

# CALSTRS

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CALIFORNIA STATE TEACHERS'  
RETIREMENT SYSTEM

## INVESTMENT POLICY STATEMENT

**CalSTRS Pension2®**  
**403(b) and 457(b)**

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**JULY 2017**

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**P. CalSTRS Pension2® 403(b) and 457(b)**

**OVERVIEW**

**Purpose**

The California State Teachers' Retirement System established the Pension2 Personal Wealth Program for the benefit of eligible school employees, including members of CalSTRS and CalPERS. Pension2 offers 403(b) annuity contracts and custodial accounts and 457(b) investment plans, which offer opportunities for additional retirement savings to supplement defined benefit pension accruals. Pension2 eligibility is governed by Education Code sections 24950(a) and 24975(a).

The Investment Policy Statement for Pension2 403(b) and 457(b) provides policy direction and procedural guidelines for the selection and ongoing monitoring of investment options available through Pension2. It includes strategic objectives and a framework that promotes prudent investment oversight and administration of Pension2.

On June 7, 2013, the Teachers' Retirement Board delegated programmatic authority for Pension2 to the Chief Executive Officer. The Chief Executive Officer may delegate such authority to other CalSTRS officers and employees.

This investment policy statement is effective as of the date the Board adopts it, and may be amended at any time by the Board.

**Program Administrator**

CalSTRS is the Pension2 administrator.

**Program Address**

CalSTRS Pension2®  
100 Waterfront Place  
West Sacramento, CA 95605

**Investment Options Subject to the Pension2 Investment Policy Statement**

The Pension2 403(b) program has a 403(b)(1) annuity component and a 403(b)(7) custodial account component, which are collectively operated as a product offering and not as a plan. The 457(b) program may be adopted by an eligible employer as a stand-alone plan or as a product within the employer's plan. Pension2 assets are self-directed—participants make their own investment selections from the investment options available under the program.

## **Strategic Objective**

The strategic objective of Pension2 is to offer participants a range of investment options to allow them to save for retirement and supplement their defined benefit pension. The program seeks to enable participants to achieve a portfolio of individual account investments with aggregate risk and return characteristics appropriate for long-term retirement savings. Program investments are participant-directed—participants are responsible for developing an investment strategy for their investment accounts. Participants are expected to:

- Allocate existing account balances to the available investment options based on their individual circumstances, goals and objectives, and risk tolerances;
- Reallocate account balances and directions of future contributions as their personal circumstances and objectives change; and
- Use Pension2 communications and materials about Pension2 investment options to direct the allocation of their contributions among the Pension2 options.

Participants bear the full risk of investment results from the investment options they select. Participants can construct a personalized portfolio aligned with their individual goals and desired risk tolerance. To accomplish this objective, Pension2 offers the following investment choices:

### **Core Funds**

Pension2 provides a core fund line-up that participants can choose from to create an asset allocation that matches their individual circumstances, goals, time horizons and risk tolerance. Education Code section 24950(b)(4) requires that the Pension2 403(b) component make available at least three investment options. The core funds offer a range of investment alternatives with different risk and return characteristics in the asset classes below. The complete list of core investment options, along with associated fees and performance history, is posted on the Pension2 website.

#### **Asset Classes**

- Equity (U.S. and Non-U.S.)
- Fixed Income
- Money Market/Stable Value
- Alternative Assets

## **Easy Choice Portfolios**

Pension2 currently offers a set of target date portfolios called Easy Choice. Participants have the choice of three risk options— aggressive, moderate and conservative—for each of the target dates, which are set in 10-year increments. The asset allocation of each Easy Choice portfolio adjusts to be more conservative as time passes and the target dates become nearer. Easy Choice portfolios are constructed using the Pension2 core investment options. Rebalancing Easy Choice portfolios to their asset allocation targets occurs at least annually or as necessary.

## **Self-Directed Brokerage Window**

Pension2 offers a self-directed brokerage window that allows participants to choose from a wider variety of funds than those in the core fund line-up for those participants who desire to build their own portfolios. The investments available through the self-directed brokerage window are not selected, endorsed or monitored by CalSTRS officers or employees nor the Teachers' Retirement Board, and neither is responsible for decisions participants make through the brokerage window.

