

# Board Governance Manual

**CALSTRS**<sup>®</sup>  
HOW WILL YOU SPEND YOUR FUTURE?

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**HISTORY:**

September 2009

- Deleted Subsection B. Benchmark Modification Policy and removed any reference to it, and the risks discussed by this policy are now covered in a more comprehensive fashion by the CalSTRS 21 Risk Factors in the IPMP and by the Divestment Policy.

April 2010

- Deleted Subsection F. Internal Indexed Portfolio Policies from Section 1000 Investment Policy.
- Deleted Subsection G. Cash Equitization Policy from Section 1000 Investment Policy.
- Re-alphabetized Subsections F through S of the Section 1000 Investment Policy.

September 2010

- Re-alphabetized Subsections B through P and Deleted Subsection P from Section 1000 Investment Policy.

#### November 2010

- Added Subsection P. Commodity Portfolio Policy to Section 1000 Investment Policy.

#### April 2011

- Deleted from Section 1000 Investment Policy under Subsection C the Addendum A – Financial Responsibility Criteria for Corporate Investments, and Addendum B – Statement of Shareowner ESG Responsibility.

#### April 2012

- Deleted Corporate Governance Committee Charter and returned Corporate Governance Reporting and Monitoring to the Investment Committee.

#### May 2014

- Added Subsection Q. Pension 403(b) and 457(b) to Section 1000 Investment Policy.

#### October 2014

- Deleted Legislative Committee Charter.

#### September 2015

- Added Subsection R. Inflation Sensitive Investment Policy.

#### February 2016

- Added Subsection S. Risk Mitigating Strategies Policy.

#### June 2016

- Deleted Subsection D. Soft Dollar Program Policy from the Section 1000 Investment Policy, and Re-alphabetized Subsection D through R.

#### February 2017

- Added Subsection S. Special Mandate Policy from the Section 1000 Investment Policy.

#### March 2018

- Added Subsection H. Policy Review from the Section 500 Board Governance.
- Added Subsection I. Consultant Evaluation Policy from the Section 500 Board Governance.
- Added Subsection J. Routine Reports Policy from the Section 500 Board Governance.

#### September 2018

- Added Delegation of Authority to the Director of Global Equity to Appendix 2.
- Deleted Delegation of Authority to Deputy Chief Executive Officer of Benefits and Services from Appendix 2.
- Deleted Delegation of Authority to Human Resources Executive Officer from Appendix 2.
- Deleted Delegation of Authority to Chief of Staff from Appendix 2.

- Deleted Delegation of Authority by Chief Executive Officer (Investment Transactions) from Appendix 2.
- Deleted Certificate of Chief Executive Officer from Appendix 2.

#### January 2019

- Added Subsection T. Responsible Contractor Policy from the Section 1000 Investment Policy.
- Added Subsection CalSTRS Investment Beliefs to 1000 Investment Policy.

#### January 2020

- Deleted Section 100, 200, 600A, and Appendix III (“Regulations on Investment Relationships and Campaign Contributions”).
- Added Appendix III (“Existing Agreements, Exemptions, Current Policies and Practices”).
- Removed Charters from Section 500 and created a new Section 2, titled “Committee Charters.”
- Changed Section 300 to Section 1; Section 400 to Section 5; Section 500 to Section 2; Section 600 to Section 4; Section 700 to Section 6; Section 800 to Section 7; and Section 900 to Section 8.
- Section 1000, Investment Policy, remains in a separate document.

#### January 2021

- Added Subsection I. CEO and CIO Evaluation Policy to Section 3.

#### June 2021

- Added updated Appeals Committee Charter to Section 3.

#### January 2022

- Added updated CEO Cassandra Lichnock’s Delegations in Appendix II.

#### July 2022

- Added Board Operative Principals to Section I.

#### August/September 2022

- Updated Benefits & Services Committee Charter for the composition and reference to CalSTRS Strategic Plan.

#### November 2022

- Incorporated less specific language, where appropriate, while retaining the essence of the timing concept and documented concepts previously reviewed, discussed, and agreed upon by the board/committee at various venues, such as Committee Charters to link to strategic planning and adding language to other committee charters.

#### March 2023

- Consultant evaluation policy was updated to better align with the board’s overall preference of principles-level policy language and with other policies in the Board Governance Manual.

#### September 2023

- Committees' policy was changed to clarify authority of creating committees and charters, related to authority of the board and chair, and committee assignments principles. Duties of the Board Chair was retitled and changed to clarify the role of the Vice Chair. Duties of the Board Committee Chairs and Vice-Chairs policy was added.

#### March 2024

- Policy revisions/Creation for Information Security Incident Delegation (Appendix III), Education Policy updates, Policy Review Policy and updates to the Board Governance Charter were made.

#### May 2024

- Added updated ARM Charter to Section 3.
- Added updated Compensation Policy to Section 3.
- Removed Investment Strategy & Risk delegation for Geraldine Jimenez and new delegation as Sr. Investment Director has been added.

#### September 2024

- Removed Director of Global Equity delegation for June Kim and new delegation as Sr. Investment Director of Total Fund Management has been added.

# Section 1

## Mission Statement, Core Values, and Board Operative Principles

### MISSION STATEMENT

Securing the financial future and sustaining the trust of California's educators.

### CORE VALUES

CalSTRS affirms the following in all its working relationships:

#### Customer service

We never compromise on quality as we strive to meet or exceed the expectations of our customers.

#### Accountability

We operate with transparency and accept responsibility for our actions.

#### Leadership

We model best practices in our industry and innovate to achieve higher standards.

#### Strength

We ensure the strength of our system by embracing a diversity of ideas and people.

#### Trust

We conduct ourselves with integrity, acting ethically in every endeavor.

#### Respect

We respect the needs of our members, co-workers, and others, treating everyone with fairness, honesty, and courtesy.

#### Stewardship

We recognize our fiduciary responsibility as the foundation for all decision-making.



## Board Operative Principles

The CalSTRS board is committed to maintaining its role as a leader in governance for the benefit of its members and beneficiaries. To accomplish this objective, the Board has developed the following Governance Operative Principles. They are equally important, and as such appear in no specific order of priority.

- **The board remains committed to its focus on excellence in governance, oversight, and results, consistent with its fiduciary duties.**
  - The board desires to maintain its policy-level focus and board leadership mindset.
  - Continuous improvement is an important value of the organization as a whole and of the board.
- **The optimal function of the board relies on the engaged participation of all Trustees.**
  - Trustees perceive the role of the board as oversight, but also providing input on strategy, risks, and serving as a sounding board to staff.
  - Trustees value the consensus oriented, productive culture of the board, and the board's ability to adapt to change, and want to maintain these attributes.
- **Transparency to its members, stakeholders, and the general public serves the public interest and is an essential ingredient to CalSTRS achieving its mission.**
  - The board values productive relationships with stakeholders.
  - The board strives to be as efficient and effective as possible as it conducts its business consistent with applicable law.

*Date of Adoption: July 8, 2022*

## Section 2 Board Governance

### A. Election of Officers

1. The election of the board chair and vice-chair shall be held annually before the end of the fiscal year and at other such times as vacancies occur. Intervening elections may be called by a 2/3rd majority of the board. In determining the 2/3rd majority, vacant positions on the board shall not be considered.
2. The election of the board chair and vice-chair shall be by majority vote of the board with a run-off to be held in the event that no candidate receives a majority of the first ballot. Where there is more than one candidate, the vote is to be conducted by secret ballot. The election shall be run by the chief executive officer.

History: Amended April 6, 2005; Amended April 3, 2008; Amended June 8, 2017; Amended November 2, 2022.

### B. Committees

1. Standing or ad hoc committees of the board may be created by action of the board, which will establish the purpose, responsibilities, and authority of the committee, including any delegated authority, and may establish the term for which it will exist.
2. The board will approve a charter for each of standing committee and ad hoc committee that clearly defines its mandate, duties, authority, including any delegated authority, and composition.
3. Committee assignments, committee chairs, and committee vice-chairs shall be proposed by the board chair annually and at such other times as vacancies occur. The board chair, in their discretion, may elect not to make committee vice-chair assignments, if this is not feasible due to board vacancies. Alternate members may be appointed on an as-needed basis by the board chair.
4. If the board is unable to act on the board chair's proposals in a timely manner, the board delegates authority to the board chair to make appointments based on the guidelines herein if it would aid in executing the board's role. Upon action via delegation, the reason for delegation and the appointments made shall be communicated to the board immediately. The minutes of the next board meeting shall reflect the delegation, the reason for delegation, and the appointments made.
5. Board members may be appointed by the board chair to serve as a board oversight liaison on specific topics as determined necessary by the board.
6. In making board committee, committee officers, or board liaison appointments, the board chair and the board will strive to satisfy the following principles. The

principles are equally important, and, as such, appear in no specific order of priority.

- a. Maintain a level of continuity in board committee membership.
  - b. Reflect the diversity of public, ex-officio, and elected members on the board in the committee membership composition.
  - c. Rotate the composition of the committee to provide broad exposure to trustees.
  - d. Ensure that, to the extent possible, appointments reflect trustees' areas of interest, expertise, and responsibility to committee service (Section 2.E.1.b).
  - e. Support the momentum for strategic plan priorities.
  - f. Promote training, development, and board succession within the statutory governance framework.
  - g. Disperse leadership among board members.
7. All actions taken by committees and appointed board liaisons must be approved by the board unless specifically authorized through board action to act on specified matters without board approval.
  8. All committee meetings of the board shall be open to all board members, but non-committee members may only attend and observe. If an item is for educational purposes only, non-committee members may participate in the discussion. Non-committee members are never permitted to vote.

History: Amended April 6, 2005; Amended April 3, 2008; Amended June 8, 2017; Amended January 31, 2020 [to reflect gender-neutral language and clarify the authority of non-committee members in B(2)]; Amended September 13, 2023 to clarify authority for creating committees and charters, committee related authority of board chair, and committee assignment principles.

### **C. Duties of the Board Chair and Vice-Chair**

1. The board chair's responsibilities include operating the board consistent with statutes, procedures and policies; presiding over board meetings; subject to board approval in accordance with Section 2(B), appointing chairs, vice-chairs and members to the various board committees; supervising the chief executive officer (CEO); executing on behalf of the board delegations of various responsibilities to the CEO and other staff and other duties as deemed necessary; exercising final authority over board and committee agendas and supporting materials. (Please refer to Appendix I for the current delegation of authority from the board to the CEO)

and Appendix II for current delegations of authority from the CEO to CalSTRS' personnel.)

2. The board chair shall determine the role of the vice-chair in a manner consistent with succession planning practices and Section 1, Board Operative Principles. At a minimum, the vice-chair will assume all responsibilities and authority of the board chair in the chair's absence, and perform other duties as assigned by the board chair.

History: Amended April 6, 2005; Amended April 8, 2016 [to reflect technical changes to the policy section cross-reference]; Amended January 31, 2020 [to update a section reference and add appendix references]; Amended September 13, 2023 [to clarify the role of the Vice-Chair].

#### **D. Duties of Board Committee Chairs and Vice-Chairs**

1. The responsibilities of the chairs of board committees include operating the committee consistent with statutes, procedures, and policies; presiding over committee meetings; guiding the committee in establishing a consensus on critical issues and decisions while supporting deliberations; facilitating open and effective communications among the committee, the board, staff, and committee consultants; coordinating the work of the committee in alignment with the strategic plan and in accordance with the committee charter; reviewing and proposing committee agendas for approval by the board chair; regularly reporting to the board on the activities of the committee; and carrying out such other duties as prescribed by the board.
2. Board committee chairs will be supported by a designated staff member, to be appointed by the CEO. The chair of a board committee shall determine the role of the committee vice-chair in a manner consistent with succession planning practices in Section 1. Board Operative Principles. At a minimum, the vice-chair will assume all responsibilities and authority of the committee chair in the chair's absence, and perform other duties as assigned by the committee chair.

History: Adopted September 13, 2023, to outline the role of committee Chairs and Vice-Chairs.

#### **E. Board Member Responsibilities**

1. Responsibilities
  - a. **Attendance.** All board members (or their delegates) are expected to attend all board and applicable committee meetings. While attendance is not always possible, board members should, once the calendar for a year is set, immediately flag any scheduling conflicts and thereafter manage their schedules to avoid creating additional conflicts. Absences for medical or other substantial reasons shall be deemed excused absences in the discretion of the board chair.

- b. **Committee service.** Each board member should serve on at least one standing committee or ad hoc committee in addition to serving on the Investment Committee, and any committee of the whole as designated by the board.
- c. **Preparation.** Board members should come to board meetings having read the materials prepared and circulated by staff.
- d. **Education.** Board members should identify areas where they might benefit from additional education and work with staff to find educational opportunities. Board members should fulfill the training expectations outlined in subsection (E)(2) of this section and are required to attend additional educational opportunities as outlined in Section (E)(2)(c).
- e. **Representation.** At times, board members may be called on to represent CalSTRS to various constituencies, including officers of state government, state agencies, or other groups.
- f. **Collegiality.** Members shall make every effort to engage in collegial deliberations, and to maintain an atmosphere where board members or committee members can speak freely, explore ideas before becoming committed to positions, and seek information from staff and other members. To the extent possible, members are encouraged to come to meetings without having fixed or committed their positions in advance.
- g. **Independence.** CalSTRS board members and their delegates shall, upon taking office, sign a pledge confirming their independence and their understanding of fiduciary duties. The pledge shall be reviewed annually and shall read as follows:

“I understand that as a board member, I must discharge my duties as a fiduciary with respect to CalSTRS solely in the interest of its members and beneficiaries as further set forth in Sections 22250 through 22253 of the Education Code. I also understand the unique independent status that California public pension funds such as CalSTRS holds, as reflected in the following finding of Proposition 162: ‘The integrity of our public pension systems demands that safeguards be instituted to prevent political ‘packing’ of retirement boards, and encroachment upon the sole and exclusive fiduciary boards or infringement upon the actuarial duties of those retirement boards.’ My signature below affirms my pledge to conduct myself in accordance with these understandings.”
- h. **Code of Conduct.** In keeping with the responsibilities outlined in this section, board members shall, annually, affirm their commitment thereto by signing the following code of conduct. The code of conduct shall be reviewed annually and shall read as follows:

“We, the trustees of CalSTRS, recognize that we are the leadership and ultimate fiduciaries for CalSTRS. As such, we are responsible for governing the system in the best way we can and to act solely in the interest of its members and beneficiaries (as set forth in Sections 22250 through 22253 of the Education Code).

We pledge not to allow political interference, or any form of intimidation affect our judgment in the exercise of our fiduciary responsibilities. We accept our responsibility to avoid actual and perceived conflicts of interest. Where avoidance is not possible, we will disclose and mitigate conflicts to the best of our abilities. We agree not to engage in any acts of self-dealing.

We acknowledge that we are subject to the disclosure and reporting requirements of the system's Conflict of Interest (COI) Code and Fair Political Practices Commission (FPPC) regulations. We have the personal responsibility to ensure that gifts, honoraria, and travel expenses received are disclosed and reported under the system's COI Code and FPPC regulations.

To meet the high standard of prudence for fiduciaries, we understand that education is important. We accept our personal responsibility to attend educational sessions and conferences, and to share the knowledge with each other.

We, the board, consider the diversity of experience and opinions among us to be a strength, not a weakness. When differing viewpoints are expressed during our meetings, we will be respectful in our discussions.”

- i. **Avoidance of Appearance of Nepotism.** Even if otherwise permissible under State conflict of interest laws and/or board policy, board members should avoid participating in CalSTRS matters in which a close relation of the board member has a personal, managerial or substantial financial interest. A “close relation” is defined as a spouse, mutual financial dependent, significant other or person in an intimate relationship; a child, parent, sibling (including in-laws and step-relations), grandparent or grandchild, niece or nephew, aunt, uncle or cousin. A “substantial financial interest” exists if the personal financial effect of the CalSTRS matter on the close relation would be \$250 or more in a 12-month period and that effect is particular to the close relation as opposed to affecting a much larger group. For example, under this policy, a board member would not be precluded from participating in a decision to recommend legislation that would increase the percentage cost-of-living adjustment paid to all retirees even if the board members’ mother would receive this increase along with all other retirees. However, if the board member’s mother files an appeal that contends that her specific cost-of-living adjustment had been calculated incorrectly by CalSTRS, under this policy the board member would be precluded from participating in the decision regarding this appeal.

History: Amended April 6, 2005; Amended November 3, 2006; Amended April 3, 2008; Amended April 8, 2010 [Section I. Board Member Responsibilities to incorporate the Code of Conduct]; Amended January 31, 2020 [to update section references].

## 2. Education Policy

### a. Purpose

The board has adopted this policy to enable board members to discharge their fiduciary duties under the California Constitution and the Education Code, to act with care, skill, prudence, and diligence, and to have a full understanding of the issues facing CalSTRS.

### b. Responsibilities

The board is responsible for ensuring an appropriate and effective framework for onboarding and continuing education exists and appropriate time is allocated within board and committee workplans to board education. The board governance committee is responsible for overseeing educational opportunities for board members. The CEO, in partnership with the board and board governance committee leadership, has administrative oversight over the development, assessment, implementation and compliance of this framework. The board is provided periodic reports to monitor board member continuing education.

