

600 ETHICAL AND FIDUCIARY CONDUCT

A. Education Code – Fiduciary Duties

The board and its officers and employees of the system shall discharge their duties with respect to the system and the plan solely in the interest of the members and beneficiaries as follows:

1. For the exclusive purpose of the following:
 - (a) Providing benefits to members and beneficiaries.
 - (b) Defraying reasonable expenses of administering the plan.
2. With the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with those matters would use in the conduct of an enterprise of a like character and with like aims.
3. By diversifying the investments of the system so as to minimize the risk of large losses, unless under the circumstances it is clearly prudent not to do so.
4. In accordance with the documents and instruments governing the system insofar as those documents and instruments are consistent with this part.

Education Code Section 22250

Education Code – Exclusive Purpose of Systems Assets

- (a) Except as provided in subdivision (b), the assets of the plan shall never inure to the benefit of an employer and shall be held for the exclusive purposes of providing benefits to members and beneficiaries and defraying reasonable expenses of administering the system.
- (b) In the case of a contribution that is made by an employer by a mistake of fact, subdivision (a) shall not prohibit the return of that contribution within one year after the system knows, or should know in the ordinary course of business, that the contribution was made by a mistake of fact.

Education Code Section 22251

Education Code – Prohibited Transactions

Except as otherwise provided by law, the board and the officers and employees of the system shall not cause the system to engage in a transaction if they know or should know that the transaction constitutes a direct or indirect:

- (a) Sale or exchange, or leasing, of any property from the system to a member or beneficiary for less than adequate consideration, or from a member or beneficiary to the system for more than adequate consideration.
- (b) Lending of money or other extension of credit from the system to a member or beneficiary without the receipt of adequate security and a reasonable rate of interest, or from a member or beneficiary with the provision of excessive security or an unreasonably high rate of interest.
- (c) Furnishing of goods, services, or facilities from the system to a member or beneficiary for less than adequate consideration, or from a member, retirant, or beneficiary to the system for more than adequate consideration.
- (d) Transfer to, or use by or for the benefit of, a member or beneficiary of any assets of the plan for less than adequate consideration.
- (e) Acquisition, on behalf of the system, of any employer security, real property, or loan.

Education Code Section 22252

Education Code – Prohibitions Against Self-Dealing

The board and its officers and employees of the system shall not do any of the following:

- (a) Deal with the assets of the system in their own interest or for their own account.
- (b) In their individual or in any other capacity, act in any transaction involving the system on behalf of a party, or represent a party, whose interests are adverse to the interests of the plan or the interests of the members and beneficiaries.
- (c) Receive any consideration for their personal account from any party conducting business with the system in connection with a transaction involving the assets of the plan.

Education Code Section 22253

B. Claims Against Fiduciaries

1. Purpose

This policy establishes the manner by which the Board should process and manage fiduciary liability claims throughout the lifecycle of any such claim.

2. Education Code – Fiduciary Insurance

Under the California Education Code, Part 13 Teachers Retirement Law, Chapter 4, Section 22259(b), the Board, officers and investment division staff are required to be covered with fiduciary liability insurance. This section also directs the Board to purchase such insurance in an amount it deems prudent.

3. Policy and Procedures for Handling Fiduciary Liability Claims

The Board shall purchase an insurance policy at a reasonable cost that provides the broadest coverage against liability for legal defense costs and damages. This insurance policy shall be designed to adequately protect those individuals covered so they may prudently address the difficult and complex issues they will face solely in the interest of CalSTRS.

Upon learning of an actual or potential claim against the Board, officers or investment division staff, the General Counsel shall: 1) make a determination whether the claim or potential claim is indemnifiable under California Law; and 2) in compliance with the terms of the appropriate insurance policy, provide written notice of the claim to the fiduciary insurer as required under the terms of that insurance policy. The General Counsel will, at the time she or he provides notice of the claim, seek coverage of legal fees and liability from the insurer and request the insurer satisfy its duty to defend. If the insurer determines the claim or potential claim is indemnifiable and therefore not covered under the policy, CalSTRS shall provide coverage for liability and the defense of the claim or potential claim. If the claim alleges conduct that might not be covered by the insurance policy, CalSTRS may defend under a reservation of rights. If the insurer accepts the duty to defend, the Board, in consultation with the General Counsel, may request that the insurer approve the use of the Board's preferred fiduciary insurance counsel.

Pending a determination of coverage by CalSTRS or the insurer, CalSTRS shall advance legal defense costs to defend the claim subject to such recourse as is provided by law or contract.

