CALSTRS

CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

SPECIAL MANDATE POLICY

INVESTMENT BRANCH

~~September 2020~~May 2024

SPECIAL MANDATE POLICY

As set forth in the California Constitution, Article 16, Section 17, and the California Education Code, Section 22250, the Teachers' Retirement Board, its Investment Committee, and staff have fiduciary duties with respect to the system and the plan. These duties include duties of loyalty and prudence to invest "with the care, skill, prudence, and diligence under the circumstances~~–~~ then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims." (Ed. Code, sec. 22250(b).)

This policy sets forth CalSTRS~~'~~ policy and procedures for considering special mandates and related investment strategies.

For purposes of this Policy, "special mandates" are defined as discrete investment strategies, ~~(~~other than ~~divestments~~ portfolio restrictions which are covered by a the Policy on Portfolio Restrictions~~separate Board policy)~~ suggested by Board Members that include, but are not limited to: environmental; social; governance (ESG); in-State investments; or other factors that are expected to have a positive or neutral impact on the economic performance of the fund over the long term.

Commented [Staff1]: Administrative changes to reflect previously approved changes in other policies.

PROCEDURES

Commented [Staff2]: Administrative changes reflected in the Procedures section is for readability.

At any Investment Committee meeting, during the Chief Investment Officer report or during the review of the next meeting agenda, a member of the ~~board~~ Investment Committee may request an item be added for the Investment Committee to consider a special mandate to be incorporated into the investment portfolio. If a majority of the Investment Committee concurs, the chair will identify the proposal as a "special mandate subject to this Policy" and initiate the following procedures:

1) At an ~~futurethe next~~ Investment Committee meeting, in Open Session, a special mandate action item will be added to consider amending the Investment Committee current or future Fiscal Year work plan. The theory, including any anticipated economic justification, for why the special mandate can be expected to have a positive or neutral impact on the economic performance of the fund over the long term must be articulated at the meeting to help inform the Investment Committee's consideration of amending the work plan. If added to the work plan by a majority vote of the Investment Committee, staff and the investment consultant(s) will research and evaluate the special mandate and report ~~as follows. The report will be brought~~ to the Investment Committee for final approval of the special mandate.

2) The Investment Committee will receive a written evaluation of the proposed special mandate including at least the following:

(a) A detailed review and affirmation (or disaffirmation) of the theory and economic justification for why the proposed special mandate satisfies the definition of a special mandate.~~;~~
(b) An analysis of the risk, return, and potential costs of the proposed special mandate.~~;~~
(c) A forecast of the impact of including the proposed special mandate on the applicable asset class and sub-asset class structure, within the overall investment portfolio.~~;~~

(d) A determination whether there are elements of the special mandate that could be revised or eliminated to improve the likely impact of the special mandate on the economic performance of the Fund.~~;~~
(e) A statement about the proposed special mandate's consistency with the strategic policy, the Investment Policy Statement ~~and Management Plan~~, and Investment Beliefs (when adopted).~~;~~
(f) A proposed source of funding for the proposed special mandate and how that impacts the asset class and overall portfolio.

In addition, the Investment Committee may also seek the input of legal counsel and external experts or research firms (as needed) to better understand and evaluate the proposed special mandate.

3) Based upon the analysis, staff and the investment consultant(s) will present their findings to the Investment Committee and make a recommendation to pursue the proposed special mandate; make a recommendation not to pursue the proposed special mandate; or~~,~~ recommend a modification to the proposed mandate for the Investment Committee's consideration. Any recommendation to pursue a proposed special mandate must include a recommendation, the source of the funds to be allocated to the special mandate, as recommended by staff, and the specific performance objective/ benchmark against which to measure the success of the special mandate.

4) If approved by the Investment Committee, the special mandate will be integrated into the investment portfolio with a capital allocation and other terms as approved by to the Investment Committee, together with any additional resources and staffing necessary to carry out the mandate. The Investment Committee must also approve the appropriate benchmark to measure the investment performance and clarify the overall goal of the any ancillary benefits of each specific mandate, if proposed.

REPORTING

Commented [Staff3]: Streamline reporting structure

~~Annually after the fiscal year end, the Chief Investment Officer will prepare a streamlined "Ancillary Special Mandates" report that shows the risk and cost-adjusted performance of all the various special mandates relative to their respective asset class or sub-asset class benchmarks as identified under item 4 above.~~

~~From the funding date, each individual special mandate will follow reporting cycle:~~
The Chief Investment Officer and the Investment Committee's general consultant have the following reporting responsibilities:

- Annually, after the fiscal year end, the Chief Investment Officer will prepare a report that shows the risk and cost adjusted performance of all ~~the various~~ special mandates relative to their respective asset class or sub asset class benchmarks as identified under item 4 above.

- Every three years, ~~on the anniversary of the initial funding of the mandate,~~ the general consultant will prepare and present a review of ~~the~~ all special mandates, including an updated review of the original expected economic risks and opportunities and any material developments since approval of the mandate.

- Every six years, ~~on the anniversary of the initial funding of the mandate~~, the Investment

Committee, as part of a fiduciary review, must affirmatively vote to continue the special mandate on terms satisfactory to the Investment Committee under the circumstances then prevailing. The Investment Committee may also terminate or revise the mandate at any time.

CURRENT SPECIAL MANDATES

The following are the special mandates that have been approved or directed by the Investment Committee. These mandates shall be subject to this policy and their "initial funding date" for purposes of this Policy shall be deemed the date on which this policy is adopted.

Special Mandate	Asset Class	Allocation	Date	Funding Date
Developing Manager Program	Global Equity	$600 million[1]	Mar 2003	August 2004
Clean Tech Investment[2]	Private Equity	$100 mil - VC $400 mil -Energy related	Nov 2004	May 2005
Proactive Program	Private Equity Merged Underserved Urban & Rural California (UR) strategies with New & Next (NNG)	4% of overall Private Equity Portfolio	UR (Feb 2002) NNG (July 2002) Merged Mar 2018	UR (Mar 2003) NNG (May 2005)

[1] Set at five percent of U.S. equity or 12.5 percent of the active U.S. equity management.
[2] Legacy assets only.

Initially developed and approved: June 2016
Revised to reflect re-categorization of certain special mandates: September 2018
Revised to reflect re-categorization of Low Carbon special mandate: September 2020
Revised to streamline the reporting stricture and administrative change from other policy approvals: May 2024