Board members, and any board member delegates attending one or more board and committee meetings per fiscal year (“board member delegates”), are responsible for identifying and attaining education including attending onboarding sessions(s) upon joining the board (preferably prior to attending first board meeting), attending in-house education provided, and pursuing external education. Board members and board member delegates are also responsible for evaluating education opportunities after participating in external education events, tracking their continuing education compliance, and, if requested, furnishing an attestation of completion of the requirements.

### c. Requirements

Within every two (2) years of service on the board, all board members and board member delegates are required to complete 24-hours of continuing education to aid in the performance of their duties. Participating on certain committees, including but not limited to Audits and Risk Management (ARM) and Appeals, will require additional educational development.

The following education opportunities may satisfy the 24-hour requirement.

## New Board Member Onboarding and Mentoring

### *Onboarding*

The board has adopted the practice of onboarding to ensure that all board members and board member delegates are provided proper support to acclimate to the role effectively and efficiently.

Onboarding primarily emphasizes in-house educational opportunities; however, new board members and board member delegates are encouraged to attend at least one externally hosted educational opportunity designed to provide a general understanding of the responsibilities of a public retirement system fiduciary.

### *Mentoring*

Any new board member or board member delegate may request a mentor to assist them in becoming familiar with their responsibilities on the board. If a request is made, the board chair will designate one experienced board member as a mentor.

## Routine Board Member Education

### *Fiduciary Education Session*

The General Counsel will arrange for annual fiduciary education. Board members and board member delegates are expected to attend or otherwise complete the education session.

### *State Ethics Training*

Every two years, board members and board member delegates are required to complete an ethics training course. The online course developed by the California Attorney General's Office and the Fair Political Practices Commission may be used to satisfy this requirement.

## Continuing Board Member Education

### *External Educational Opportunities*

Board members and board member delegates are encouraged to participate in at least one external educational session or conference designed to help them become proficient in performing their duties on board or board committees. Board members and board member delegates may participate in any of the educational opportunities on the list maintained by the CEO, subject to the board's travel expense policy. In considering educational opportunities, board members should weigh the costs and benefits of travel versus locally based education.



### *In-house Education Sessions*

Board members and board member delegates are encouraged to engage in educational sessions conducted by staff or the board's contracted service providers, either for individual board members or at scheduled meetings of the board and its committees.

### *Self-paced Learning*

Board members and board member delegates are encouraged to use independent learning opportunities to satisfy continuing education needs, including subscriptions to periodicals from a list maintained by the CEO. The expense for the periodicals will be paid by the system.

History: Amended April 6, 2005; Amended April 3, 2008; Amended April 1, 2015; Amended January 31, 2020 [to reflect gender-neutral language]; Amended January 28, 2021 [to update policy and reflect new onboarding program]; Amended March 2024 [to align with board education program updated].

## 3. Travel Expense Policy

### a. Purpose

As fiduciaries, the board members must ensure that only reasonable and necessary expenses are incurred in the governance and management of the system. This is accomplished through the annual operating budget, which the staff proposes, the board approves, and both monitor on a regular basis. In addition to the budget, the board has adopted this Travel Expense Policy to provide more detail about the parameters for board travel.

### b. Required Travel

Travel is required to attend any publicly noticed meeting or offsite of the CalSTRS board. Public notice of a board meeting serves as automatic prior approval of any board member travel necessary to attend the meeting.

At times travel is also required to conduct specific business or to attend a specific event and represent the system in an official capacity. No prior approval is necessary for this type of travel.

### c. Travel Related to Board Education

Travel may be required to attend seminars, conferences or educational classes as set forth in the board's Education Policy.

A budget for travel expenses (transportation, per diems, lodging) will be established within the annual operating budget to cover reimbursement of travel expenses incurred in meeting educational goals as set forth in the

Board's Education Policy. The board chair will be responsible for annually reviewing the budget, updating the members as to the status of the budget and making any changes to the budget thereafter.

Expenses are reimbursable under the system's fiscal requirements and must be disclosed and reported pursuant to those requirements. Additionally, before reimbursement can be made, board members must submit an Education Evaluation form relating to the specific seminar, conference, or education class they attended.

The CEO shall review all board education related travel requests to ensure they are compliant with this policy. All requests shall be placed on the board consent agenda but may be removed for a full discussion at the request of any board member. Emergency travel requests may be reviewed and approved by the board chair if timing prevents calendaring the request in time for a scheduled board meeting.

d. Reimbursement for Travel Expenses

CalSTRS shall pay for reasonable travel expenses in accordance with State regulations and guidelines, including actual transportation and related lodging and subsistence. While traveling, board members may accept meals provided by third parties, subject to the threshold reporting requirements of the FPPC. In these situations, per diem reimbursement for such meals cannot be claimed.

Submission of claims for reimbursement for all travel expenses shall be made on a timely basis but no later than the close of the fiscal year or as soon thereafter as reasonably possible and shall be accompanied by receipts. Claims for reimbursement shall be submitted on the form then in use by CalSTRS and presented to the board secretary (CEO).

In situations where third parties offer payments, advances, or reimbursements for travel, including actual transportation and related lodging and subsistence, to CalSTRS board members or the CEO, the acceptance of such payments will be handled on a case-by-case basis and in accordance with applicable political reform laws and regulations. For board members, prior approval must be given by the full board. For the CEO, prior approval must be given by the board chair or designee.

e. Travel Activity Summary

A summary of all board and executive staff out-of-state/international travel shall be compiled and provided to the full board semi-annually. The summary shall itemize the source of funding for the travel (privately funded, CalSTRS reimbursed, gift to CalSTRS, other) and briefly describe the purpose of the travel.

f. Additional Disclosure Requirements

All CalSTRS board members are subject to the disclosure and reporting requirements of the system's Conflict of Interest Code (COI) and political reform laws and regulations. Any board member who receives a gift of travel expenses (paid or reimbursed) or the actual transportation and related lodging and subsistence from any third party other than either the system or the State of California has the responsibility to obtain prior approval pursuant to paragraph "d", supra, to ensure compliance with applicable laws and rules.

Absent compliance with political reform laws and rules, receipt of actual transportation and related lodging and subsistence or any payment or reimbursement of the same to board members regarding travel of any kind by third parties may subject the board members to disqualification from participation in making decisions related to the third party. It is the board member's responsibility to ensure that they do not engage in any action that may result in a conflict of interest. Board members are encouraged to confer with the general counsel of CalSTRS if they have questions concerning possible conflicts of interest.

History: Amended April 6, 2005; Amended April 3, 2008; Amended January 31, 2020 [to reflect gender-neutral language and to remove references to CalSTRS staff].

4. Strategic Planning Policy

CalSTRS engages in strategic planning as a routine governance practice to align the organization's evolution with a long-term future vision of success. The process runs on a multi-year cycle and reflects a cooperative effort between the board and staff. The strategic plan is adopted by the board and implemented by staff. It is used as a guide throughout all levels of CalSTRS.

a. The roles and responsibilities for strategic planning are outlined below.

The board is responsible for:

- i. Partnering with the executive staff to set a future vision.
- ii. Adopting the strategic plan.
- iii. Aligning the board and committee workplan with strategic plan.
- iv. Appropriately resourcing the strategic plan.
- v. Addressing significant risks that may impede its progress.
- vi. Providing leadership in collaboration with executive staff to shape strategy for key strategic plan priorities.
- vii. Annually evaluating progress and achievement under the strategic plan.

The Chief Executive Officer is responsible for:

- i. Establishing a process consistent with contemporary best practices to develop and update the strategic plan.
- ii. Seeking input from internal and external stakeholders when developing or updating the strategic plan.
- iii. Developing strategies that align with the board's priorities and managing staff's implementation of the plan.
- iv. Working with staff to develop an annual business plan that aligns with the strategic plan and board and committee workplan.
- v. Monitoring implementation and promptly informing the board of significant risks that may impede its progress.
- vi. Preparing annual progress reports for the board.
- vii. Communicating strategic plan updates to staff and other stakeholders.

History: Approved April 1, 2008; Amended November 3, 2011 [to clarify roles and responsibilities among the board and the Chief Executive Officer; and add strategic planning definitions to establish a common understanding of terms used throughout the process]; Amended November 2, 2022 [to remove procedural aspects].

#### 5. Hearings on the Record by the Appeals Committee

##### a. Applicability

This policy applies to hearings before the committee where it has rejected or seeks to modify the Proposed Decision rendered by an Administrative Law Judge (ALJ) and has decided to hear the matter itself on the written record and has further decided to take additional evidence.

##### b. Scope of Review

In many instances the committee limits its review to the administrative record of the hearing before the ALJ. However, in those instances where the committee has decided to consider the taking of additional evidence, the committee will confine this evidence to newly discovered documentary evidence which could not, with reasonable diligence, have been discovered and produced at the hearing.

##### c. Evidence

If the committee has made the decision to take additional evidence, the parties shall exchange such evidence and lodge a copy with the Secretary of the Board no later than 10 business days prior to the date of the meeting of the committee at which the matter will be considered. Such evidence shall be accompanied by a complete, clear, and legible copy of any such documentary evidence and a statement which shows:

- i. Good cause exists as to why the evidence could not, with reasonable diligence, have been discovered and produced at the original administrative hearing;
- ii. The evidence to be introduced is relevant to the resolution of some material issue in the administrative appeal; and
- iii. The evidence is admissible and relevant to the matters at issue.

The committee will determine at the time of its meeting, whether the new evidence will be considered.

d. Procedure for Hearings before the Committee

- i. In accordance with the Bagley Keene Open Meeting Act, all administrative appeal hearings on the record will be held in open session.
- ii. Respondents, having the burden of proof, will present their argument first. Each named respondent, if more than one is involved in an appeal, will be allowed 15 minutes to present their argument. The staff counsel representing CalSTRS will then have 15 minutes to present the organization's position.
- iii. Each side shall, thereafter, have 10 minutes for rebuttal, which shall be strictly confined to rebutting the opposition's previously asserted arguments.
- iv. Thereafter, the committee may move into closed/executive session for deliberation. The committee chair will announce the decision upon returning to open session.
- v. A final administrative decision/order will be prepared and served by certified mail on respondent(s).

History: Adopted February 4, 2009; Amended January 31, 2020 [to reflect gender-neutral language].

6. Board Compensation and Reimbursement of Employers

The law recognizes that board members who are members of the Defined Benefit Program and participants of the Cash Balance Benefit Program must have "sufficient time away from regular duties, without loss of compensation or other benefits to which the member would be entitled by reason of employment, to attend meetings of the board or any of its committees or subcommittees of which the person is a member, or to serve as a member of a panel of the system, and to attend to the duties expected to be performed by the person." (Ed. Code, § 22224.) Employers of these members must be reimbursed from the retirement fund for the cost incurred by employing a replacement. The board has approved the following alternative measures for the reimbursement of school and community college districts that employ educator board members:

- Up to 100 percent of the employment contract for educator board members.

The board shall annually approve the reimbursement percentage.

History: Amended June 1, 2005; Amended April 2, 2009; Amended July 11, 2011; Amended July 13, 2017; Amended February 8, 2018; Amended May 7, 2020 [to change “80 percent” to “100 percent”].

## **F. Meetings**

### **1. Notice of Meetings**

The board shall comply with the provisions of the Bagley-Keene Open Meeting Act (Gov. Code, § 11120 et. seq, hereinafter “Bagley-Keene Act”). Any gathering of a quorum of this board or a committee thereof where business is to be transacted or discussed shall be noticed pursuant to the provisions of the Bagley-Keene Act. This requirement does not apply to informal gatherings such as conferences and social activities provided that no official business is discussed. The regular board and committee meeting schedule is prepared by staff and approved by the board on a calendar year basis. Regular meetings of the board or its committees require 10 days notice under the Bagley-Keene Act. Other, shorter notice requirements may be applicable in special situations under the Act.

History: Amended June 9, 2005; Amended April 3, 2008.

### **2. Administration of Meetings**

- a. In the absence of specific board policy, the procedural conduct of board and committee meetings is committed to the sound discretion of the chair using Robert’s Rules of Order as a procedural reference.
- b. The concurrence of the majority of the members present shall be necessary for the board or one of its committees to take an action.
- c. The quorum of the board or one of its committees shall consist of the majority of its members. In determining whether a quorum is present, vacant positions on the committee or board shall not be considered. A board or committee member is “present” for purposes of calculating the necessary number of votes for an action when that member is physically present in the meeting room or on the phone if participating via teleconference.
- d. Meetings may be conducted by teleconference in accordance with the provisions of the Bagley-Keene Act. Remote participation, as may be allowed in accordance with the Bagley-Keene Act, shall be up to the discretion of the board chair. As mandated by the Act, all votes during a teleconferenced meeting shall be by roll call.
- e. The board or a committee chair may make a motion for an action to be taken by the committee, although the preferred practice is for the chair to first

entertain a motion from another member before proceeding to make a motion.

- f. In the absence of the board or a committee chair, the vice-chair shall assume all responsibilities and authority of the chair.
- g. If, during the course of a meeting, it comes to the attention of the board or a committee chair that a member is apparently temporarily absent from the meeting, the chair may in their own discretion and without benefit of a motion cause the meeting to be recessed until the member returns or such other time that the chair is satisfied that the meeting may continue.

History: Amended April 6, 2005; Amended November 3, 2006; Amended April 3, 2008; Amended January 31, 2020 [to reflect gender-neutral language and to identify the board chair and committee chair in subsections (f) and (g)]. Amended September 26, 2024 [to address remote participation for board members].

### 3. Closed Session Policy

The board shall limit the business it conducts in closed session to those matters specifically authorized by the Bagley-Keene Act. Pursuant to the Act, matters properly considered in closed session include the following:

- a. The appointment, employment, evaluation of performance, or dismissal of a public employee.
- b. Matters pertaining to the recruitment, appointment, employment, or removal of the chief executive officer or pertaining to the recruitment or removal of the chief investment officer.
- c. To deliberate on proposed decisions relating to benefit appeals.
- d. To confer with, or receive advice from, legal counsel regarding pending litigation, when discussion in open session concerning those matters would prejudice the position of the board in the litigation.
- e. To consider investment decisions.

With regard to investment decisions, the board shall consider most investment matters in open session unless such consideration would jeopardize execution of the investment or cause harm to the economic value of the investment. Investment decisions which are made in the closed session shall be made by roll call. The roll call vote shall be entered into the closed session minutes of the meeting. The board shall endeavor to release the roll call vote to the public once the transaction is closed, or sooner if it is determined the investment will not be harmed by such release.

Closed sessions of the board and its committees shall be limited to board members and only those other persons who are required by the board.

History: Amended April 6, 2005; Amended April 3, 2008.

#### 4. Agendas

- a. All agenda items shall be identified initially as either action items or informational items. Items designated for information are appropriate for action if the board or committee wishes to take action. A notation to that effect shall be made on the agenda. The board chair or committee chair is responsible for time management of the applicable body.
- b. Both information items and action items can be designated as consent items. All consent items will appear together on the board or committee agenda and may be adopted together following a motion to approve the consent agenda that is seconded and then passed by majority vote. Any member of the board or committee may ask that a matter be removed from the consent agenda and that request shall be effective without further action. If a matter is removed from the consent agenda, it shall be discussed at a point in the meeting deemed appropriate by the board/committee chair. There shall be no discussion or presentations made concerning items that remain on the consent agenda.
- c. All items on board and committee agendas shall be supported by concise, easily accessible information.
- d. All board members shall receive in advance of any meeting copies of all committee agendas and supporting information.
- e. Following each committee meeting, the committee chair, in consultation with staff, will prepare a brief summary of committee actions to be presented to board members in a report to be given at the open or closed session of the board meeting as appropriate.
- f. At each meeting of the board or one of its committees, a draft agenda for the next meeting of the board or committee will be submitted for discussion. Any requested changes shall be made to the committee chair, who shall be responsible for the final agenda.

History: Amended June 9, 2006; Amended April 3, 2008.

#### 5. Minutes

The board or committee chair of a meeting shall have an opportunity to review the minutes prior to distribution to other board members and preferably within three weeks following the meeting. The minutes will reflect the deliberative discussions of the board and its committees, the decisions reached, and the action taken.

History: Amended June 9, 2006.



## G. Risk Management Policy

CalSTRS considers risk management an essential component of strategic, operational, financial, and reputational management. CalSTRS faces a range of risks that can both positively (opportunities) and negatively (threats) impact the achievement of business objectives. The focus of CalSTRS risk management is the identification, assessment, and response to risks and the timely communication of the results of these processes. CalSTRS embeds risk management in all business practices to keep it relevant, effective, and efficient. In keeping with this approach, the board shall have the primary responsibility for CalSTRS enterprise-wide risk oversight, while board committees are chartered with oversight of specific areas of risks. To ensure CalSTRS is prepared for low-probability risks and long-term sustainability, the board shall establish CalSTRS:

- Risk oversight framework and reporting metrics.
- Commitment to periodic review and verification of this risk management policy.
- Risk appetite or aversion and rationale for managing risk.
- Accountabilities and responsibilities for managing risk.
- Approach to conflicting interests.