A. If CalSTRS Accepts Coverage

The fiduciaries who are involved in the claim shall cooperate with legal staff and CalSTRS outside counsel during the pendency of the claim. This includes providing all relevant information, communicating with legal staff and outside counsel, and otherwise acting in good faith to resolve the claim.

B. If the Fiduciary Insurer Accepts Coverage

The fiduciaries who are involved in the claim shall cooperate with legal staff and the fiduciary insurer during the pendency of the claim. This includes providing all relevant information, communicating with legal staff and the fiduciary insurer, and otherwise acting in good faith to resolve the claim.

C. If CalSTRS and the Fiduciary Insurer Both Deny Coverage

If the General Counsel has determined that the claim or potential claim is non-indemnifiable and the fiduciary insurer denies coverage for the claim, the Board shall pursue fiduciary insurance coverage through the dispute resolution process enumerated in the fiduciary insurance policy and any other available process. At the same time, any Board members who are not subject to the claim shall, with guidance from the General Counsel, determine whether CalSTRS will continue to advance defense costs and cover any resulting judgment. Factors to be considered in making this determination include:

1. Whether the claim is indemnifiable, based on the facts as alleged in the claim; and
2. Whether to engage an independent coverage counsel to issue an opinion.

In consultation with the General Counsel, the Board will determine whether to take additional action, such as seeking recovery on behalf of CalSTRS against the fiduciaries.

If all Board members are subject to the claim, and there is a dispute between CalSTRS and the fiduciary insurer regarding whether the claim is covered under the fiduciary insurance policy, and CalSTRS legal staff has determined that the claim or potential claim is non-indemnifiable, the Board should consider retaining independent coverage counsel to determine the appropriate course of action, including:

1. Whether CalSTRS can and should continue to advance legal defense costs;
2. Whether the Board member(s) should be required to post collateral if CalSTRS decides to advance legal defense costs; and
3. Whether the claim is in fact non-indemnifiable, based on the facts as alleged in the claim.

In making these determinations, an independent coverage counsel should balance the merits of the claim and the likelihood of a successful defense against the likelihood of recovery against the fiduciary personally.

*Adopted April 11, 2013
Amended June 11, 2015*

C. Fiduciary Counsel

The Teachers' Retirement Board (Board) recognizes the need for the specialized advice of a fiduciary counsel to assist the Board in discharging its fiduciary responsibilities. The Fiduciary Counsel will focus on the investment and benefits responsibilities of the Board. Additionally, the Board directs the General Counsel to contract for the fiduciary counsel services described above; and further directs the General Counsel to approve all uses of the fiduciary counsel except in instances where the Board wishes to work directly with fiduciary counsel without the input of the General Counsel.

Subject to the determination of the General Counsel and the limitations set forth above, the fiduciary counsel contract will include provisions for the following:

1. Attendance by Fiduciary Counsel at Investment Committee and other meetings, including special meetings, will be as directed by the General Counsel or the Board/Committee Chair.
2. Fiduciary counsel will be assigned the drafting of legal opinions and the review of written materials such as policy manuals as determined by the General Counsel.
3. The contract will include a 30-day termination clause.
4. The contract will provide a conflict of interest prohibition and reporting procedure pursuant to the California Political Reform Act.

Amended May 5, 1999
Amended September 7, 2006

D. Statement of Ethical Conduct

The California State Teachers' Retirement Board has established the following Statement of Ethical Conduct and has determined that engaging in any of the following activities or conduct is inconsistent, incompatible, in conflict with or inimical to the duties of a CalSTRS Board member and/or staff.

No employment, activity, or enterprise shall be engaged in by any CalSTRS Board Member or staff, which might result in, or create the appearance of resulting in, any of the following:

1. Using the prestige or influence of the Board or staff position for private gain or the advantage of another.
2. Using CalSTRS time, facilities, employees, equipment or supplies for private gain or advantage, or the private gain or advantage of another.
3. Using confidential information acquired by virtue of CalSTRS activities for the private gain or advantage of another, including, but not limited to, so-called "insider trading" as described in subsection "C", *infra*.

4. Receiving or accepting money or any other consideration from anyone other than the state or CalSTRS for the performance of an act which the Board Member or staff would be required or expected to render in the regular course or hours of his/her duties.
5. Performance of an act in other than his/her capacity as a Board Member, Constitutional Officer/Director of Finance, their delegates or staff, knowing that such act may later be subject, directly or indirectly, to the control, inspection, review, audit, or enforcement by such person or by CalSTRS.
6. Receiving or accepting, directly or indirectly, any gift, including money, any service, gratuity, favor, entertainment, hospitality, loan, or any other thing of value, from anyone who is doing or is seeking to do business of any kind with the state or whose activities are regulated or controlled in any way by the state, under circumstances from which it reasonably could be substantiated that the gift was intended to influence him/her in his/her official duties or was intended as a reward for any official action on his/her part.
7. As a Board member, having an ex parte communication, with any party or their representative, on the merits of any matter in controversy arising out of a challenge to a benefit determination or audit finding made by CalSTRS staff. This prohibition on ex parte communications shall commence the moment a disagreement arises that could result in litigation and shall remain in full effect until the Board has made a final determination on the matter.

