Jack Ehnes
Chief Executive Officer

CALSTRS
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California State Teachers'
Retirement System
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October 6, 2009

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Political Contributions by Certain Investment Advisers
File Number S7-18-09

Dear Ms. Murphy,

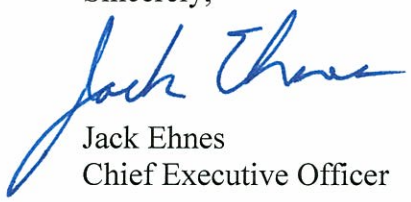
We are writing to you on behalf of the members of the California State Teachers' Retirement System (CalSTRS). CalSTRS was established for the benefit of California's public school teachers over 96 years ago and is currently the second-largest public pension system in the United States. The CalSTRS portfolio is currently valued at approximately $129 billion and serves the investment and retirement interests of over 800,000 plan participants. The long-term nature of CalSTRS' liabilities, and its responsibilities as a fiduciary to its members, makes the fund keenly interested in upholding the highest ethical standards with those parties engaging in business with CalSTRS. We welcome the opportunity to provide comments on the Securities and Exchange Commission's (Commission) Proposed Rule: *Political Contributions by Certain Investment Advisers.*

CalSTRS fully supports the efforts by the Commission to curb "pay-to-play" abuses that undermine the legitimate process by which government pension plans select investment managers. We recognize the negative effects participation in "pay-to-play" practices can have on the fund and seek to mitigate conflict of interests when making investment decisions. The CalSTRS Board takes great pride in being a leader in this area. In November 2007, regulations were promulgated that prohibit a party engaging or seeking to engage in an investment relationship from making campaign contributions exceeding $1000 to a member of the CalSTRS Board (including its ex officio members), the Governor and candidates for those positions. Attached please find copies of the regulations together with the Board's policy regarding Disclosure of Campaign Contributions, Charitable Contributions, Gifts, Recusal Requirement and Ban on Specified Gifts.

CalSTRS has also been at the forefront of placement agent disclosure as shown by its policy with respect to the Disclosure of Third Party Relationships and Payments, adopted in November 2006 (see attached). We have already taken steps to extend our due diligence process for hiring investment managers by requiring even further disclosure of placement agent relationships. As of the date of this letter, the California Legislature has sent Assembly Bill 1584 as an urgency matter to be signed by the Governor. The bill enhances current law regarding disclosure of placement agent payments and activities, and further limits potential "pay-to-play" practices. Once this bill is enacted, we expect our Board to further refine its policy consistent with the new legislation.

We appreciate the opportunity to share the policies CalSTRS has adopted and steps we have taken to limit any conflicts of interests. If you would like to discuss these policies or this letter further, please feel free to contact me at the number set forth above.

Sincerely,



Jack Ehnes
Chief Executive Officer

Attachments

TITLE 5. EDUCATION
DIVISION 3. TEACHERS' RETIREMENT SYSTEM
CHAPTER 1. TEACHERS' RETIREMENT SYSTEM
ARTICLE 14. INVESTMENT RELATIONSHIPS AND CAMPAIGN CONTRIBUTIONS

§ 24010. Prohibitions on Campaign Contributions

(a) No party engaging or seeking to engage in an Investment Relationship with CalSTRS may make any campaign contributions, as defined in The Political Reform Act (Gov. Code, § 81000 *et seq.*), valued in excess of $1,000, individually, or $5000 in the aggregate from the party engaged in the Investment Relationship and the individuals identified in subdivision (d) collectively, in any twelve month period beginning on the dates identified in subdivision (e), to any person designated in subdivision (c) below.

(b) For purposes of this Article 14, "Investment Relationship" means a relationship between a non-governmental party and CalSTRS for the purpose of providing investment services such as money management or fund management services, investment advice or consulting (including making recommendations for the placement or allocation of investment funds), and investment support services (including market research, fund accounting, custodial services, and fiduciary advice) for investments placed in the Teachers' Retirement Fund.

(c) This prohibition applies to campaign contributions made to or on behalf of CalSTRS officers and employees, any existing Teachers' Retirement Board member, the Governor, Controller, Treasurer, and Superintendent of Public Instruction, candidates for Teachers' Retirement Board member, and candidates for the offices of Governor, Controller, Treasurer, and Superintendent of Public Instruction.

(d) This prohibition applies to those parties currently engaging in or seeking to engage in an Investment Relationship with CalSTRS which is expected to generate at least $100,000 annually in income, fees, or other revenue to the party, and specifically includes:

> (1) Those individuals employed by or associated with the parties described in this Section 24010(b), above, who are required to file a Form 700 Statement of Economic Interest pursuant to Government Code Section 81000 *et seq.*, the Fair Political Practices Commission Regulations contained in Title 2, Division 6, California Code of Regulations Section 18109 *et seq.*, and the Teachers' Retirement System Regulations contained in Title 5, Division 3, California Code of Regulations Section 22000, *et seq.*; or
>
> (2) "Authorized Personnel/Key Personnel" as defined and identified by the contracting party in the "Authorized Personnel/Key Personnel exhibit" incorporated in or attached to the contract between the contracting party entering into the Investment Relationship and CalSTRS; or
>
> (3) Those individuals who expect to and/or do experience a material financial effect on their economic interests including salary, bonuses, options, or other financial incentives directly deriving from an Investment Relationship with CalSTRS.

to constitute a quorum shall have their participation deemed as necessary and shall be exempt from the restrictions of subdivision (a) for the purpose of establishing a quorum and participating in the deliberations and voting on an item for which a quorum could not be established absent this waiver of the restrictions of subdivision (a).