The board is responsible for:

1. Ensuring creation of a comprehensive approach and framework to anticipate, identify, analyze, prioritize, and manage key risks to the system's business objectives.
2. Providing the policy for an effective system of enterprise-wide risk management.
3. Establishing the overall enterprise risk appetite.
4. Approving management's strategy relating to key risks, including, but not limited to, strategic, operational, financial, compliance, reputational and investments.
5. Receiving reports on selected risk topics from time to time.
6. Ensuring risk assessments are performed periodically and completely.
7. Confirming board committees are overseeing the adoption of appropriate processes, methods, and tools for managing risks associated with business objectives in the committee's domain.
8. Communicating risk management activities and risk appetite established by the board.

The Chief Executive Officer is responsible for:

1. Creating the risk governance structure, risk assessment and risk management practices, and the guidelines, policies, and processes for risk assessment and risk management based on the board policy and framework.
2. Ensuring management establishes a strategy relating to key risks, including, but not limited to, strategic, operational, financial, compliance, reputational and investments.
3. Instilling an awareness of risk and creating a responsibility for effective risk management at all levels within CalSTRS.
4. Establishing the methodology for measuring risk management performance.
5. Periodically conducting and reporting the results of risk assessments.

History: Adopted February 6, 2014; Amended April 2, 2014 [the provisions relating to the conduct of meetings to be reorganized under headings reflecting the overall purpose of these provisions].

## **H. Succession Planning Policy**

### **1. Purpose**

Succession planning is vital for safeguarding the organization against unplanned and unexpected change; it is a type of risk management that ensures the functions of the organization's critical positions are well understood. The goal of succession planning is that every key or mission critical position within an organization has at least one person ready to successfully assume or compete for the roles and responsibilities of positions in short-term and permanent vacancy situations.

The board has adopted the practice of multi-year succession planning to mitigate significant business risks to CalSTRS due to the unforeseen or planned departure of key personnel and to ensure continuity of the organization's performance.

### **2. Responsibility**

The board shall implement this policy for the Chief Executive Officer (CEO) and Chief Investment Officer (CIO) positions. The board is responsible for the following:

- a. Establishing clear roles and responsibilities of the Board, the CEO, and CIO through a comprehensive framework and policy for effective succession planning.
- b. Determining the future needs and business objectives of the system in alignment with the strategic plan.
- c. Maintaining current CEO and CIO position descriptions.

- d. Periodically engaging the CEO and CIO in a discussion regarding their time horizons.
- e. Establishing and implementing a prudent process to fill the CEO and CIO positions and manage the accompanying transition, when necessary.
- f. Sourcing independent expertise and advice when needed through the selection of external consultants, including a pool of executive recruitment consultants.
- g. Maintaining awareness of internal and external talent readiness for the CEO and CIO positions.
- h. Receiving reports or education on selected succession planning topics from time to time.
- i. Ensuring management has established a strategy for organizational workforce and succession planning and performs related risk assessments periodically and completely.

The CEO and CIO shall be responsible for the following:

- a. Organizing and overseeing a stable, competent, and succession ready workforce.
- b. Establishing and implementing multi-year Workforce and Leadership Development and Succession Plans.
- c. Implementing appropriate succession planning strategies, practices and programs that promote staff readiness.
- d. Ensuring staffing workforce and risk assessments are conducted and reported to the board periodically.

History: Adopted January 31, 2020.

## **I. Self-Evaluation Policy**

### **Purpose**

Best practices of public retirement boards of trustees and corporate boards of directors are to set aside time on a regular basis to candidly discuss the boards' performance and make continuous improvements in board governance. The CalSTRS board will follow this practice and engage in a self-evaluation to assess how well the board is functioning in carrying out its fiduciary and statutory responsibilities and to continually refine its governance practices.

## **Responsibility**

The chair and vice-chair of the board are jointly responsible for implementing this policy. They will decide upon the method and criteria to be used to evaluate the board's performance and may seek advice and assistance from the board's governance consultant, as necessary. All trustees are responsible for taking part in the self-evaluation.

## **Method**

The method used for the board self-evaluation will be a preliminary and integral step in the board's evaluation of the CEO and CIO. Therefore, any written materials and discussions will be considered confidential pursuant to the personnel exceptions to the open meetings and public records laws.

The board will conduct its self-evaluation on an annual basis and set aside time to discuss its performance.

A formal evaluation survey will be used to evaluate performance at least every other year. The survey may include pertinent evaluation criteria related to the board, individual trustees, or a focused performance area, such as allocation of time for board and committee meetings, the board's role in policy-making and oversight, meeting conduct, board and staff communication, board and consultant communication, ethical practices, and fiduciary responsibility.

The board may supplement annual self-evaluation by gathering routine post-board meeting feedback to gauge short-term to intermediate-term performance and improvement opportunities. The annual board-self-evaluation discussion explores performance and potential improvement areas over a longer-term, strategic perspective.

In addition to seeking feedback from the board members, the chair and vice-chair may seek input from the staff, outside services providers, and others, at their option.

An independent third party such as the governance consultant will gather, analyze, and summarize the feedback without attribution, facilitate the board's discussion of the findings, and make recommendations for improvements.

## **Action Steps**

A summary of the annual board self-evaluation discussion and next steps will be produced by the governance consultant or whomever the board chair and vice-chair so designates. Any changes to policies and procedures will be discussed and made in open session at a future board meeting.

History: Adopted November 6, 2014. Amended September 26, 2024

## **J. CEO and CIO Evaluation Policy**

The board has a duty to direct and carefully monitor the CEO's and CIO's performance. The board has embraced a cyclical practice of setting direction through the adoption of established criteria and evaluating results against the established criteria.

The board provides direction to the CEO and CIO through its expectations for the ongoing business of the system as well for its long-range performance. Accordingly, the board annually approves qualitative criteria that set expectations for the CEO and CIO in the core areas of leadership, management, communication, policy matters, and staff development. The board also periodically sets strategic plan goals, objectives, performance measures and targets which are incorporated into the system's annual business plan at the beginning of each fiscal year. Any change to the goals and objectives, the prioritization of achieving them during the course of the fiscal year, or the measures or targets, shall be jointly determined by the CEO or CIO, as applicable, and the board.

All board members shall participate in an annual performance evaluation of the CEO and CIO. The evaluations shall occur in a manner directed by the board chair, but at a minimum shall include a self-assessment narrative report provided by the CEO and CIO, and a report of accomplishments against the strategic plan.

The outcomes of the board's evaluation determine a portion of the CEO and CIO incentive awards, as set forth in Section 6 of this Board Governance Manual, as well as provide consensus forward-looking direction to the CEO and CIO to facilitate closer alignment with board objectives in the coming fiscal year.

The board chair and vice-chair shall communicate outcomes of the board's annual evaluation discussion to the CEO. The Investment Committee chair and vice-chair shall communicate outcomes to the CIO.

In addition to the annual evaluation performed after the completion of the fiscal year, the board chair and vice-chair shall conduct a mid-year performance assessment of the CEO. The Investment Committee chair and vice-chair shall conduct a mid-year performance assessment of the CIO. The purpose of the mid-year assessment is to review progress toward and ensure continued alignment with the board and Investment Committee's approved performance objectives and the system's strategic plan.

History: Added January 28, 2021.

## **K. Policy Review**

The contents of the Board Governance Manual, including policies and charters, ("content") will be reviewed at least once every five years or more often as necessary. The purpose of the review is to ensure that the content is relevant, effective and aligned with best practices.

The board governance committee is responsible for overseeing the board's governance manual by developing processes to ensure content is current and that CalSTRS' actions are compliant with such content, along with reviewing its formatting and organization. Administrative oversight of the board's governance manual, including implementation of the proactive review process, resides in the Office of The General Counsel.

The review process may include a review of a policy in its entirety or factors such as technical accuracy, alignment with implementation intent, desired effect, relevancy, alignment with best practices, and other relevant factors. Review may not always result in content decisions.

The board authorizes the General Counsel to enact non-substantive changes to the board's governance manual when necessary to improve its clarity and readability. A non-substantive change is one that does not materially change the essence of the policy provision, including clerical or grammatical errors or technical corrections. The General Counsel is to report such activity to the board governance committee at its next meeting.

The type and date of any content revision shall be maintained in the revised policy or charter.

History: Adopted June 8, 2017; Amended January 31, 2020 [to change "Teachers' Retirement Board Policy" to "Teachers' Retirement Board Governance Manual" and remove the italics requirement]; Amended March 2024 [change to lengthen review cycle, clarify responsibility for administrative oversight, delegate authority to enact non-substantive changes, and to clarify communication of policy changes].

## **L. Consultant Evaluation Policy**

1. The board retains consultants in accordance with applicable law<sup>1</sup> and in the board's discretion to provide independent information and advice on strategic and policy issues. Consultants are directed by and are accountable to the board, a board committee, or, in some cases, both, as determined by the board. The board shall strive to periodically review the types of consultants it uses, and the consultant services it receives to ensure it has access to the expertise needed to fulfill its responsibilities.
2. To continually optimize the value of consultant services provided to CalSTRS, the board shall conduct routine evaluations of its consultants at a time that is

<sup>1</sup> CA Education Code, Teachers' Retirement Law § 22353(a).

appropriate, based on contract length and need. The board shall strive to conduct evaluations near the midpoint of the consultants' contract terms.

3. Annually, the board governance committee leadership shall develop a routine consultant evaluation schedule in accordance with this policy, communicate it to the board, and work with the leaderships of the board or appropriate committee to facilitate scheduling. Requests for off-cycle evaluations may be made by any board member and directed to the leadership of the board or applicable committee for consideration.
4. The leadership of the board or applicable committee sets and oversees the evaluation process. The process may include, but is not limited to, the following criteria and working methods.

Examples of Evaluation Criteria:

- Fulfillment and continued reasonableness of scope.
- Sufficiency of knowledge of their industry and CalSTRS circumstances.
- Timeliness, responsiveness, and proactiveness.
- Professionalism.
- Efficacy of verbal and written communications.
- Quality of work product, including advice tailored to CalSTRS.
- Quality of interaction with the board, its applicable committees, and staff.

Examples of Working Methods:

- Direct the board governance consultant to assist in the implementation of the process. In the case of the board governance consultant's evaluation, direct the CEO or their designee.
  - Gather preliminary evaluation feedback from all applicable board members.
  - Gather preliminary evaluation feedback from staff that interact with the consultant.
  - Request a self-assessment from the consultant.
1. The leadership of the board or applicable committee is responsible for communicating evaluation results to the consultant that reflect the voice of the board or committee, reporting to the board, and ensuring relevant information is communicated to staff.
  2. The leadership of the board or applicable committee will encourage the onboarding of new consultants to set expectations concerning the working relationship, including the evaluation process as set forth in this policy.

History: Amended January 31, 2020 [to reflect gender-neutral language]; Since this policy has been implemented for some years, the policy language was updated March

1, 2023, from process-based to principles-based to better align it with the board's general preference.

## **M. Routine Reports Policy**

This Routine Reports Policy sets forth the expectations of the Teachers' Retirement Board regarding the specific reports, both verbal and written, it is to receive from CalSTRS staff and external providers on an ongoing basis. The routine reports support the board in its actions to comply with the law, perform effective oversight, and address its fiduciary responsibilities under a range of topics including, but not limited to:

- Governance;
- Funding and Valuations;
- Investments;
- Benefits Administration and Services;
- Operations, Audit and Finance;
- Ethics and Compliance; and,
- Legal and Legislative Affairs.

The CEO is responsible for implementing and ensuring compliance with this policy and for transmitting reports mandated by the State to the parties required under law. The CEO will work continuously with staff and external consultants and advisors to improve the format and content of routine reports to ensure they meet the needs of the board, provide adequate and timely information and are understandable. The listing of routine reports will be available on the board website with updates to the report listing administered by the executive office as needed. The executive office will provide notification to the board of actual or proposed changes to the report listing. Additionally, the board may make revisions to the report listing periodically as needed.



## Section 3 Committee Charters

The board has six standing committees:

1. Appeals Committee
2. Audits and Risk Management Committee
3. Benefits and Services Committee
4. Board Governance Committee
5. Compensation Committee
6. Investment Committee

Each committee's charter is presented below in this section.

### TEACHERS' RETIREMENT BOARD APPEALS COMMITTEE CHARTER

#### INTRODUCTION

The Appeals Committee has been established in order to provide a dedicated body to hear, deliberate upon, and decide appeals of system determinations pursuant to the Administrative Procedure Act.

#### AUTHORITY

1. To hear and act finally on all appeals, proposed decisions, and determinations of whether an administrative hearing will be granted pursuant to the applicable provisions of the Education Code and California Code of Regulations. However, at the request of the board chair, any appeal may be removed from the committee prior to being heard and be brought before the board for determination.
2. To designate all or a part of an administratively adjudicated decision as a Precedential Decision pursuant to the board policy on Designating Precedential Decisions and Government Code section 11425.60.
3. To engage professional services consultants for the purpose of providing relevant training to members of the committee.

#### COMPOSITION

The committee shall consist of five members.

## **MEETINGS**

The committee shall meet on an as-needed basis to ensure the timely resolution of appeals, as determined by the committee chair, the assistant general counsel, and the Chief Benefits Officer. The committee may hold meetings on dates other than regular board/committee meeting dates to facilitate both the expeditious resolution of appeals and the efficient conduct of regularly scheduled meetings.

## **RESPONSIBILITIES**

The committee's responsibilities include the following:

1. To hear, deliberate upon, and expeditiously decide appeals of system determinations pursuant to the Administrative Procedure Act.
2. To hear, deliberate upon, and expeditiously decide to designate all or part of an administratively adjudicated decision as a Precedential Decision pursuant to the board policy on Designating Precedential Decisions and Government Code section 11425.60.
3. To work with CalSTRS staff to identify training opportunities.
4. To adhere to the Risk Management Policy established by the board.
5. To review emerging and significant risks specific to the area of responsibility of the Appeals Committee and to report those risks to the board.
6. To conduct the committee's work in a manner appropriately aligned with the CalSTRS strategic plan, including its mission and vision.

History: Approved September 6, 2006; Amended June 3, 2009; Amended April 10, 2013; Amended February 6, 2014 [to delineate Board and Committee responsibility in the oversight of risk]; Amended May 10, 2018; Amended January 31, 2020 [to update the section reference]; Amended September 2022 [to add strategic plan link.]

# **TEACHERS' RETIREMENT BOARD AUDITS AND RISK MANAGEMENT COMMITTEE CHARTER**

## **INTRODUCTION**

The Audits and Risk Management Committee has been established to assist the Teachers' Retirement Board in fulfilling its fiduciary oversight responsibilities for:

- Financial Reporting and External Independent Financial Statement Audit,
- Risk Management Framework,
- Internal Control,
- Compliance, and
- Internal Audit.

## **AUTHORITY**

The Audits and Risk Management Committee shall have authority to:

1. Appoint, provide for the compensation of, and oversee the work of the independent certified public accounting firm employed by CalSTRS to audit the financial statements.
2. Retain and oversee consultants, experts, independent counsel, and accountants to advise the committee on any of its responsibilities or assist in the conduct of an investigation.
3. Request and provide oversight of audit, compliance, and investigation activities of financial, ethical, and/or fraud matters.
4. Provide all committee actions to the board for ratification or adoption.

## **COMPOSITION**

The committee shall be composed of a minimum of three (3) members, appointed by the chair of the board.

The committee members should collectively possess sufficient knowledge of audit, finance, investments, pension administration, information technology, governance, risk, and control or retain experts possessing the necessary qualities to advise the committee.

## **MEETINGS**

The committee will meet at least three times a year, with authority to convene additional meetings as determined by the committee chair in consultation with the board chair.

## RESPONSIBILITIES

The committee shall have the following responsibilities:

Financial Reporting and External Independent Financial Statement Audit:

- Oversee the reporting and integrity of all financial information reporting.
- Ensure the independence of the external independent financial statement auditor and approve all auditing and other attestation services. Pre-approve non-audit services performed by the external independent financial statement audit firm.
- Review the external independent financial statement auditors proposed financial statement audit scope and approach and approve the results of the work performed.

Risk Management Framework:

- Review and recommend to the board changes, when necessary, to enterprise-wide risk management framework.
- Approve the Enterprise Risk Management Program Charter.
- Adhere to the Risk Management Policy established by the board.
- Review emerging, existential, and enterprise level risks that may impact strategic objectives and report those risks to the board.

Internal Control:

- Oversee the assessment of internal administrative and accounting controls by both the external independent financial statement auditor and internal auditors, including the external independent financial statement auditor's management letter for any identified internal control deficiencies and management's progress in addressing those deficiencies.
- Ensure management maintains an effective system of internal controls and provides the mechanisms for periodic assessment of the system of internal controls.

Compliance:

- Oversee the design and implementation of an Enterprise Compliance Services Program that supports business areas in identifying, evaluating, monitoring, and mitigating risks of noncompliance with applicable laws, regulations, and CalSTRS policies, and promote business ethics. The Enterprise Compliance Services Program does not oversee conflict of interest reporting or investment compliance.
- Approve the Enterprise Compliance Services Program Charter.
- Review the effectiveness of the system for monitoring compliance with applicable laws, regulations, and policies.