## **Financial Engines**

Pension2 offers participants assistance with investment and retirement planning advice via two levels of service:

**Online Advice** – For those who prefer to manager their own retirement account, Online Advice is a web-based service, provided at no additional cost. Participants are provided with a personalized retirement forecast, risk assessments, and specific plan-related savings and fund recommendations.

**Professional Management** – For those who would prefer to hire a professional to manage their Pension2 account, we offer Professional Management, Participants receive personalized retirement savings and investment strategy, as well as ongoing monitoring and management of their account. Participants pay an additional fee for this service.

## **PENSION2 ADVISORY COMMITTEE**

### **Purpose**

The Pension2 Advisory Committee monitors Pension2 investment options and advises the Chief Investment Officer regarding the committee's recommendations on available investment options and Easy Choice portfolio allocations and glide paths. The committee presents its recommendations to the CIO in writing for approval.

### **Advisory Committee Members**

The voting committee members are:

- Director of CalSTRSRetirement Readiness , or designee

- Three Defined Contribution Solutions staff appointed by the Director of CalSTRS  
Director of Retirement Readiness
- One CalSTRS Investments staff appointed by the CIO

### **Advisory Committee Structure**

The director of Defined Retirement Readiness or designee presides over committee meetings. Five committee members, with at least one of the five being an Investment staff member, constitute a quorum at a committee meeting. If a quorum is not present, informational items may proceed, but no vote shall be taken with regard to action items. Decisions are made by a majority vote. In the event of a tie vote, both options will be presented to the CIO.

### **Criteria for Recommendation**

- The Pension2 Advisory Committee primarily considers the following criteria when determining whether to recommend adding a fund to the core fund line-up:
- Whether the fund would complement the existing core funds by enabling participants to build diverse portfolios.
- Performance relative to the fund's peer group and an appropriate benchmark with a focus on three- and five -year returns.
- Stability in the fund's management team and strategy.
- Participant interest and demand for the fund or the fund's underlying asset class.
- Fund fees in comparison to peers.

### **Investment Monitoring and Watch List Procedures**

The committee monitors investment options to determine whether they are performing at a satisfactory level. If the committee identifies a potential concern based on one or more of the monitoring criteria, an investment option will be placed on the watch list. When the investment option meets the watch list removal criteria that correspond with the reasons it was placed on the watch list, it can be removed from the list. If the concerns associated with the investment option rise to a level that the committee determines it prudent to remove or replace the investment option, it may recommend removal or replacement to the CIO.

## Monitoring

When monitoring investment options, the committee considers the following criteria:

Monitoring Criteria	Watch List Removal Criteria
Performance relative to a peer group and benchmark	Improved performance that is again consistent with peer group and benchmark
Strategy changes	Strategy stabilization aligns with Pension2's strategic objectives
Style drift	Style stabilization aligns with Pension2's strategic objectives
Portfolio manager changes	Performance remains consistent with peer group and benchmark
Excessive personnel turnover	Personnel stabilization
Organizational changes	Organizational stabilization
Financial health	Financial stabilization

## Mapping

Before an investment option can be removed or replaced, the committee must establish a CIO-approved mapping plan to direct where its assets will be allocated as a result of the removal or replacement. To minimize disruption to participant portfolios, assets will be mapped to investment options closest in capital market exposure and risk/return characteristics to the removed or replaced investment option selected by the committee and approved by the CIO.

## Frequency of Review

The Pension2 Advisory Committee meets at least semi-annually, or more frequently as necessary. The committee will review this investment policy statement as necessary and recommend any changes to the CIO.

## DUTIES AND RESPONSIBILITIES

### Teachers' Retirement Board

The Teachers' Retirement Board and CalSTRS officers and employees (staff) to whom Board responsibilities have been delegated shall discharge their Pension2 program duties as fiduciaries and solely in the interests of the participants and beneficiaries of the 403(b) program and 457(b) program, as applicable.

The Board's authority over the Pension2 program shall be exercised for the exclusive purpose of providing benefits to participants and beneficiaries of the 403(b) program and 457(b) program, as applicable, and defraying the reasonable expenses of program administration. To that end, the Board and staff shall select, monitor and oversee a diverse menu of investment options for the 403(b) program and the 457(b) program, as applicable, sufficient to allow participants and beneficiaries to achieve a portfolio of individual account investments with aggregate risk and return characteristics at any point within the range appropriate for long-term retirement savings.