AUTHORITY:
Note: Authority cited: California Constitution, Article XVI, Section 17; and Sections 22202, 22207, 22208, 22214, 22250, 22253, and 22305, Education Code. Reference: California Constitution, Article XVI, Section 17; and Sections 22250 and 22253, Education Code.

HISTORY:
1. New section filed 10-29-2007; operative 11-28-2007 (Register 2007, No. 44).

§ 24012. Remedies, Enforcement and Safe Harbors

(a) CalSTRS' General Counsel shall cause an independent investigation to be performed for any reported violation of Sections 24010 and 24011, and report any documented violation to the Board for action.

(b) If any party seeking an Investment Relationship with CalSTRS is found to be in violation of Section 24010, that party shall be disqualified from engaging in an Investment Relationship with CalSTRS for a period of two years.

(c) Any party who has an existing Investment Relationship with CalSTRS and who is found to be in violation of the provisions of Section 24010 shall be subject to disqualification from doing future or additional business with CalSTRS for a period of two years.

(d) If a party voluntarily reports a violation of Section 24010 to the CalSTRS General Counsel within ninety days of the contribution being made and it is established pursuant to an independent investigation that the violation was inadvertent, the disqualification provision of subdivision (c) will not be applied. This safe harbor provision does not apply to a knowing or intentional violation of Section 24010.

(e) CalSTRS staff shall maintain a current list of parties engaged in an Investment Relationship subject to Section 24010, subdivision (d). The disclosure and recusal requirements of Section 24011, subdivision (a) shall not apply to any CalSTRS officer, employee or current Teachers' Retirement Board member, including the Controller, Treasurer, and Superintendent of Public Instruction if the Investment Relationship has not been published on the list maintained by CalSTRS staff.

AUTHORITY:
Note: Authority cited: California Constitution, Article XVI, Section 17; and Sections 22202, 22207, 22208, 22214, 22250, 22253, and 22305, Education Code. Reference: California Constitution, Article XVI, Section 17; and Sections 22250 and 22253, Education Code.

HISTORY:
1. New section filed 10-29-2007; operative 11-28-2007 (Register 2007, No. 44).

H. Disclosure of Campaign Contributions, Charitable Contributions, Gifts, Recusal Requirement, and Ban on Specified Gifts

1. Campaign Contributions

Any party who engages in business with CalSTRS for gain shall disclose campaign contributions, as defined under the California Political Reform Act, valued in excess of $250, made to or on behalf of any existing CalSTRS Board member, candidates for Board member, Controller, Treasurer, Superintendent of Public Instruction, CalSTRS officer or employee.

2. Charitable Contributions

No party who engages in business with CalSTRS for gain shall provide any charitable contribution to a charitable entity, valued in excess of $250 individually or in the aggregate in any calendar year, made at the request of any Board member, or CalSTRS officer or employee.

3. Gifts

A. No party who engages in business with CalSTRS for gain shall provide gifts to Board members or to CalSTRS officers or employees exceeding the following limits:

i. Gifts, including meals or entertainment, with a cumulative value exceeding $390 individually or in the aggregate in any calendar year, given to any Board member or CalSTRS officer or employee. The dollar amount of this limit shall be adjusted biennially in each odd numbered year to reflect the cost of living adjustments made by the Fair Political Practices Commission to the gift limit contained in Government Code section 89503.

ii. This gift prohibition shall not extend to meals or related expenses provided under the following circumstances:

a. Food, beverages and registration at group events to which substantial numbers of employees of an institution are invited;

b. Actual and reasonable expenses for food, beverages, travel, lodging and/or registration provided to permit participation in a meeting directly tied to

Counsel is responsible for causing an investigation of any reported violation to be made and shall report any documented violation to the Board for action.

7. Application of Policy

Nothing in this policy supersedes any provision of State law. Those entities engaged in business with the System may also have reporting requirements under the Political Reform Act, California Government Code section 81000 et seq. Also, Board members who are either elected to the Board by a CalSTRS constituency or who are appointed to the Board but also serve as an elected official of a local body are subject to Government Code section 84308, which prohibits the receipt, solicitation or direction of a campaign contribution of more than $250 while a matter affecting a financial interest of the maker of the contribution is pending, and for three months following the date a decision is rendered on the matter. Section 84308 also requires recusal of the Board member from any involvement in the matter if a contribution over $250 has been received within the preceding 12 months, unless the contribution was returned no later than 30 days from the time the Board member knew or should have known about the contribution and the matter involving the maker of the contribution.

Reference: Education Code Section 22363

Amended December 7, 2006
Amended June 6, 2007
Amended February 7, 2008

J. Disclosure of Third Party Relationships and Payments

Prior to CalSTRS entering into any investment transaction or investment management contract, any person or entity who would be a party to that investment transaction or investment management contract shall disclose to CalSTRS' Chief Investment Officer, in writing, all third party relationships with persons or entities that assisted the party with either the solicitation of CalSTRS as a potential client or the retention of CalSTRS as an existing client and any fees paid or payable to the third party as a result of such relationship. The disclosure shall be made on a form provided by CalSTRS. For investment transactions that are subject to the approval of the Investment Committee, the Chief Investment Officer will submit any information disclosed pursuant to this section prior to Investment Committee action on the transaction. For Investment transactions that do not require Investment Committee approval, the Chief Investment Officer will provide a quarterly summary to the Investment Committee of any disclosures made pursuant to this section.

For purposes of this section, the term "fees paid or payable to the third party" includes placement agent fees, solicitation fees, referral fees, promotion fees, introduction or "matchmaker" fees, or any similar fees.

Adopted November 3, 2006