- Receive progress reports on Enterprise Compliance Services Program activities.
- Oversee CalSTRS' policies for the receipt and handling of allegations of suspected misconduct and receive reports on a periodic and as-needed basis regarding significant substantiated allegations.

Internal Audit:

- Participate in decisions regarding the appointment, removal, and performance of the chief auditor, including the competencies and qualifications necessary for the position.
- At least annually, ARM Committee leadership meet with the chief auditor without the presence of management.
- Discuss the independence of the internal audit function and if necessary, address the existence of actual or potential impairments.
- Review and approve the Audit Services Charter, the internal audit strategy, resource plan, and organizational structure, as needed.
- Approve the annual risk-based audit plan, any major changes to the plan, and the internal audit function's performance objectives. Review the internal audit activities and results of its services relative to the plan, including co-sourced assurance and advisory services with other external audit firms.
- Review the effectiveness and efficiency (performance) of the internal audit function through its quality assurance and improvement program. Discuss the results of assessments and approve action plans to address identified deficiencies and opportunities for improvement.
- Authorize the chief auditor to serve as the primary liaison and provide the appropriate forum for handling all matters related to audits, examinations, investigations, or inquiries of the California State Auditor and other appropriate State or Federal agencies.
- Ensure any engagements with and results from external audit firms are coordinated, managed, and reported by Audit Services.

Overall, the committee shall report to the board on all activities, findings, and recommendations of the committee and conduct work in a manner appropriately aligned with the CalSTRS strategic plan, including its mission and vision.

*History: Amended February 7, 2007; Revised April 1, 2009; Revised February 5, 2014; Amended February 6, 2014 [to delineate Board and Committee responsibility in the oversight of risk], Revised September 15, 2016; Revised May 9, 2019, Revised May 1, 2024 to add strategic plan link.*

# **TEACHERS' RETIREMENT BOARD BENEFITS AND SERVICES COMMITTEE CHARTER**

## **INTRODUCTION**

The Benefits and Services Committee has been established to develop and oversee the execution of prudent policies relating to levels of benefits and the delivery of services to CalSTRS members, retirees and beneficiaries.

## **AUTHORITY**

1. To direct staff to undertake research on issues related to the benefits and services provided to CalSTRS members and beneficiaries and, if necessary, form task forces with representation from constituents and/or affected stakeholders.
2. To engage professional services consultants as necessary to assist the committee in fulfilling its responsibilities.

## **COMPOSITION**

The committee shall be composed of a minimum of three (3) members appointed by the board chair. The composition of the committee membership shall reflect the diversity of public, ex-officio and elected members on the board.

Each committee member, within a year of appointment, will achieve reasonable proficiency in the system's benefit structure and have an understanding of employee benefit structures in general.

## **MEETINGS**

The committee will generally meet at each regularly scheduled board meeting and otherwise on an as-needed basis as determined by the committee chair in consultation with the chair of the board.

## **RESPONSIBILITIES**

The Benefits and Services Committee shall have responsibility for the following:

1. To monitor and recommend to the board all other actions with respect to benefits including levels of service and member communications.
2. To review and recommend to the board all other actions with respect to the design, financing, and administration of the system's benefits structure.
3. To maintain and increase proficiency in the benefit structure, committee members are encouraged to make annual on-site visits to the Customer Contact Center and attend informational presentations to CalSTRS members.
4. To adhere to the Risk Management Policy established by the board.

5. To review emerging and significant risks specific to the area of responsibility of the Benefits and Services Committee and to report those risks to the board.
6. To ensure benefits and services policies are appropriately aligned with the CalSTRS Strategic Plan.

History: Amended September 8, 2005; Amended April 2, 2009 [to delineate board and committee responsibility in the oversight of risk on February 6, 2014]; Amended September 6, 2019 [to update the committee's composition and add the term "constituents"]; Amended August 31, 2022 [to update the committee's composition and reference alignment with CalSTRS Strategic Plan].

# **TEACHERS' RETIREMENT BOARD BOARD GOVERNANCE COMMITTEE CHARTER**

## **INTRODUCTION**

The Board Governance Committee has been established to support the CalSTRS board in promoting the best interests of CalSTRS, its members, retirees and beneficiaries through the implementation of sound board governance policies and practices that enhance good, fair and open decision making.

## **AUTHORITY**

To engage professional services consultants and counsel as necessary to assist the board in its strategic planning and governance activities. All committee actions must be ratified or adopted by the board.

## **COMPOSITION**

The committee shall consist of at least five (5) members.

## **MEETINGS**

The committee shall meet on an as-needed basis as determined by the committee chair in consultation with the board chair.

## **RESPONSIBILITIES**

The Board Governance Committee shall have the authority and responsibility for the following:

1. To oversee the routine review of the board's governance manual and recommend changes to Section 2 (Board Governance), Section 4 (Ethical and Fiduciary Conduct), and section 6 (Compensation Policy) of the board governance manual.
2. To review board effectiveness and recommend improvements as directed by the board.
3. To oversee and facilitate educational opportunities for board members.
4. To recommend the roles and responsibilities of the various committees of the board.
5. To review and recommend to the board the Delegation of Authority to the Chief Executive Officer.
6. To provide a framework and oversight for the board consultant and evaluation process.
7. To periodically conduct an evaluation of the board consultants under their committee's purview.



8. To identify the need for and to recommend to the board positions on proposed legislation relating to board governance.
9. To adhere to the Risk Management Policy established by the board.
10. To review emerging and significant risks specific to the area of responsibility of the Board Governance Committee and to report those risks to the board.
11. To conduct the committee's work in a manner appropriately aligned with the CalSTRS strategic plan, including its mission and vision.

History: Adopted April 6, 2005; Amended April 2, 2009; Amended February 6, 2014 [to delineate Board and Committee responsibility in the oversight of risk]; Amended November 6, 2014 [responsibilities to include reviewing and making recommendations to the Board for format and organization changes to the Board Policy Manual]; Revised June 10, 2015 [Item Number 2 of the Responsibilities changing the wording from Section 700 (Administration) to read Section 700 (Compensation Policy)]; Revised February 7, 2018 [Item Number 5 regarding trustee education]; Amended January 31, 2020 [to update section references]; Amended September 2022 [to add strategic plan link]; Amended March 2024 [Incorporated minor changes to further clarify committee's role related to the BGM oversight and consultant evaluations].

# **TEACHERS' RETIREMENT BOARD COMPENSATION COMMITTEE CHARTER**

## **INTRODUCTION**

The Compensation Committee has been established to provide oversight to the system's compensation policies and plan that support the successful recruitment, development, and retention of talent to meet the business objectives of CalSTRS.

## **AUTHORITY**

To provide oversight to the system's compensation strategy and operation of the plan.

To develop recommendations for the board related to the system's compensation plan and policies necessary for effectively administering the compensation plan.

To engage professional services consultants and counsel as necessary to assist the committee in fulfilling its responsibilities. The committee has the sole authority to select, retain and terminate a compensation consultant and approve the consultant's fees.

## **COMPOSITION**

The committee shall be composed of a minimum of three (3) members appointed by the chairperson of the board.

## **MEETINGS**

The committee will meet on an as-needed basis as determined by the committee chair in consultation with the chair of the board. The committee may hold meetings on dates other than regular board/committee meeting dates to facilitate both the expeditious resolution of compensations issues and the efficient conduct of regularly scheduled meetings.

## **RESPONSIBILITIES**

The Compensation Committee shall have responsibility for the following:

1. Conduct the committee's work in a manner appropriately aligned with the CalSTRS strategic plan, including its mission and vision and ensure that the compensation program is properly designed to support organizational objectives.
2. Develop for board adoption written policies that document the compensation plan and its administration.

3. Determine the labor market benchmarks (select appropriate peer groups) that will be utilized to compare system personnel salaries, with the assistance of outside professional services.
4. Conduct periodic examinations of the compensation structure to assess its competitiveness and make recommendations for any adjustments, with the assistance of outside professional services.
5. Conduct periodic reviews of the board's annual evaluation processes for the chief executive officer and chief investment officer to determine if any modifications are necessary.
6. Review relevant human resource policies that might hinder the system's ability to attract talented employees and make recommendations for change.
7. Determine the components (base and incentive) of the total compensation and their respective measures.
8. Periodically review labor market data on the system's employees to assess the impact of the compensation plan on the recruitment and retention of staff.
9. Adhere to the Risk Management Policy established by the board.
10. Review emerging and significant risks specific to the area of responsibility of the Compensation Committee and to report those risks to the board.
11. Determine appropriate level of authority delegated to the CEO with respect to compensation program administration.
12. Report to the board on all activities, findings, and recommendations of the committee.

History: Approved November 3, 2005; Amended April 1, 2009; Amended February 6, 2014 [to delineate Board and Committee responsibility in the oversight of risk], Amended May 9, 2019. Amended September 2022 [to add strategic plan link]. Amended May 2, 2024.

# **TEACHERS' RETIREMENT BOARD INVESTMENT COMMITTEE CHARTER**

## **INTRODUCTION**

The Investment Committee has been established by the Teachers' Retirement Board to oversee all matters relating to the investment of the system's assets and investment management. The committee is charged to oversee the system's assets for the exclusive purpose of providing benefits to the participants and their beneficiaries within the system and to maximize the financial stability of the system in an efficient and cost-effective manner. The committee members will carry out their duties with the care, skill, prudence, and diligence of a prudent person acting in a similar institutional investment board member capacity and strive to follow sound policies and procedures that enhance informed, fair, and open decision making.

The committee's core objective is to diversify the investments of the State Teachers' Retirement Plan and the fund options of the Pension2 Defined Contribution assets, Pension2, so as to minimize the risk of loss and to maximize the rate of return, in accordance with the board's overall objective of promoting the best interests for CalSTRS, its members, retirees, and beneficiaries.

## **AUTHORITY**

To consider and act finally on all matters relating to the CalSTRS investment portfolios; to select and oversee the work of the chief investment officer; and to engage investment advisors, consultants, managers, and counsel as necessary to assist the committee in carrying out its responsibilities. The committee will not consider any proposed investment that has not gone through the system's due diligence process and been reviewed by the system's professional staff.

## **COMPOSITION**

The committee shall be composed of all board members.

## **MEETINGS**

The committee will generally meet at each regularly scheduled board meeting and otherwise on an as-needed basis as determined by the committee chair in consultation with the chair of the board.

## **RESPONSIBILITIES**

The Investment Committee shall have responsibility for the following:

1. Determining the system's overall investment objectives for the various plans, risk tolerance and performance standards in accordance with the California Constitution and the Teachers' Retirement Law.

2. Determining the asset allocation of the State Teachers' Retirement Plan, including consideration of asset classes and sub-classes not currently utilized.
3. Determining the overall State Teachers' Retirement Plan Investment Policy and Management Plan as well as asset class, setting risk budgets, and program investment policies.
4. Determining the menu of fund options for the Pension2 plans.
5. Monitoring the performance of the State Teachers' Retirement Plan investment portfolio as a whole as well as the performance of each asset class, including the performance of internal and external investment managers, and reviewing periodic reports from investment staff as well as external consultants, advisors, and investment managers.
6. Determining appropriate levels of staff delegation with respect to investment transactions in the various asset classes of the State Teachers' Retirement Plan and Pension2 plans.
7. Determining the relative amount of internal and external management for the State Teachers' Retirement Plan.
8. Monitoring the direct and indirect costs of all the investment programs and sub-sectors.
9. Determining and ensuring compliance with the appropriate reporting standards and time horizons.
10. Ensuring that all CalSTRS investments are made in conformance with applicable investment policies and investment resolutions.
11. Where warranted, monitoring to ensure compliance with CalSTRS investment policies for mitigating environmental, social and governance risks, ESG, and the system's corporate governance policies, in an effort to protect CalSTRS' assets through the pursuit of good governance and operational accountability.
12. Determining the procedures for the selection of the chief investment officer.
13. To review emerging and significant risks specific to the area of responsibility of the Investment committee and to report those risks to the board.
14. To conduct the committee's work in a manner appropriately aligned with the CalSTRS strategic plan, including its mission and vision.

History: Amended July 14, 2005; Amended April 2, 2009 [to reflect reference to ESG Policy]; Amended June 3, 2010 [to reflect the full Corp Gov Committee and Legislation Committee]; Amended June 6, 2012 [to reincorporate Corporate Governance mandate]; Amended February 6, 2014 [to align the charter to the board's Risk Management Policy]; Amended April 3-4, 2014 [to reflect addition of the Pension2

program]. Amended July 8, 2021 [to adjust delegation and add risk budgets]' Amended September 2022 [to add strategic plan link].

## Section 4

### Ethical and Fiduciary Conduct

#### A. 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 they provide 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.

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.

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:

- i. Whether the claim is indemnifiable, based on the facts as alleged in the claim; and
- ii. 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:

- i. Whether CalSTRS can and should continue to advance legal defense costs;
- ii. Whether the board member(s) should be required to post collateral if CalSTRS decides to advance legal defense costs; and,
- iii. 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.

History: Adopted April 11, 2013; Amended June 11, 2015; Amended January 31, 2020 [to reflect gender-neutral language].

## **B. Fiduciary Counsel**

In recognition of the need for the specialized advice of a fiduciary counsel to assist the board in discharging its fiduciary responsibilities, the board will retain independent fiduciary counsel. The fiduciary counsel will represent and advise the board regarding the nature and scope of its fiduciary duty, and the discharge of its system responsibilities.

History: Amended May 5, 1999; Amended September 7, 2006; Amended June 8, 2017.

## **C. 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.

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

1. Using the prestige or influence of the board 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 "D", 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 would be required or expected to render in the regular course or hours of their duties.
5. Performance of an act in other than their capacity as a board member, Constitutional Officer/Director of Finance, their staff or delegates, 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 them in their official duties or was intended as a reward for any official action on their 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 Office of Legal Ethics and Accountability, 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 Office of Legal Ethics and Accountability 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, as private citizens, from expressing their personal views.

Nothing in this statement shall exempt any board member 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.

History: Amended May 5, 1999; Amended September 7, 2006; Amended April 12, 2012; Amended January 31, 2020 [to reflect gender-neutral language, remove references to CalSTRS staff, and to update section references].

## D. Policy Prohibiting Insider Trading, Front Running, and Disclosure or Misuse of Confidential Investment Information

### 1. General Background and Application of Policy

The board is committed to the highest ethical standards and strictest adherence to federal, state and foreign securities laws and regulations regarding “insider trading” and disclosure or misuse of the California State Teachers’ Retirement system’s (CalSTRS) confidential investment information, including “front running.” To ensure that the board operates in a manner commensurate with its goal of promoting integrity in the investment, administration and management of securities, the board has adopted this board Policy Prohibiting Insider Trading, Front Running, and Disclosure or Misuse of Confidential Investment Information. The prohibitions on insider trading, front running, and disclosure or misuse of confidential investment information continue to apply even after completion of board service until such time, if ever, that the information becomes generally available to the public other than through disclosure by or through the board member.

#### a. Definition of Terms

##### i. Insider Trading

“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 can be considered an “insider” as to that information. Insider trading violations may include “tipping” (i.e., disclosing) such information to the person “tipped” (the “tippee”), the trading of securities by the tippee or by people tipped by the tippee, and securities trading by those who have misappropriated such information. The law provides civil and criminal penalties for insider trading violations. The prohibition against insider trading may reach anyone, not just a corporate insider, who has access to material nonpublic information. Liability may attach to trading on material nonpublic information learned in the course of serving on the CalSTRS board or from a family member, friend, employer, or other person.

##### ii. Material Nonpublic Information

Company 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 the 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 (such as the success or failure of a clinical trial by a drug company), and the filing by CalSTRS or other parties of securities litigation prior to public dissemination of information regarding the lawsuit.

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 Securities Exchange Commission or company press releases to a national media outlet or other widely available new sources. Disclosure of information at an industry conference or at a meeting between the company and institutional investors may not be considered “public” for purposes of insider trading. Whether information is material and nonpublic is not always obvious and is usually fact specific. Therefore, no board member should make this determination with respect to company information gained through service on the CalSTRS board. As set out in Section 3(b) below, the board member should seek a determination from CalSTRS general counsel and/or delegates on whether information is “material” and/or “nonpublic.”

iii. Front Running

Front running occurs when a person enters into a trade of securities with knowledge of pending orders from other investors that may influence the price of the underlying securities. It could occur, for example, when a board member trades for their own account or a related account (or tips a family member or other person else to trade) with the knowledge that a significant trade is pending on behalf of CalSTRS or of an account managed by one of CalSTRS external investment advisers. Furthermore, front running of CalSTRS trading information may constitute a misappropriation of CalSTRS proprietary information for private or personal gain. Like insider trading, “front running” may subject board members or CalSTRS staff to criminal and/or civil proceedings.

Investments contemplated or entered into by CalSTRS or its external advisers may generate Confidential Investment Information, including, for example, the sharing of market information under nondisclosure agreements; so-called “lock-up agreements” or “standstill agreements” restricting the trading of a public security under certain circumstances; or other discussions of trading strategies with a third-party investment

adviser whose contracts with CalSTRS or its course of conduct with CalSTRS preclude disclosure and/or use of such information.

iv. Confidential Investment Information

“Confidential Investment Information” is all nonpublic investment information relating to CalSTRS, including its trading strategies or plans to buy or sell its securities. By way of example only, “Confidential Investment Information” includes investment information provided (a) by an external investment adviser to CalSTRS under an express or implied duty to hold it in confidence, or (b) in connection with a contract or agreement that obliges CalSTRS not to trade on or disclose the information.