The Board's communications with the CalSTRS General Counsel, or with someone acting on the General Counsel's behalf, are not considered ex parte communications. However, at all other times CalSTRS staff members and officers, fall within the definition of "party" and all communications with staff members and officers regarding the merits of any matter in controversy arising out of a challenge to a benefit determination or audit finding constitute ex parte communications.

If a Board member receives a communication in violation of this section, the Board member shall immediately refer the communication to the CalSTRS Ethics and Compliance Officer, who will then follow the procedures outlined by the Administrative Procedures Act to notify all parties of the communication. If a Board member has a question about whether a communication is an ex parte communication, the Board member shall refer the communication to the CalSTRS Ethics and Compliance Officer for determination.

8. Publishing any writing or making any statement to the media, to state administrators, legislative personnel, or members of the public which purports to represent CalSTRS' position or policy on any matter or subject, before the Board has formally adopted a policy or position on the matter or subject. This section shall not be interpreted to preclude Board Members or staff, as private citizens, from expressing their personal views.

Nothing in this Statement shall exempt any Board Member or staff from applicable provisions of any other laws of this State. The standards of conduct set forth in this Statement are in addition to those prescribed in the System's Conflict of Interest Code.

Amended May 5, 1999
Amended September 7, 2006
Amended April 12, 2012

E. Policy Prohibiting Insider Trading

I. Background

The Board is committed to the highest ethical standards and strictest adherence to federal, state and foreign securities laws and regulations regarding “insider trading.” To ensure that the California State Teachers’ Retirement System (CalSTRS) operates in a manner commensurate with its goal of promoting integrity in the investment, administration and management of securities, the Board has adopted this Policy Prohibiting Insider Trading. The policy applies to Board members and CalSTRS staff, including investment consultants and contractors affiliated with CalSTRS (hereinafter referred to as “staff”), in possession of or with access to non-public information relating to publicly traded securities. The prohibition on insider trading continues to apply even after resignation from the Board or termination of employment until such time, if ever, that the information becomes generally available to the public other than through disclosure by or through the Board member or staff.

“Insider trading” has been defined as buying or selling securities on the basis of material, nonpublic information relating to those securities. Any person who possesses material, nonpublic information is considered an “insider” as to that information. The prohibition against insider trading may reach anyone, not just a corporate insider, who has access to the material, nonpublic information. The scope of insider trading liability has been extended to “controlling persons,” which includes any entity or person with power of influence or control over the management, policies or activities of another person. It has also been extended to “tippees” who receive material, nonpublic information from an insider when the “tipper” (the “insider”) breaches a fiduciary duty for his or her personal benefit and the “tippee” knows or has reason to know of the breach. Liability has also been extended to fiduciaries who trade based upon misappropriated material nonpublic information obtained from their principal. The law provides civil and criminal penalties for insider trading violations.

Information is deemed material if it would be considered important by a reasonable investor in deciding whether to buy, sell or refrain from any activity regarding that company’s securities. Material information may be either positive or negative and can relate to any aspect of a company’s business. Common examples of material information include, but are not limited to: unpublished financial results and projections, news of a merger or acquisition, stock splits, public or private securities/debt offerings, changes in dividend policies or amounts, gain or loss of a major customer or supplier, major product announcements,

significant changes in senior management, a change in accounting policies, major problems or successes of the business, and information relating to a company against whom CalSTRS is considering securities litigation. Material nonpublic information may not be used by Board members or staff for personal gain or to benefit relatives or friends.

Information is considered “nonpublic” if it is not available to the general public. Once it is released to the general public, it loses its status as “inside” information. However, for nonpublic information to become public, it must have been made generally available to the securities marketplace, and sufficient time must pass for the information to become available in the market. To show that material information is public, it is generally necessary to show some fact verifying that the information has become generally available, such as disclosure in company filings with the SEC or company press releases to a national business and financial wire service, a national news service, or a national newspaper.

II. Policy on Insider Trading

Board members and staff may be provided or have access to confidential information, including material, nonpublic information. Any information not publicly available must be treated as confidential even if it is not designated as confidential. It is the duty of Board members and staff to maintain the confidentiality of information and to not misuse confidential information, including material nonpublic information, belonging to or relating to CalSTRS. Board members and staff who come into possession of material nonpublic information must not intentionally or inadvertently communicate it to any person, including relatives and friends, unless the person has a need to know for legitimate reasons in keeping with their responsibilities to the System.