With respect to investment option selection, oversight and monitoring responsibilities, the Board and CalSTRS staff shall act 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.

### **Chief Investment Officer**

The Chief Executive Officer has delegated responsibility for Pension2 investment decisions to the CIO. This responsibility includes the selection of the investment options, shifts in options, and the default investment option.

### **Benefits & Services Executive Officer**

The Chief Executive Officer has delegated non-investment programmatic decisions to the Benefits & Services Executive Officer.

### **Pension2 Advisory Committee**

The CalSTRS Pension2 Advisory Committee is responsible for monitoring the Pension2 program. The committee's investment option recommendations are made to the CIO and non-investment related recommendations are made to the Benefits & Services Executive Officer. The committee monitors or reviews key areas, including the:

- Core fund line-up.
- Easy Choice target date portfolios' allocations.
- Default investment option. The default option will be selected to manage investment risk to the participant by providing a high level of stability in value, such as a money market fund or a fixed annuity.
- Compliance with the Pension2 investment policy statement.

### **Program Recordkeeper**

The Pension2 program recordkeeper provides CalSTRS with third-party administrator compliance services. The recordkeeper is selected through a competitive bidding process. The Teachers' Retirement Board is responsible for approving the contract with the recordkeeper.

### **Employers**

Employers are responsible for all contribution remittances and other payroll-related tasks. Each local school district employer may be subject to fiduciary duty under state or federal law and should consult legal counsel regarding this possibility. Employers are also responsible for choosing among available plan features when setting up a CalSTRS Pension2® 457(b) plan.

If an employer that has assumed responsibility for selecting and monitoring available investment

options pursuant to its investment policy statement, that employer has assumed fiduciary duty with specific regard to its 457(b) plan and the related portions of this investment policy statement will not apply.

## **Participants**

Pension2 participants are responsible for making their own investment decisions and for bearing the risk of the investments they select. Participants are also responsible for reallocating assets according to their investment horizon, personal circumstances and risk tolerance. For example, participants near retirement may have a significantly different investment horizon and risk tolerance than new participants who recently began employment.

When evaluating investment performance, participants should follow the Pension2 Advisory Committee's investing principle of patience and a long-term perspective, in the absence of specific circumstances requiring immediate action. Participants who select the self-directed brokerage window are responsible for researching, selecting and monitoring investment options they deem suitable to meet their retirement goals.

## **Consultants**

The committee may retain consultants to assist in the design, implementation of the programs and consultants to assist in monitoring of the investment options for the Pension2 program. The duties and responsibilities of consultants retained may include, but are not limited to:

- Program structure, design, and business strategy.
- Providing investment recommendations.
- Providing program-related investment advice to the committee.
- Conducting searches for new program investment options.
- Attending committee meetings.

## **REPORTING**

The CalSTRS Pension2 Advisory Committee will conduct a review of this investment policy statement and the CIO will recommend changes to the Investment Committee as necessary. The committee shall report any changes to the core fund line-up and the performance of the Pension2 program and investment options to the Investment Committee semiannually. Ad hoc or committee items may be scheduled as necessary to either the Benefits & Services Committee for administrative matters or the Investment Committee for Investment matters.

## **Benchmarks**

### **Easy Choice**

The Easy Choice portfolios are benchmarked against the [Morningstar Lifetime](#) target date funds.

### **Core Funds**

Individual investment options will be benchmarked against an applicable published index.

## **COMMUNICATION AND EDUCATION**

The CalSTRS Pension2 Advisory Committee strives to ensure that plan participants are provided with sufficient communication and education to assist in making informed investment and retirement planning choices, including but not limited to:

- Periodic enrollment and investment education through one or more of the following: in-person consultation, phone consultation, conferences, benefits fairs, online retirement calculators, email, and written materials.
- General information regarding investment risk, inflation, potential taxation impact, investment earnings, diversification, and asset classes.
- Proactive and prompt communication as improvements and changes are made to the plan.

*Initial Adoption September 2013*

*Revised February 2015*

*Revised governance structure July 2017*