2. Policies Precluding Insider Trading, Front Running, and Misuse of Confidential Investment Information.

a. Policy Precluding Insider Trading

It is the policy of CalSTRS that insider trading by board members or the communication (tipping) of material nonpublic information by board members is prohibited.

Insider trading is buying or selling securities on the basis of material nonpublic information relating to those securities or communicating (tipping) material nonpublic information to another person.

Board members 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 to maintain the confidentiality of information and to not disclose material nonpublic information to anyone, whether inside or outside CalSTRS. Board members who come into possession of material nonpublic information must not intentionally or inadvertently communicate it (or “tip” it) to any person, including family members and friends, or other CalSTRS personnel.

Board members in possession of material nonpublic information may not purchase or sell securities of the relevant company or other publicly traded securities to which the information pertains. Material nonpublic information may not be used by board members for personal gain or to share with family members, friends, or other persons or entities. Recommending purchases or sales of securities to which the material nonpublic information relates, even without disclosing the basis for the recommendation, is prohibited. Special care should be taken so that material nonpublic information is not disclosed inadvertently. Examples of inadvertent disclosure include, but are not limited to, discussing information in the cafeteria, elevators, or non-private locations, leaving confidential documents exposed on one’s desk or

in a public area, or keeping information on a computer or mobile device without adequate password protection.

Any disclosure of material nonpublic information by a board member to a family member, and any insider trading by a family member of a board member, will be imputed to the board member.

Without limiting the foregoing, no board member shall disclose to anyone at CalSTRS any actual or possible material nonpublic information obtained by a board member outside of their board service to CalSTRS, whether from their employer, a family member, a friend or another third party, or as a fiduciary or under a duty of trust or confidentiality (Third Party Information). The board members shall not discuss Third Party Information with other CalSTRS personnel under any circumstances, and in all cases board members shall comply strictly, with any duties they may owe to the issuer or the source of Third-Party Information as provided under law, contract or otherwise. If Third-Party Information is in possession of a board member, the board member shall abstain from any activity on behalf of CalSTRS with respect to any security to which such Third-Party Information may relate, and shall not disclose the basis for or any facts pertaining to such abstention.

i. Tender Offers

The policy prohibiting insider trading also applies to board members in possession of material nonpublic information relating to a tender offer acquired directly or indirectly from the bidder or the company that is the target of the tender offer (a “target company”). No board member may trade in target company securities.

ii. Initial Public Offerings

Board members in possession of material nonpublic information may not purchase, directly or indirectly, any security in the initial public offering (IPO) of a security. New issue securities may only be purchased in the secondary trading market once a market has been established. Board members also may not encourage, facilitate, or arrange such a purchase by or on behalf of any other person. This policy does not apply to securities of a company held by a board member prior to the company’s IPO, which they may continue to hold (or sell) after the IPO has concluded.

iii. Reporting to CalSTRS General Counsel

Notwithstanding that this policy otherwise prohibits disclosure, board members may be required to disclose actual or potential material nonpublic information to the general counsel and/or delegates so that a determination can be made as to whether the information is material

nonpublic information and, if so, to initiate procedures to shield CalSTRS from potential violations of law. See “Duty to Disclose to General Counsel as Exception to ‘Policy Prohibiting Insider Trading’” under Section 3(b) below.

b. Policy Precluding Front Running

It is the policy of CalSTRS that front running is prohibited. Board members 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. Likewise, board members 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, would otherwise constitute front running or violations of state or federal laws. This policy also applies to any personal securities transaction by a board member with knowledge of a pending transaction in a security of the same issuer by a third-party investment adviser to CalSTRS or any other party to whom CalSTRS may owe a duty of trust or confidentiality or in connection with a contract or other agreement with confidentiality undertakings. “Personal securities transactions” by a CalSTRS board member include transactions by or on behalf of a family member or otherwise of direct or indirect benefit or pecuniary value to the board member.

c. Policy Precluding Personal Use or Disclosure of Confidential Investment Information

It is the policy of CalSTRS that all information gained by the board from or through their association with CalSTRS is included within Confidential Investment Information, is the sole property of CalSTRS and may not be used for personal benefit.

Accordingly, the board shall use Confidential Investment Information only for its intended and legitimate purposes on behalf of CalSTRS exclusively, and shall not disclose any such Information to either (i) any third party (including any family member, employer or friend) except to the extent required to discharge its duties to CalSTRS and procedures to be adopted by the general counsel and/or delegates in accordance with Section 3(c) or (ii) any CalSTRS personnel except for any member of CalSTRS Investment Branch who needs the information in order to perform their job functions. The board shall not use or disclose Confidential Investment Information for personal investment or for any other purpose not described in the immediately preceding sentence, including any transaction by or on behalf of a family member or otherwise of direct or indirect benefit or pecuniary value to a board member.

### 3. Compliance Reporting and Enforcement

#### a. General

The board is committed to the highest ethical standards and strictest adherence to the laws and regulations regarding insider trading, front running, and use of confidential information. This policy is to be delivered to all new board members upon commencement of board service with CalSTRS. Each board member must read and comply with the policy. The certification must be completed by board members 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 and/or delegates. The general counsel and/or delegates may implement guidelines, monitoring tools, and procedures to further support this policy.

Statements of Economic Interests (Form 700) filed by board members may be reviewed by CalSTRS to ensure compliance with this policy. Board members should report any suspected violation of this policy to the CalSTRS general counsel and/or delegates. 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, the general counsel shall take appropriate action.

#### b. Duty to Disclose to General Counsel as Exception to “Policy Precluding Insider Trading”

The duty of confidentiality and nonuse under the “Policy Precluding Insider Trading” (Section 2(a), above) shall not apply to the duty of board members under this policy to disclose actual or possible material nonpublic information to the general counsel and/or delegates in accordance with the following terms.

In the event that a board member believes they have possession of actual or possible material nonpublic information obtained through or in connection with CalSTRS, the person shall promptly disclose the information (including related facts and circumstances) solely to the general counsel and/or delegates pursuant to internal compliance procedures established by the general counsel from time to time. The general counsel and/or delegates will review the information, discuss it (as deemed appropriate) with members of senior management under terms of confidentiality to be set forth in such procedures and, as appropriate, initiate restrictions on trading of the relevant security/ies to which the material nonpublic information relates, consistent with internal procedures.

If board members are uncertain whether information is material nonpublic information relating to CalSTRS, they shall consult with the general counsel and/or delegates before taking any other action based upon that information.



The duty of disclosure under this policy applies only to actual or possible material nonpublic information obtained from CalSTRS or from activities on behalf of CalSTRS. The duty does not apply, on the other hand, to Third Party Information. (See Section 2(a), above.)

c. Confidential Investment Information

No board member shall disclose any Confidential Investment Information except (i) to any member of CalSTRS Investment Branch who needs the information in order to perform their job functions or (ii) as permitted by the general counsel or delegates.

d. Violations

Violation of this policy will be reported to the general counsel for further action. Violation of this policy may also result in civil or criminal liability under federal and state securities laws.

4. Training

In addition to the requirements set forth in the “Compliance Reporting and Enforcement” section of this policy, training on the Policy Prohibiting Insider Trading, Front Running, and Misuse of Confidential Investment Information shall be available to all board members annually and as part of the Board Member Onboarding. In no event shall the failure to provide training or the failure to attend training excuse noncompliance with this policy.

History: Amended May 5, 1999; Amended September 7, 2006; Amended November 6, 2008; Amended February 10, 2011; Amended June 6, 2013; Amended January 31, 2020 [to reflect gender-neutral language and remove references to CalSTRS staff]; Amended January 28, 2021 [to update and make policy current with SEC guidance].

## E. Conflicts of Interest

1. All CalSTRS board members are subject to the disclosure and reporting requirements of the system's Conflict of Interest (COI) Code and Fair Political Practices Commission (FPPC) regulations. Any board member that receives a gift, honoraria, or travel expenses (paid or reimbursed) or the actual transportation and related lodging and subsistence from any third party other than either the system or the State of California has the responsibility to determine whether the receipt of the same must be disclosed and reported under the system's COI Code and FPPC regulations. This section applies to CalSTRS travel, as well as other travel expenses covered by the system's COI Code and FPPC regulations. Board members are referred to the Travel Expense Policy (section 2(D)(2)) which governs reimbursement for travel expenses and provides that where third parties offer to pay CalSTRS travel expenses for board members, specified prior approval is required.
2. Receipt of any gift, honoraria, or payment of actual transportation and related lodging and subsistence or any payment or reimbursement of the same to board members regarding travel of any kind by third parties may subject the recipient board members to disqualification from participation in making board policy related to the third party. It is the board member's responsibility to ensure that they do not engage in any action that causes a conflict of interest.
3. Under Government Code section 87105 and Section 18702.5 of the regulations of the FPPC, a board member who has a financial interest in a decision of CalSTRS must, following the announcement of the agenda item to be discussed or voted upon but before either the discussion or vote commences, do the following:
  - Publicly identify the financial interest that gives rise to the conflict.
  - Recuse themselves from discussing, voting, or attempting to use their influence to affect the outcome of a decision of the public body.
  - Leave the room until after the discussion and vote on the item in question.
  - A board member that has a financial interest in a matter placed on the consent agenda must observe the above requirements with the exception that they are not required to leave the room during the consent agenda.
  - In the event that the discussion or vote is to occur in closed session, the public identification may be made orally during the open session before the body goes into closed session and may be limited to a declaration that their recusal is because of a conflict of interest under Government Code section 87100.

Reference: Cal. Code Regs., tit. 5, § 22000.

History: Amended May 5, 1999; Amended September 7, 2006; Amended April 2, 2014; Amended April 8, 2016 [to reflect technical changes to the policy section cross-reference]; Amended January 31, 2020 [to reflect gender-neutral language, remove references to CalSTRS staff, and update section references].

## **F. Political Activities**

Essentially, Government Code sections 3201-3209 provide:

1. Except as otherwise provided below, no restriction shall be placed on the political activities of a state officer.
2. No one who holds, or who is seeking election or appointment to, any office in a state or local agency shall, directly or indirectly, use, promise, threaten or attempt to use, any office, authority, or influence, whether then possessed or merely anticipated, to confer upon or secure for any individual person, or to aid or obstruct any individual person in securing, or to prevent any individual person from securing, any position, nomination, confirmation, promotion, or change in compensation or position, within the state or local agency, upon consideration or condition that the vote or political influence or action of such person or another shall be given or used in behalf of, or withheld from, any candidate, officer, or party, or upon any other corrupt condition or consideration. This prohibition shall apply to urging or discouraging the individual employee's action.
3. No one who holds, or who is seeking election or appointment to, any office shall, directly or indirectly, offer or arrange for any increase in compensation or salary for an employee of a state or local agency in exchange for, or a promise of, a contribution or loan to any committee controlled directly or indirectly by the person who holds, or who is seeking election or appointment to, an office.
4. A state officer may solicit or receive political contribution to promote or defeat a ballot measure which affects rates of payment, hours of work, retirement, civil service, or other working conditions of state employees. However, such activity is prohibited during working hours.

History: Amended May 5, 1999; Amended January 31, 2020 [to remove references to CalSTRS staff].

## **G. Third-Party Economic Interest Disclosure Policy**

It is the policy of CalSTRS to conduct business with vendors, business entities and investment service providers, managers, partners and/or consultants in a manner which avoids potential or actual financial conflicts of interest. Consistent with this policy, certain disclosures involving campaign contributions, charitable contributions and gifts are required as set forth below.

## 1. Definitions

For purposes of this Third-Party Economic Disclosure Policy only, the following definitions apply:

- a. Entity: The terms “Entity” and “Entities” mean any company, vendor or business entity doing business directly with CalSTRS. The term “business entity” means any organization or enterprise operated for profit, including but not limited to a proprietorship, partnership, firm, business trust, joint venture, syndicate, corporation or association as specified in Government Code Section 82005.
- b. Key Personnel: The term “Key Personnel” means any individual associated with an Entity that:
  - i. Negotiates a contract between an Entity and CalSTRS; or
  - ii. Is a high-level officer or employee of an Entity who exercises primary responsibility for the work performed pursuant to a contract between an Entity and CalSTRS; or
  - iii. Directs or supervises Entity staff regarding work performed pursuant to a contract between an Entity and CalSTRS; or
  - iv. Provides services to CalSTRS as a “consultant” pursuant to Government Code sections 82019, 82048 and California Code of Regulations, Title 2, Section 18700.3 by making or participating in the making of decisions which may foreseeably have a material effect on any financial interests. This includes all contractors who manage public investments, within the meaning of Government Code Section 87200 and other consultants as designated within the State Teachers’ Retirement System Conflict of Interest Code (California Code of Regulations, Title 5 Section 22000).
- c. Gift: The terms “Gift and “Gifts” mean anything of value, whether tangible or intangible, real or personal property, goods or services, that provides a personal benefit to an individual when the individual does not provide full consideration for the value of the benefit received.

## 2. Campaign Contributions

All Entities and Key Personnel 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.

## 3. Charitable Contributions

All Entities and Key Personnel shall disclose any charitable contributions 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.

#### 4. Gifts

- a. No Entity or Key Personnel shall provide gifts to board members, CalSTRS officers or employees, exceeding the current monetary limit established by the Fair Political Practices Commission individually or in the aggregate in any calendar year. The dollar amount of this limit is 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.
- b. All Entities and Key Personnel shall disclose gifts aggregating more than \$50 in value made to board members, or to CalSTRS officers or employees.

#### 5. Recusal

- a. Any board member who receives campaign contributions, charitable contributions, or gifts that individually or in the aggregate exceed the amount of \$250 in a calendar year from an Entity or Key Personnel shall recuse themselves from any involvement in a matter involving the maker of the contributions or gifts for a period of 12 months following the date of the most recent contribution or gift.
- b. Any board member who returns, donates, or reimburses the donor for gifts subject to these restrictions within 30 calendar days of receipt of the gift shall not be subject to the recusal requirement. Gifts may be returned, donated or reimbursed as specified in California Code of Regulations, Title 2, Section 18933.

#### 6. Disclosure Filing Timeline

The disclosure of campaign contributions, charitable contributions, and gifts shall be made on the Third-Party Economic Interest Disclosure (Form 600-H) as follows:

- a. Upon submission of an initial application or proposal to do business with CalSTRS (for the preceding 12-month period).
- b. At the time a contract is entered into between the Entity and CalSTRS (to cover the interim period following the submission of a Form 600-H pursuant to subsection 6(A) above).
- c. Annually, on or before April 1 for the previous calendar year. You are not required to file an annual Form 600-H under this subsection if a Form 600-H has been filed with CalSTRS in accordance with subsection (6)(B) between October 1 and December 31 of the preceding year.

- d. Within five (5) calendar days of a change in Key Personnel, the new Key Personnel shall file a Form 600-H.

## 7. Sanctions for Violation of Policy

The general counsel is responsible for causing an investigation of any reported violation of this policy. Any violation may lead to one or more of the following: (1) immediate termination of any agreement/contract, (2) CalSTRS withholding future payments on any existing agreement/contract, and/or (3) disqualification from future business with CalSTRS for a period of two years following a determination that a violation has occurred. These sanctions will be at CalSTRS' sole discretion and upon written notice from CalSTRS to the entity. The general counsel shall provide a report of violations to the Audits and Risk Management (ARM) Committee.

## 8. Application of Policy

Nothing in this policy supersedes any provision of state law. Those Entities engaged in business with CalSTRS 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: Ed. Code, § 22363; Gov. Code, §§ 82005, 82019, 82048; Cal. Code Regs., tit. 2, § 18700.3 and Cal. Code Regs., tit. 5, § 22000.

History: Amended December 7, 2006; Amended June 6, 2007; Amended February 7, 2008; Amended April 8, 2016; Amended January 31, 2019; Amended January 31, 2020 [to reflect gender-neutral language and change the California Code of Regulations citations in subsection 5(b) from section 18943 to section 18933]; Amended November 5, 2021 [updated Sanctions for Violation of Policy section].

## H. Disclosure of Communications

1. Disclosure of Communications Regarding Investment Transactions that Require Investment Committee Approval
  - a. During the evaluation of any prospective investment transaction, no party who is financially interested in the transaction nor any officer or employee

of that party, may knowingly communicate with any board member concerning any matter relating to the transaction or its evaluation, unless the financially interested party discloses the content of the communication in a writing addressed and submitted to the general counsel and the board prior to the board's action on the prospective transaction. This shall not apply to communications that: (1) are part of a noticed board meeting; (2) are incidental, exclusively social, and do not involve the system or its business, or the board or staff member's role as a system official; or (3) do not involve the system or its business and that are within the scope of the board or staff member's private business or public office wholly unrelated to the system.