If Board members or staff are uncertain whether a piece of information is material, nonpublic information, they shall consult with the General Counsel or the Ethics and Compliance Officer before taking action based upon that information. Special care should be taken so that confidential information is not disclosed inadvertently. Examples of inadvertent disclosure include, but are not limited to, discussing confidential information in the cafeteria, elevators, or non-private locations, and leaving confidential documents exposed on one’s desk or in a public area.

Board members and staff in possession of material, nonpublic information may not purchase or sell securities of the concerned company or other publicly traded securities to which the information pertains. Board members and staff also may not disclose material, nonpublic information to another person who could subsequently use that information for profit. Recommending purchases or sales of securities to which the material nonpublic information relates, even without disclosing the basis for the recommendation, is prohibited.

Like insider trading, “front running” may subject Board members or CalSTRS staff to criminal and/or civil proceedings. Front running occurs when a person enters into a trade of securities with advance knowledge of pending orders from other investors. It could occur, for example, when any Board member or CalSTRS staff covered by this policy trades with the knowledge that a trade is pending on behalf of CalSTRS. Furthermore, front running may constitute a misappropriation of CalSTRS proprietary information for private or personal gain. It is

therefore the policy of CalSTRS that front running is prohibited. Board members and CalSTRS staff may not place an order for a personal securities transaction when they know that a CalSTRS securities transaction is pending in a security of the company that is the subject of the personal securities transaction, and must wait until 15 days after such CalSTRS securities transaction is executed before placing an order for a personal securities transaction involving the securities of the same company. Likewise, Board members and CalSTRS staff may not knowingly delay, hinder, modify, or cancel any internal CalSTRS buy or sell recommendation, decision, or trading order intending to facilitate a personal securities transaction that, but for the action of the Board member or CalSTRS staff person would otherwise constitute front running or violations of state or federal laws.

Board members and staff in possession of material, nonpublic information relating to a tender offer, acquired directly or indirectly from the bidder or target company, may not trade in target company securities. Board members and staff also may not disclose such material, nonpublic information to another person where it is reasonably foreseeable that the recipient of the information could purchase or sell such company securities.

Board members and staff in possession of material, nonpublic information may not purchase, directly or indirectly, any security in the initial public offering of such security. Such new issue securities may only be purchased in the secondary trading market once such a market is established. Board members and staff also may not encourage, facilitate, or arrange such a purchase by or on behalf of any other person.

III. Compliance

The Board is committed to the highest ethical standards and strictest adherence to the laws and regulations regarding insider trading. This policy is to be delivered to all new Board members and staff, including consultants, upon commencement of a relationship or employment with CalSTRS. Each Board member and all CalSTRS staff must read and comply with the Policy. The certification in Attachment I must be completed by Board members and staff within 30 days of receipt of the policy and annually by April 1 of each year thereafter. The certifications shall be delivered to the CalSTRS General Counsel.

The Chief Investment Officer shall obtain written confirmation from each external manager that handles securities for the System that it has a policy against insider trading that, at a minimum, contains the same prohibitions as this policy and each external manager must confirm that it enforces the policy. The written confirmation must be received by CalSTRS within 30 days of commencement of the manager's relationship with CalSTRS.

Statements of Economic Interests (Form 700) filed by Board members or staff may be reviewed by CalSTRS to insure compliance with this policy. Board members and staff should report any suspected violation of this policy to the CalSTRS General Counsel. The General Counsel is responsible for causing an investigation of any reported violation. Following such investigation, if the General Counsel concludes that the policy may have been violated, he or she shall take appropriate action.

Violation of this policy may result in disciplinary action, including dismissal of employees, and may result in termination of contracts for consultants and other contractors. Any disciplinary action for violation of the policy may be in addition to any civil or criminal liability under federal and state securities laws and regulations and is not subject to appeal on the grounds that the violation did not ultimately result in any actual civil or criminal investigation or other legal proceeding.

IV. Training

In addition to the requirements set forth in the Compliance section of this policy, all CalSTRS staff shall participate in training on the Policy Prohibiting Insider Trading at the time of employment with CalSTRS, and annually thereafter. The training shall also be available to all Board Members annually and as part of the Board Member Orientation. In no event shall the failure to provide training or the failure to attend training excuse noncompliance with this policy.

Amended May 5, 1999

Amended September 7, 2006

Amended November 6, 2008

Amended February 10, 2011

Amended June 6, 2013