and finalize the Program Benchmark as based on global equity index weights on September 20, 2018*
- Revised language to support an active risk budget framework March 5, 2020*
- Revised to change policy benchmark and transition management language on July 8, 2021*
- Revised to modify the policy benchmark and add a Total Public Equity active risk budget on May 4, 2023*