- i. The writing shall disclose the date and location of the communication, and the substance of the matters discussed. It shall be submitted no later than five working days prior to the noticed board meeting at which the investment transaction is being considered unless the communication occurs less than five working days before the noticed board meeting, in which case the writing shall be submitted immediately after the communication occurs.
  - ii. Consistent with its fiduciary duties, the board shall determine the appropriate remedy for any knowing failure of a financially interested party to comply with this policy, including, but not limited to, outright rejection of the prospective investment transaction, reduction in fee income, or any other sanction.
- b. Any board member who participates in a communication subject to this policy shall also have the obligation to disclose the communication to the general counsel and the board, prior to the board's action on the prospective transaction. The disclosure shall be in writing and shall disclose the date and location of the communication and the substance of the matters discussed. It shall be submitted no later than five working days prior to the noticed board meeting at which the investment transaction is being considered unless the communication occurs less than five working days before the noticed board meeting, in which case the writing shall be submitted immediately after the communication occurs. The communications disclosed under this section shall be made public, either at the open meeting of the board in which the transaction is considered, or if in closed session, upon public disclosure of any closed session votes concerning the investment transaction.
- i. This disclosure obligation shall not apply to communications that are general in nature and content, such as: (1) those with regard either to the nature of the party's business or interests or with regard to public information regarding CalSTRS; (2) a simple expression of the party's interest generally in doing business with CalSTRS or having CalSTRS invest in or with the party communicating with the board member; or (3)

a simple expression by the board member in relation to the performance of an investment or service provided to CalSTRS.

- ii. An alleged failure of a board member to disclose communications as required herein shall be referred to the board chair for appropriate action unless the board chair is a party to the communication in question, in which case the matter shall be referred to the vice-chair.
- iii. The general counsel shall provide the board with an annual summary of the communications disclosed pursuant to this section.

Reference: Ed. Code, § 22364.

## 2. Disclosure of Communications Regarding Investment Transactions that Do Not Require Investment Committee Approval

The disclosure obligation regarding communications covered by Section 4(H)(1) for a party or its officer or employee who is financially interested in an investment transaction shall also apply to communications involving transactions the chief investment officer has been delegated the authority to approve without the need for Investment Committee action. Upon the initiation of any consideration by the CalSTRS Investment Office or one of its consultants or advisors of the review of a proposed investment transaction, the firm seeking a CalSTRS investment shall be given a copy of this CalSTRS policy together with a form to use to report any communications with board members for which disclosure is required. The required disclosure shall be made within 10 calendar days of the communication. There shall be no parallel obligation on the part of the board member to disclose a communication involving a transaction that has been delegated to the chief investment officer, although board members are urged to keep an informal record of communications that would be subject to disclosure if the transaction ultimately comes before the Investment Committee and must be reported under Section 4(H)(1).

The general counsel shall provide the board with an annual summary of the communications disclosed pursuant to this paragraph.

History: Amended January 31, 2020 [to update section references].

## 3. Disclosure of Communications between Board Members and Staff Regarding Investment Transactions

As a general matter, the board recognizes that the free flow of communication between individual board members and staff or consultants is beneficial to the conduct of CalSTRS business and that requiring disclosure of all or a large part of such regular communication would create a burdensome reporting requirement that would likely serve no useful purpose. However, in those instances where conduct by an individual board member can be reasonably interpreted as an attempt to influence the outcome of a board or staff decision or consultant recommendation in an investment transaction, the board recognizes that such communications could create the potential for misunderstanding, misinformation



or conflicting instructions and could be reasonably interpreted as inappropriately affecting the board, staff or consultant. Such communications do not always rise to the level of “undue influence,” as defined and discussed in Section 4(H)(4), but nevertheless should be subject to disclosure.

Any communication regarding a potential investment transaction initiated by board member with either a CalSTRS employee or consultant in which the board member is advocating for a specified outcome shall be documented by the CalSTRS employee or consultant and reported to the general counsel. Such communications will be disclosed to the board if and when, in the judgment of the general counsel, they may be material to the board’s deliberation with respect to any CalSTRS matter.

#### 4. Avoidance of Undue Influence

The board recognizes that if a board member or a third-party attempts to direct a staff member or board member to a specified action, decision or course of conduct through the use of undue influence, sound decision-making could be compromised to the ultimate detriment of the board as a whole and/or CalSTRS members, retirees and beneficiaries.

Any board member who believes that they have been subject to the attempted exercise of undue influence, as described above, should report the occurrence immediately and simultaneously to the general counsel. The general counsel shall investigate the situation immediately and is authorized to use the services of an outside law firm to conduct the investigation if the general counsel deems it appropriate. Following such investigation, if the general counsel concludes that an exercise of undue influence was attempted, they shall take whatever action deemed to be appropriate, which shall include notification to the board and thereafter a public disclosure during an open session meeting of the board. If the general counsel believes that they personally have been subjected to an attempted exercise of undue influence, the general counsel shall immediately advise the board chair unless the circumstances dictate that another board member should instead be notified. The board chair or other board member shall investigate the situation with the assistance of the fiduciary counsel and take whatever action they deem to be appropriate.

##### Definitions:

- “Undue Influence” is defined as the employment of any improper or wrongful pressure, scheme or threat by which one’s will is overcome and they are induced to do or not to do an act which they would not do, or would do, if left to act freely.
- “Third Party” means and includes a person or entity that is seeking action, opportunity, or a specific outcome from CalSTRS regarding a CalSTRS matter. The Third Party may be seeking the action, opportunity, or outcome for the Third Party’s own behalf or the Third Party may be

seeking it on behalf of another person or entity in the capacity of a representative, agent or intermediary, or as an advocate for a cause or group of individuals or entities. This definition includes public officials.

Reference: Ed. Code, § 22364.

History: Adopted January 14, 1999; Amended November 3, 2006; Amended April 8, 2016 [to reflect technical changes to the policy section cross-reference]; Amended January 31, 2020 [to reflect gender-neutral language, remove references to CalSTRS staff, and update section references].

## **I. Disclosure of Placement Agents and Payments**

### **1. Disclosure of Placement Agent Information and Fees**

Prior to CalSTRS entering into any investment transaction or investment management contract with an external manager, the external manager shall disclose the following to CalSTRS' chief investment officer, in writing:

- a. The existence of relationships between the external manager and any placement agent who assisted the external manager with either the solicitation of CalSTRS as a potential client or the retention of CalSTRS as an existing client.
- b. A resume for each officer, partner or principal of the placement agent detailing the person's education, professional designations, regulatory licenses and investment and work experience. If any such person is a current or former CalSTRS or CalPERS board member, employee, consultant or member of the immediate family of such a person, that fact shall be specifically noted.
- c. A description of any and all compensation of any kind provided, or agreed to be provided, to a placement agent.
- d. A description of the services to be performed by the placement agent, as well as a statement disclosing whether the placement agent is utilized by the external manager with all prospective clients, a subset of prospective clients or a single prospective client.
- e. The names of any current or former CalSTRS or CalPERS board members, employees or consultants who suggested the retention of the placement agent.
- f. A statement whether the placement agent, or any of its affiliates, are registered with the Securities and Exchange Commission or the Financial Industry Regulatory Association, or any similar regulatory agent in a country other than the United States, and the details of that registration or an explanation as to why no registration is required.

- g. A statement that the external manager and the placement agent are in full compliance with the requirements of the Political Reform Act as it relates to lobbyists.
- h. A statement whether the placement agent, or any of its affiliates, is registered as a lobbyist with any other state or national government.

If the external manager utilized the services of a person who would otherwise be a placement agent but for an exception provided in Government Code section 7513.8, subdivision (f) or section 82047.3, a statement that the external manager is in full compliance with the applicable exemption.

These disclosures 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.

Any external manager or placement agent that violates this policy shall not solicit new investments from CalSTRS for five years after the violation was committed. However, this prohibition may be reduced by a majority vote of the board at a public session upon a showing of good cause.

CalSTRS shall not enter into any agreement with an external manager that does not agree in writing to comply with this policy.

This disclosure policy shall not require the board to take any action that the board does not, in good faith, find to be consistent with the fiduciary responsibilities of the board as described in Section 17 of Article XVI of the California Constitution.

## 2. Disclosure of Placement Agent Campaign Contributions and Gifts

### a. Campaign Contributions

Any placement agent, prior to acting as a placement agent in connection with any potential CalSTRS investment, shall disclose to the chief investment officer all campaign contributions made by the placement agent to any elected member of the Board:

- i. During the prior 24-month period.
- ii. During the time the placement agent is receiving compensation in connection with a CalSTRS investment.

### b. Gifts

Any placement agent, prior to acting as a placement agent in connection with any potential CalSTRS investment, shall disclose to the chief

investment officer all gifts, as defined in Section 82028 of the Government Code, given by the placement agent to any member of the board:

- i. During the prior 24-month period.
- ii. During the time the placement agent is receiving compensation in connection with a CalSTRS investment.

### 3. Prohibited Conduct

A board member shall not, directly or indirectly, by themselves, or as an agent, partner or employee of a person or entity other than the board, sell or provide any investment product that would be considered, by the recipient fund as an asset of the fund, to any public retirement system in California.

### 4. Definitions

**“Board”** means either of the following: (1) The Teachers’ Retirement Board, or (2) The retirement board of a public pension or retirement system, as defined in subdivision (h) of Section 17 of Article XVI of the California Constitution.

**“External manager”** means either of the following: (1) A person who is seeking to be, or is, retained by a board or an investment vehicle to manage a portfolio of securities or other assets for compensation, or (2) A person who manages an investment fund and who offers or sells, or has offered or sold, an ownership interest in the investment fund to a board or an investment vehicle.

**“Investment fund”** means a private equity fund, public equity fund, venture capital fund, hedge fund, fixed income fund, real estate fund, infrastructure fund, or similar pooled investment entity that is, or holds itself out as being, engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, owning, holding, or trading securities or other assets.

**“Investment vehicle”** means a corporation, partnership, limited partnership, limited liability company, association, or other entity, either domestic or foreign, managed by an external manager in which a board is the majority investor and that is organized in order to invest with, or retain the investment management services of, other external managers.

**“Person”** means an individual, corporation, partnership, limited partnership, limited liability company, or association, either domestic or foreign.

**“Placement agent”** means any person directly or indirectly hired, engaged, or retained by, or serving for the benefit of or on behalf of, an external manager or an investment fund managed by an external manager, and who acts or has acted for compensation as a finder, solicitor, marketer, consultant, broker, or other intermediary in connection with the offer or sale to a board or an investment vehicle either of the following: (1) The investment management services of an external manager who manages a portfolio of securities or other assets for compensation,

or (2) An ownership interest in an investment fund managed by an external manager who manages an investment fund and who offers or sells, or has offered or sold, an ownership interest in the investment fund to a board or investment vehicle.

Reference: Gov. Code, §§ 7513.8, 7513.85, 7513.9, 7513.95.

History: Adopted November 3, 2006; Amended February 3, 2010; Amended April 8, 2010 [to reflect legislation requiring adoption of a Placement Agent Disclosure Policy]; Amended February 10, 2011 [to make changes in accordance with AB 1743]; Amended November 8, 2012 [to make changes in accordance with SB 398]; Amended January 31, 2020 [to reflect gender-neutral language and remove references to CalSTRS staff].

## **J. No Contact Policy**

During the process leading to an award of any contract by the system, to include employment and vendor contracts, no member of the board or its staff, shall knowingly communicate concerning any matter relating to the contract or selection process with any party financially interested in the contract, or an officer or employee of that party, unless the communication is (1) part of the process expressly described in the request for proposal or other solicitation invitation, or (2) part of a noticed board meeting, or (3) as provided below. Any applicant or bidder who knowingly participates in a communication that is prohibited by this paragraph shall be disqualified from the contract award.

The procedures and prohibitions prescribed by this section shall not apply to:

1. Communications that are incidental, exclusively social, and do not involve the system or its business, or the board or staff member's role as a system official.
2. Communications that do not involve the system or its business and that are within the scope of the board or staff member's private business or public office wholly unrelated to the system.

Reference: Ed. Code, § 22364, subs. (a) and (c).

History: Adopted April 3, 2014; Amended April 8, 2016 [to clarify the application of the policy to staff]; Amended January 31, 2020 [to remove references to CalSTRS staff]. Amended September 26, 2024 [to specifically include employment contracts].

## **K. Gift Policy**

This Gift Policy is established to support the ethical and fiduciary responsibilities of the board by eliminating potential conflicts of interest, or the appearance of conflicts of interest, which may be encountered as a result of receiving gifts from individuals or entities with an actual or reasonably likely business or financial connection with CalSTRS.

Accordingly, CalSTRS board members may not accept any gift with an aggregate value above the monetary limit established by the FPPC from any individual or entity with an actual or reasonably likely business or financial connection with CalSTRS. A gift is defined as anything of value, whether tangible or intangible, real or personal property, goods or services, that provides a personal benefit to an individual when the individual does not provide full consideration for the value of the benefit received. The recipient of the benefit has the burden of demonstrating that any consideration paid was of equal or greater value than the benefit received.

This policy is to be read in harmony with other CalSTRS governance policies including the Statement of Ethical Conduct, Board Member Code of Conduct, and the Mission Statement and Core Values. This policy does not alter or eliminate the requirements of the Political Reform Act or other California statutory or regulatory authority, including the requirements set forth in California Code of Regulations, Title 5, Section 22000 regarding the filing of statements of economic interests.

Compliance with this policy will be monitored through annual written attestations of compliance by the board which the Office of the General Counsel will distribute, collect and review. Known violations of this policy are to be reported to the Office of Ethics and Compliance.

Any questions about the intention or application of this Gift Policy should be directed to the ethics and compliance counsel.

Reference: Gov. Code, §§ 89503, 82028, subs. (a) and (b); Cal. Code Regs, tit. 2, §§ 18940.2, 18940, subd. (a).

History: Adopted November 7, 2013; Amended January 31, 2020 [to remove references to CalSTRS staff].

## Section 5 Legislation

The adopted mission of the California State Teachers' Retirement System (CalSTRS) is to secure the financial future and sustain the trust of California's educators. A secure retirement is facilitated by the enactment of laws and regulations that enable the Teachers' Retirement Board (board) to (1) receive adequate and predictable contributions from members, employers and the state; (2) invest those contributions in a prudent manner; (3) provide benefits at a cost consistent with the resources available to CalSTRS; and (4) respond to the changing needs of its members and employers. The board recognizes that, although CalSTRS is the predominant source of retirement funds for California's public educators, it is not the only factor in retirement security. Other considerations include:

- CalSTRS members do not receive Social Security benefits for their service and oftentimes face reductions in Social Security benefits earned from other employment;
- Financial support for health care after retirement is determined by individual local collective bargaining decisions, resulting in inconsistent affordability of health care after retirement;
- CalSTRS benefits are often not sufficient for individual members to maintain their standard of living after retirement without individual supplemental retirement savings.

The board's legislative policies are driven by an overall goal to prevent and remove obstacles that impair the ability of CalSTRS members to achieve financial security.

To carry out these legislative policies, the board directs staff to make reasonable efforts to promote passage of pending state and federal legislation or regulations sponsored or supported by the board, to negotiate amendments to pending legislation or regulations as appropriate and necessary, and to defeat legislation or regulations opposed by the board.

The board authorizes staff to represent the same position the board had previously taken on substantively identical legislation during the current legislative session.

If the board is unable to take a position on the legislation or regulations in a timely manner, the board delegate's authority to the board chair and vice chair to adopt a position on legislation or regulations based on the following guidelines if expressing the position would aid in executing the board's policy. Upon action via delegation, the reason for delegation and the position taken shall be communicated to the board immediately. The minutes of the next board meeting shall reflect the delegation, the reason for delegation and the position taken.

Positions of support, neutral, no position or oppose are based on the following guidelines. Additional information and guidance about these positions is provided under the Definition of Board Positions on State or Federal Legislation or Regulations.

**A. Sponsor or support legislation and regulations that:**

1. Are consistent with the objectives of providing financially sound primary and supplemental retirement plans for California's educators.
2. Expand and improve in a prudent manner the benefits and services provided through the funds administered by CalSTRS as appropriate for public retirement plans. Expanded benefits and services may be funded from:
  - a. Available surplus assets of CalSTRS, including normal cost surpluses;
  - b. Available resources of the Defined Benefit Program up to a total present value cost over 30 years equal to .001 percent of annual creditable compensation upon which a member's contributions to the Defined Benefit Program are based;
  - c. Available resources or increased contributions or both for legislation that is needed to address benefit equity issues, impairment of benefits or other special situations, as determined by the board;
  - d. Additional contributions to CalSTRS.
3. Improve the delivery of benefits and services and provide more effective and efficient administration of the retirement plan. In recognition of the requirement that the authority of the board to spend funds from the Teachers' Retirement Fund in support of CalSTRS is subject to legislative approval, legislation requiring one-time additional administrative costs greater than \$50,000 adjusted to the next \$1,000 in February of each year for increases in the California Consumer Price Index from December 2007 through December of the prior calendar year would require an appropriation to provide CalSTRS with the spending authority necessary to cover the implementation costs of the bill.
4. Are consistent with the investment policy adopted by the board as presented in the CalSTRS Investment Policy and Management Plan.
5. Preserve the assets and minimize the liabilities of the funds administered by CalSTRS.
6. Reduce inequities or deficiencies in plan design.
7. Give more flexibility to the board in its administration.
8. Improve the opportunity for members to save using pre-tax vehicles.
9. Attempt to secure and obtain monies owed by the state or federal government.
10. Seek to repeal or reform in a prudent manner the Social Security benefit offsets as a means of addressing concerns about their impact on educators.



11. Seek to expand access to health benefits for CalSTRS members in a prudent manner.

**B. Adopt a neutral position or no position on legislation and regulations that:**

1. Do not significantly or adversely impact the benefits or services provided through the funds administered by CalSTRS or the administration of the retirement plans.
2. Affect the composition of the board or the process by which individuals are appointed to serve as members of the board. The board may, however, sponsor or support provisions of legislation deemed necessary to clarify or implement enacted legislation that either provides for the election of members or otherwise changes the composition of the board.

**C. Oppose legislation and regulations that:**

1. Adversely affect the actuarial balance of the funds administered by CalSTRS through legislation not affecting the board's investment authority or result in adverse selection against a retirement plan.
2. Expand or improve the benefits or services provided through the funds administered by CalSTRS without adequate funding or provide benefits or services that are not appropriate for public retirement plans.
3. Deprive members or participants of vested benefits and do not provide equivalent, compensating benefits.
4. Benefit only one individual or a small group of individuals within a larger group, unless the board determines an inequity exists which the legislation or regulation would correct.
5. Restrict or infringe on the plenary authority of the board to administer the retirement plans as provided in Section 17 of Article XVI of the California State Constitution.
6. Restrict the investment authority of the board or are inconsistent with the investment policy adopted by the board as presented in the CalSTRS Investment Policy and Management Plan.
7. Appropriate amounts from the funds administered by CalSTRS for purposes that are not solely in the best interest of the members, participants or beneficiaries of the retirement plans.
8. Endanger the Trust or the tax-exempt status of retirement plans administered by CalSTRS and the deferred treatment of income tax on employer contributions to the plans and related earnings.

9. Are inconsistent with provisions of Section 403(b) of the Internal Revenue Code of 1986 and the Revenue and Taxation Code that are applicable to the system's annuity contract and custodial account.
10. Conflict with CalSTRS' strategic directions or policies established by the board.
11. Impose mandatory Social Security coverage on CalSTRS members without an increase in funding to offset the increased costs to members and employers.
12. Make changes to the structure of benefits provided through the funds administered by CalSTRS that would adversely affect the funding of CalSTRS benefits or that would be impracticable to administer.

Reference: Ed. Code, §§ 22001, 22250, 22330.

History: Amended on February 1, 2017; Amended on September 5, 2007; Amended on July 8, 2004.

## **DEFINITION OF BOARD POSITIONS ON PROPOSED STATE OR FEDERAL LEGISLATION OR REGULATIONS**

### **SPONSOR or CO-SPONSOR**

- Indicates that the board has initiated or strongly supports the proposed change and has ownership or co-ownership of the proposal.
- Authorizes CalSTRS staff to pursue a commitment from member(s) of the Legislature or Congress to carry the proposal.
- Makes CalSTRS staff responsible for providing the member(s) and staff of the Legislature or Congress the necessary support to promote passage of the proposal, including advice regarding strategy, proposed statutory language, written analyses and testimony at legislative or congressional proceedings.

### **SUPPORT**

- Indicates that the proposal impacts CalSTRS or its stakeholders and that the board believes the proposal is good policy or good administrative practice and should become law.
- Requires testimony at legislative proceedings and written analyses, letters or other documentation as necessary to promote passage of the proposal.

### **SUPPORT, RECOMMEND AMENDMENTS**

- Indicates that although the board supports the underlying policy, substantive and/or technical amendments are needed to appropriately implement and administer the change if enacted.
- Authorizes CalSTRS staff to draft amendments recommended by the board and work with the author to incorporate the amendments into the measure.
- Requires testimony at legislative proceedings and assistance in developing necessary amendments and written analyses, letters or other documentation as necessary to promote passage of the proposal.
- Whether or not recommended amendments are adopted, authorizes CalSTRS staff to represent the board's official position as "support."

### **SUPPORT, IF AMENDED**

- Indicates that although the board supports the underlying policy, substantive and/or technical amendments are needed to enable CalSTRS to fully support the policy or to appropriately implement and administer the change if enacted.
- Authorizes CalSTRS staff to draft amendments requested by the board and work with the author to incorporate the amendments into the measure.
- Provides limited leverage in negotiating amendments with sponsor(s).
- Requires testimony at legislative proceedings and assistance in developing necessary amendments and written analyses, letters or other documentation as necessary.
- If requested amendments are adopted, authorizes CalSTRS staff to represent the board's official position as "support."

## **NEUTRAL**

- Indicates that although the proposal affects CalSTRS or its stakeholders, the board has no concerns regarding the proposal.
- Does not require testimony at legislative proceedings but does require written analyses, letters or other documentation as necessary, and monitoring. Requires CalSTRS staff to provide technical assistance or advice as requested by members or staff of the Legislature or Congress.

## **NEUTRAL, IF AMENDED**

- Indicates that although the proposal affects CalSTRS or its stakeholders, the board has no concerns regarding the proposal; however, substantive and/or technical amendments are needed to enable CalSTRS to appropriately implement and administer the change if enacted.
- Authorizes CalSTRS staff to draft amendments requested by the board and work with the author to incorporate the amendments into the measure.
- Does not require testimony at legislative proceedings but does require written analyses, letters or other documentation as necessary, and monitoring. Requires CalSTRS staff to provide technical assistance or advice as requested by members or staff of the Legislature or Congress.
- If requested amendments are adopted, authorizes CalSTRS staff to represent the board's official position as "neutral."

## **NO POSITION**

- Indicates either that the proposal has minimal impact on CalSTRS or its stakeholders and the board has no concerns regarding the proposal or that the board believes it would not be appropriate to make a public statement concerning the policy of the proposal.
- Does not require testimony at legislative proceedings but does require written analyses, letters or other documentation as necessary, and monitoring. Requires CalSTRS staff to provide technical assistance or advice as requested by members or staff of the Legislature or Congress.

## **OPPOSE, UNLESS AMENDED**

- Indicates that the proposal affects CalSTRS or its stakeholders and that the board will not support or be neutral concerning the policy of the proposal unless amendments proposed by CalSTRS are adopted.
- Provides significant leverage in negotiating amendments with sponsor(s).
- Requires testimony at legislative proceedings and assistance in developing necessary amendments and written analyses, letters, or other documentation as necessary.
- If requested amendments are adopted and CalSTRS staff recommends a position of:

"Support" on the proposal as amended, requires that the proposal must be resubmitted to the board for formal action.

“Neutral” on the proposal as amended, does not require that the proposal be resubmitted to the board for action (unless otherwise directed by the board) and authorizes CalSTRS staff to represent the board’s official position as “neutral.”

#### **OPPOSE**

- Indicates that the board believes the proposal conflicts with the board’s policy and should not become law.
- Requires testimony at legislative proceedings and written analyses, letters or other documentation as necessary to defeat the proposal.

#### **WATCH**

- Indicates the measure does not directly affect CalSTRS benefits, programs or administration but addresses an issue of concern to the board or may at some point in the future be amended to include provisions substantively affecting CalSTRS or its stakeholders.
- Requires CalSTRS staff to periodically inform the board on the status of such measures. If the measure is amended to affect CalSTRS, requires CalSTRS staff to present additional information to the board and recommend a position on the measure.

#### **STAFF RECOMMENDATION**

- Indicates the proposal affects CalSTRS or its stakeholders, but the board has not yet had an opportunity to discuss the legislation and adopt an official position.
- Responsibilities or activities assigned to CalSTRS staff that are related to federal legislation or regulations will be coordinated with, or delegated to, CalSTRS’ federal legislative representative, as appropriate.

## Section 6 Compensation Policy Designated Executive Management and Investment Staff

### A. Purpose

Education Code section 22212.5 provides that the Teachers' Retirement Board (board) shall determine the compensation of CalSTRS chief executive officer (CEO), chief operating officer (COO), chief financial officer (CFO), system actuary, general counsel, chief investment officer (CIO), and other investment officers and portfolio managers designated as managerial. Guided by the Compensation Committee's Charter, the purpose of this policy is to set forth, in a transparent way, the board's general compensation philosophy that directs the content contained within Administrative Procedures for the board's Compensation Policy ([Administrative Procedures](#)) and implementation of the compensation plan. It also guides the Compensation Committee's activities in making decisions and recommendations on specific compensation matters. CalSTRS compensation program is administered under the board's full and rigorous oversight and with supporting review provided by internal and independent/third party auditors. The Charter, the Policy and the Administrative Procedures are meant to be read together in harmony and are not intended to be in conflict with each other.

### B. Executive Summary

The Compensation Committee has the responsibility to ensure the compensation program is properly designed to support organizational objectives and develop for board adoption administrative procedures that document the compensation plan and administrative procedures based on the board's compensation philosophy.

The board has developed a compensation policy that reflects careful consideration of the following:

- To achieve its business and investment objectives, CalSTRS must be able to hire, motivate, and retain high-quality executive management and investment staff. A reasonable and competitive pay program is critical to achieving these objectives.
- While CalSTRS is a public organization, private sector firms are a key labor market for CalSTRS executive management and investment professionals.
- For executive management and investment professionals, private sector pay levels are generally higher than public sector pay levels, with much of the difference attributable to relatively higher private sector cash incentives/bonuses.

## C. Compensation Program Objectives

As adopted by the board, CalSTRS compensation program for executive management and investment staff is designed to be:

- **Internally Equitable:** That is, comparable pay opportunities should be provided to employees in positions requiring similar levels of skill, responsibility, and impact on investment performance.
- **Externally Competitive:** In particular, cash compensation opportunities should be competitive with those offered by the board-approved compensation comparator group.
- **Incentive-Based:** Specifically, incentive opportunities should represent a major portion of cash compensation and should attract and retain high caliber investment staff, motivate and enhance individual and team effort, and reward superior investment performance.

## D. Market Position Philosophy

CalSTRS has high-quality executive management and investment staff. These personnel are critical to the system's ability to generate investment returns that exceed CalSTRS benchmarks without taking unnecessary risk and serve its members and beneficiaries. Given the high quality of the system's staff, the board desires to position staff compensation to stay in-line with the competitive market.

The board will define in the administrative procedures, the compensation comparator group to be used in comparing its pay levels to the competitive market. Pay comparisons will be targeted towards other employers with which CalSTRS competes for talented professionals with similar skills. The board will also define the percentile level of targeted market pay. The competitive market for both base pay and incentive purposes is the same. Relevant market compensation data will be secured from reputable, third-party sources, every two years or as otherwise determined by the board's Compensation Committee. The compensation comparator group will be reassessed and may be modified by the board, in consultation with its compensation consultant, prior to assessing competitive market data.

## E. Compensation Program Elements

The Compensation Program consists of the following elements:

- Base Pay
- Incentive Pay
- Recruitment Pay Differential
- Educational Incentive
- Relocation

## 1. Base Pay Overview

The board has approved the practice of setting salary ranges, rather than a single rate of pay, for executive management and investment staff. The board will continue this practice for these, and any future positions covered under the Education Code section 22212.5.

Base salary ranges, with specified minimums and maximums, will be established for executive management and investment staff using market data from the board approved compensation comparator group(s). Base salary ranges for executive management and investment staff are typically reviewed every two years (i.e., through a comprehensive market pay analysis using data from third party sources). In intervening years, special market reviews and/or analysis may be conducted to validate existing salary ranges and/or to establish a new recruiting range when a position becomes vacant. As approved by the board, the administrative procedures will specify the administrative details and program mechanics including, but not limited to, the following:

- Base salary ranges.
- Salary adjustment criteria, including annual maximum salary movement.
- Individual performance criteria.
- Targeted salary levels.
- Timing and effective dates.
- Approval authority.

## 2. Incentive Plan Overview

As approved and adopted by the board, CalSTRS incentive plan is intended to:

- Reinforce the system's investment, governance and compensation philosophies and objectives.
- Help CalSTRS attract, motivate, and retain top-performing executives and investment staff.
- Align incentive payouts with overall system, functional area, and individual performance.
- Focus staff on key investment objectives/benchmarks that are measured on a long-term basis.

The board approves the positions that may be eligible to participate in the incentive plan. Actual incentive plan participation is determined based on each incumbent's employment status and the Compensation Committee's assessment of the position's impact on CalSTRS overall investment and business performance. Incentive opportunities will vary by position based on differing levels of accountability, responsibility, competitive pay requirements and staff tenure. Incentive opportunities reflect competitive cash compensation levels and the Compensation Committee's assessment of the optimal mix of base salary and incentive opportunity. As approved by the board, the administrative procedures will



specify the administrative details, criteria, and incentive plan mechanics including, but not limited to, the following:

- Participation eligibility.
- Incentive opportunity levels.
- Quantitative performance components, including Total Fund and Asset Class performance benchmarks and weightings.
- Qualitative performance components and weightings.
- Performance measurement periods.
- Individual personal performance criteria and performance expectations.
- Pro-rata awards.
- Timing of payment.
- Payment at separation.
- Board's discretion in the event of qualifying triggers (investment performance, ethics violation, and/or reputational risk).

### 3. Educational Incentive Overview

The board has approved the practice of providing an educational incentive for successful completion of certain professional certifications and reimbursement for related expenses associated with participating in these certification programs. As approved by the board, the administrative procedures will specify the administrative details and criteria including, but not limited to:

- Position eligibility.
- Eligible certification programs.
- Amount of pay differential.
- Expense reimbursement.

### 4. Recruitment Pay Overview

In order to attract highly skilled executives and investment staff, the board has approved the practice of providing a recruitment differential for external hires. As approved by the board, the administrative procedures will specify the administrative details and criteria including, but not limited to:

- Position eligibility.
- Amount guidelines and maximum.
- Payback provisions in the event of separation.
- Authorized approvers.

### 5. Relocation Overview

It is the board's intent that individuals from outside State of California service who are newly appointed to positions covered under this policy, and who are required by CalSTRS to change their place of residence to accept employment be fairly compensated for relocation expenses. As approved by the board, the

administrative procedures will specify the administrative details and criteria including, but not limited to:

- Position eligibility.
- Eligible expenses.
- Amount guidelines and maximum.
- Payback provisions in the event of separation.
- Authorized approvers.

## **F. Modification, Suspension and Termination**

The board will regularly review the compensation program and will make changes as necessary to ensure the primary purpose of the compensation program is met.

Subject to the provisions of Education Code section 22212.5 (and all related amendments), the board reserves the right to modify, terminate, and/or rescind any and/or all of the compensation schedules, provisions, policies, and procedures contained in this and all supporting documents at any time. This document describes a policy and does not provide a contract, guarantee of payment, or guarantee of employment between the board, CalSTRS, and the employees described in this document.

History: Adopted June 10, 2015; Amended June 7, 2017.

## Section 7 Benefits and Services Policy

### A. Benefits Level

CalSTRS desires to expand and improve in a prudent manner the benefits and services provided through the funds it administers as appropriate for public retirement plans. Expanded benefits and services may be funded from available excess earnings of the system that the board determines exist and can reasonably be relied upon to fund the expanded benefits and services. The board has adopted the following principles, listed in priority order, for the evaluation of proposed benefits to be funded from excess earnings:

1. Protect the long-term stability of the Teachers' Retirement Fund while paying benefits to eligible members.
2. Provide and maintain an adequate retirement allowance commensurate with each educator's career, with the goal of ultimately providing an equitable floor of benefits received by members.
3. Treat similarly situated members uniformly.
4. Equitably distribute benefit improvements funded from excess earnings between active and retired members, consistent with Principle #2.
5. Improve access to affordable and adequate health care for members.
6. Encourage the recruitment and retention of teachers through the improvement of retirement benefits.

In addition, CalSTRS supports actions that would preserve the purchasing power of CalSTRS allowances so long as an appropriate funding source is identified.

### B. Service Levels

Pursuant to Proposition 162, the Teachers' Retirement Board shall have the sole and exclusive fiduciary responsibility to administer the system in a manner that will assure prompt delivery of benefits and related services to the participants and their beneficiaries. Consistent with this responsibility, one of the goals of the board is that the system's members be served in a prompt, accurate and efficient manner.

The board recognizes that California statutes generally require benefits to be issued within 45 days of the application effective date or receipt of all necessary information. The board also recognizes that interest penalties are paid to members when these timeframes are exceeded. The board acknowledges that there are occasions when benefits cannot be processed within these timeframes but that exceptions should be kept to a minimum.

The board therefore directs the CEO to maximize efforts to meet and possibly exceed statutory benefit processing timeframes, minimize interest penalty payments and provide services consistent with the expectations of its members. The board, through the Benefits and Services Committee, receives a quarterly report from staff on the status of these requirements.

History: Adopted June 9, 2006.

### **C. Guidelines for Consideration of Proposed Decisions in Appeals**

The fiduciary duty imposed on the Teachers' Retirement Board (board) requires that board action is to be taken only with knowledge and understanding of the issue before it.

In those instances where a hearing has been granted and conducted before an Administrative Law Judge pursuant to Government Code section 11517, a proposed decision is prepared by the Administrative Law Judge and presented to the Appeals Committee (Committee) for action. The Committee has been delegated the authority to act finally on these proposed decisions unless a board member requests the matter be heard and decided by the full Teachers' Retirement Board.

The Committee is required to adopt the proposed decision as written or reject it and either send it back to the Administrative Law Judge to take additional evidence or decide the matter itself.

In recognition of its fiduciary obligation and statutory framework within which proposed decisions can be considered, the board makes the following statement of policy for action on proposed decisions.

1. The deputy chief executive officer (DCEO) in benefits appeals and the audit services director in audits appeals shall recommend to the Committee the adoption of a proposed decision as its own when, in the opinion of the DCEO or audit services director, it adequately reflects the issues and evidence presented at the hearing and the determination of the issue is adequately supported within the body of the decision.
2. The DCEO or audit services director may recommend action other than adoption of any proposed decision which does not meet the above standards.

In considering whether or not such recommendation is to be made, the staff is to consider the following, where appropriate:

- a. The significance of any erroneous statement of law or factual determination in the proposed decision.
- b. The significance of the omission of any applicable law citation or factual information.

- c. The presence of actual or potential “program abuse” which should be a matter of board concern and public discussion, but which is not visible from the proposed decision.
- d. Whether or not, after reading the transcript of the hearing, the proposed decision is supported by the substantial weight of the testimony presented at the hearing. Such review will be made when feasible, and in the opinion of staff, it is an important element in considering a recommendation of rejection or a referral back to the Administrative Law Judge for the taking of additional evidence.

History: Adopted June 9, 2006; Revised February 16, 2012 [Citation Clerical Error Education Code Section 22217, to Government Code Section 11517].

#### **D. Designating Precedential Decisions**

Upon recommendation from the assistant general counsel, the Appeals Committee may designate an administratively adjudicated decision or part of an administratively adjudicated decision, adopted by the Appeals Committee pursuant to the standards set forth in the Administrative Procedures Act, as a Precedential Decision when the following criteria are met:

1. The decision or part of the decision contains a significant legal or policy determination;
2. The decision or part of the decision reflects a rule of general application; and,
3. The decision or part of the decision relates to a legal or policy issue that is likely to recur in the future.

After the Appeals Committee has designated a decision as a Precedential Decision, the following statement shall be attached to the bottom of the decision: “Pursuant to Government Code section 11425.60, this decision [or “the following part of this decision”] is designated as a Precedential Decision.” If only a portion of the decision is designated as a Precedential Decision, this statement should end with a colon and then specify which part is designated as a Precedential Decision.

The Precedential Decision shall be added to an index containing all of CalSTRS’ Precedential Decisions. This index shall be updated not less frequently than annually, unless there have been no Precedential Decisions designated since the last update. The index shall be made available to the public on the CalSTRS website and its availability shall be publicized annually in the California Notice Registry.

Once a decision or part of a decision has been designated as a Precedential Decision, it is binding in future administrative adjudications unless the Appeals Committee has rescinded the designation.

History: Adopted April 10, 2013.

## **E. Specified Interest and Contribution Rates and Lump-Sum Death Benefit**

The Teachers' Retirement Law requires the board to set specified interest and contribution rates and the lump-sum death benefit amounts. This section covers the policies surrounding setting those rates and benefit amounts. The following interest, contribution rates and benefit amounts are set by board.

- Regular Interest Rate – Defined Benefit Program.
- Credited Interest Rate – Defined Benefit Program.
- Minimum Interest Rate – Cash Balance Benefit Program.
- Minimum Interest Rate – Defined Benefit Supplemental Program.
- Employer Contribution Rate for Elected Officials of Employee Organizations.
- Employer Contribution Rate for Reduced Workload Program.
- Permissive Service Contribution Rates – Defined Benefit Program.
- Lump Sum Death Benefit for Active and Retired Members.

### **1. Regular Interest Rate– Defined Benefit (DB) Program**

The "Regular Interest Rate" is used by the DB Program to charge interest among other items on (1) previously refunded retirement contributions when a member elects to redeposit those contributions, and (2) installment payments for the (a) redeposit of contributions or (b) purchase of additional service credit. This rate is also used to charge employers interest on delinquent contributions and for reporting penalties. Section 22162 of the Education Code specifies that, beginning July 1, 2010, "Regular Interest Rate" means an interest rate that is equal to the actuarially assumed rate of return on investments on assets of the DB Program and is adopted annually by the board with respect to the DB Program.

- a. The board shall adopt the regular interest rate annually with the goal of adopting the rate before July of the fiscal year in which the rate applies.
- b. The regular interest rate adopted shall be equal to the actuarially assumed rate of return on investments.

### **2. Credited Interest Rate– Defined Benefit (DB) Program**

Credited interest, as defined by Section 22120 of the Education Code, is interest that is credited to members' accounts at a rate set annually by the board. The

credited rate is based on two-year U. S. Treasury rates with a maximum and minimum on the rate.

- a. The board shall adopt the credited interest rate annually with the goal of adopting the rate before July of the fiscal year in which the rate applies.
- b. The credited interest rate adopted shall be equal to average amount paid on two-year U. S. Treasury notes for the previous twelve months, rounded to the next highest basis point.
- c. The credited interest rate cannot exceed the actuarial assumed investment for return of the DB program.
- d. The credited interest cannot be lower than a passbook rate calculated as the average one-year annual percentage yield a person would earn in a savings account for a representative sample of banks and credit unions.

### 3. Minimum Interest Rate– Cash Balance (CB) Benefit Program

The “Minimum Interest Rate”, as defined by Section 26131 and applied by Section 26604 of the Education Code, with respect to the CB Benefit Program “... means the annual rate determined for the plan year by the board by means of an amendment to the plan...” This rate is used to credit interest to employee and employer account balances. The Minimum Interest Rate for the CB Benefit Program is based on the average rate for 30-year U.S. Treasury notes during the 12-month period ending in the February immediately preceding the plan year.

- a. The board shall adopt the minimum interest rate for the CB Benefit Program annually with the goal of adopting the rate before July of the fiscal year in which the rate applies.
- b. The minimum interest rate for the CB Benefit Program adopted shall be equal to average amount paid on 30-year U. S. Treasury notes for the previous twelve months, rounded to the next highest basis point.

### 4. Minimum Interest Rate– Defined Benefit Supplement (DBS) Program

The “Minimum Interest Rate”, as defined by Section 22146.7 of the Education Code, with respect to the DBS Program “... means the annual interest rate determined by the board by plan amendment at which interest shall be credited to the DBS accounts for a plan year.” In addition, Section 25005(b) states that “The minimum interest rate shall not be less than the rate at which interest is credited under the DB Program.” The Minimum Interest Rate for the DBS Program is based on the average rate for 30-year U.S. Treasury notes during the 12-month period ending in the February immediately preceding the plan year.

- a. The board annually shall adopt the minimum interest rate for the DBS Program with the goal of adopting the rate before July of the fiscal year in which the rate applies.
- b. The minimum interest rate for the DBS Program adopted shall be equal to average amount paid on 30-year U. S. Treasury notes for the previous twelve months, rounded to the next highest basis point. The rate shall not be less than the credited interest rate credited to the DB Program.

#### 5. Employer Contribution Rate for Elected Officials of Employee Organizations

The "Employer Contribution Rate for Elected Officials" is used to charge the employer for service credit granted to a member for an approved leave of absence to serve as an elected official of an employee organization. The maximum amount of service credit that may be granted for service as an elected official of an employee organization is 12 years. Due to the passage of PEPRA, CalSTRS DB Program has two benefit structures, 2% at 60 and newer 2% at 62 and both require a policy for setting the contribution rate.

- a. The board shall adopt the employer contribution rate for elected officials of an employee organization annually with the goal of adopting the rate before July of the fiscal year in which the rate applies. The board shall adopt a separate rate for members under the CalSTRS 2% at 60 and 2% at 62 benefit structures.
- b. The employer contribution rate for elected officials of employee organizations shall be the greater of (1) the normal cost of the member's benefit structure, less the member's contribution or (2) the employer contribution rate in effect for all other service credit. This amount will change with increasing employer contribution rates.

#### 6. Employer Contribution Rate for Reduced Workload Program

The "Employer Contribution Rate for Reduced Workload Program" is used to charge the employer for service credit granted to a member who participated in the Reduced Workload Program. Due to the passage of PEPRA, CalSTRS DB Program has two benefit structures, 2% at 60 and newer 2% at 62 and both require a policy for setting the contribution rate.

- a. The board shall adopt the employer contribution rate for Reduced Workload Program annually with the goal of adopting the rate before July of the fiscal year in which the rate applies. The board shall adopt a separate rate for members under the CalSTRS 2% at 60 and 2% at 62 benefit structures.
- b. The employer contribution rate for elected officials Reduced Workload Program shall be the greater of (1) the normal cost of the member's benefit



structure, less the member's contribution or (2) the employer contribution rate in effect for all other service credit. This amount will change with increasing employer contribution rates.

#### 7. Permissive Service Credit Purchase Rates

Sections 22801 and 22117 of the Education Code require the board to set the rate for the purchase of service purchases. The rate shall be based on the most recent actuarial valuation and include any subsequent required contributions needed to fund future benefit increases. Currently the board adopts rates based on the latest actuarial valuation and a study of the previous purchases.

- a. At least annually, but more often if the board so decides, the board shall adopt separate rates for the purchase of permissive service credit for members under both the CalSTRS 2% at 60 and 2% at 62 benefit structures with the goal of adopting the rates before July of the fiscal year in which the rate applies. The board shall adopt a separate rate for members under the CalSTRS 2% at 60 and 2% at 62 benefit structures.
- b. The contribution rate shall be individual rates for each year of age, with a single rate for the ages below age 28 and a single rate for age 73 and above. The contribution rate shall be rounded to the nearest tenth of a percentage point.
- c. The rates for permissive service shall be based on a recommendation from staff after an actuarial study of permissive credit service purchases have been completed. The actuarial study shall be based on the latest actuarial valuation of the DB Program.

#### 8. Lump Sum Death Benefit for Active and Retired Members

A one-time lump sum death payment is payable to the beneficiary upon the death of an active or retired DB Program member under certain conditions specified in statute. Sections 23801, 23851 and 23880 permit the board to adjust the death payment amount following each actuarial valuation based on changes in the All Urban California Consumer Price Index". The board adopts the benefit amounts after the latest actuarial valuation and upon a determination by its consulting actuary of the impact of an adjustment on the funding of the Defined Benefit Program. It is the policy of the board that:

- a. The board shall adopt lump sum death benefit amounts for members of the DB Program annually with the goal of adopting the benefit amounts before July of the fiscal year in which the rate applies.

- b. The board shall adopt separate death benefit amounts for active Coverage A members, all retired members, and active Coverage B members.
- c. The board shall adopt the same benefit amount for Coverage B members under both the CalSTRS 2% at 60 and 2% at 62 benefit programs.
- d. The adoption of the benefit amount shall be based on the latest actuarial valuation of the Defined Benefit Program and determination by the board’s consulting actuary of the projected impact of an adjustment on the funding of the Defined Benefit Program.
- e. Increases in the benefit amounts shall be based on inflation in California in the previous calendar year as measured by the change in the All Urban California Consumer Price Index during the 12-month period ending in the preceding month of December.
- f. Annual increases shall not exceed the assumed long-term inflation assumption most recently adopted by the board. If the inflation in California in the previous calendar year exceeds the long-term inflation assumptions, the part of the inflation in excess of the assumption shall be made available in the future years when inflation is below the long-term inflation assumption.
- g. Effective July 1, 2024, cumulative increases in the lump-sum death benefit amounts shall not exceed the long-term inflation assumptions.
- h. An increase should be considered if the funded status of the Defined Benefit Program is projected to be 100% or greater on June 30, 2046, and the current projected funded status, as of the most recent actuarial valuation, reflecting the increased benefit amounts, is greater than the funded status specified in the following schedule:

<b><u>Valuation Date</u></b> <b><u>(as of June 30)</u></b>	<b><u>Funded Status Threshold</u></b>
<u>2023</u>	<u>68.3%</u>
<u>2024</u>	<u>69.2%</u>
<u>2025</u>	<u>70.2%</u>
<u>2026</u>	<u>71.1%</u>
<u>2027</u>	<u>72.1%</u>
<u>2028</u>	<u>73.1%</u>
<u>2029</u>	<u>74.2%</u>
<u>2030</u>	<u>75.3%</u>
<u>2031</u>	<u>76.4%</u>

<u>2032</u>	<u>77.5%</u>
<u>2033</u>	<u>78.7%</u>
<u>2034</u>	<u>79.9%</u>
<u>2035</u>	<u>81.2%</u>
<u>2036</u>	<u>82.5%</u>
<u>2037</u>	<u>83.9%</u>
<u>2038</u>	<u>85.3%</u>
<u>2039</u>	<u>86.9%</u>
<u>2040</u>	<u>88.5%</u>
<u>2041</u>	<u>90.1%</u>
<u>2042</u>	<u>91.9%</u>
<u>2043</u>	<u>93.8%</u>
<u>2044</u>	<u>95.7%</u>
<u>2045</u>	<u>97.8%</u>
<u>2046</u>	<u>100.0%</u>

History: Adopted November 6, 2014; Amended March 7, 2024 [to add e-h and the schedule].

## **F. Actuarial Valuations of the Defined Benefit Program**

The board shall commission an actuarial valuation of the Defined Benefit (DB) Program annually, using the most recently adopted demographic and economic assumptions, including the period of time over which gains and losses that differ from assumed investment return are recognized and the actuarial cost method (different actuarial cost methods may be used depending on the purpose of the liability calculation). Such assumptions and methods shall be reviewed and adopted every four years, but assumptions and methods may be reevaluated more frequently if the board determines that events since the last adoption warrant an earlier review.

### **1. Conducting Valuations**

- a. Actuarial valuations shall be undertaken to determine the current and long-term fiscal status of the DB Program and establish state and employer contribution rates pursuant to Chapter 16 of Part 13 of Division 1 of the Education Code.
- b. The valuation shall be consistent with the Actuarial Standards of Practice and shall, among other indicators, identify the unfunded liability and the funded status of the DB Program.

## 2. Determining State Contributions

- a. Pursuant to Section 22955.1 of the Education Code, the state's supplemental contribution rate shall be subject to adjustment annually, commencing in 2017-18, in an amount necessary to fully amortize the unfunded liability by June 30, 2046, associated with the benefit and contribution structure in effect as of July 1, 1990, except as provided in 2f.
- b. The assets associated with this unfunded liability will reflect the additional contributions due to the increases in the state supplemental contribution rate designated to amortize this unfunded liability.
- c. If an adjustment in the state's supplemental contribution rate is required, the adjustment shall not exceed 0.50 % of the creditable compensation upon which members' contributions to the DB Program are based during the fiscal year ending in the immediately preceding calendar year, as reported pursuant to Section 22955.5 of the Education Code.
- d. The contribution rate for the 1990 Benefit Structure, when combined with the employer supplemental contribution rate imposed pursuant to Section 22950.5, shall not exceed the contribution rate needed to amortize the unfunded liability for the total DB Program.
- e. Subject to the limitation in 2c, after July 1, 2017, the state's supplemental contribution rate pursuant to Section 22955.1 shall not be less than 4.311 % of the creditable compensation upon which members' contributions to the DB Program are based if there is an unfunded liability associated with the benefit and contribution structure in effect as of July 1, 1990.
- f. Notwithstanding the limitations in 2c, if there is no longer an unfunded liability associated with the benefit and contribution structure in effect as of July 1, 1990, the state's supplemental contribution rate pursuant to Section 22955.1 shall be eliminated and set to 0% of creditable compensation.

## 3. Determining Employer Contributions

- a. Pursuant to Section 22950.5 of the Education Code, the employer's supplemental contribution rate shall be subject to adjustment annually, commencing in 2021-22, in an amount necessary to fully amortize by June 30, 2046, the unfunded liability associated with the changes made in the benefit and contribution structure after July 1, 1990, associated with the service credited to members as of June 30, 2014.
- b. The assets associated with this unfunded liability will exclude future contributions equal to the Normal Cost for post-June 30, 2014, benefit accruals and will include a one-time adjustment equal to the difference

between the June 30, 2014, actuarial obligation under the projected unit credit cost method and the actuarial obligation under the valuation cost method.

- c. If an adjustment in the employer's supplemental contribution rate is required after determination of the state supplemental contribution rate, the adjustment shall not exceed 1.00 % of the creditable compensation upon which members' contributions to the DB Program are based, unless the unfunded liability has been eliminated.
- d. In no event shall the total contribution rate imposed pursuant to Section 22950.5 exceed 12.00 % of the creditable compensation upon which members' contributions to the DB Program are based.
- e. If there is a surplus (i.e., a negative unfunded liability associated with the benefit and contribution structure in effect as of July 1, 1990 for service accrued prior to July 1, 2014, the employer supplemental contribution rate, when combined with the state's supplemental contribution rate imposed pursuant to Section 22955.1, shall not exceed the contribution rate needed to amortize the unfunded liability attributable to service accrued prior to July 1, 2014, subject to the limitations described in 3c and 3d.

#### 4. Determining Member Contributions

- a. Member contributions shall be equal to the rates specified in Chapter 15 of Part 13 of Division 1 of the Education Code, and are not subject to adjustment by the board, except as provided in 4b.
- b. For members subject to the California Public Employees' Pension Reform Act of 2013, the member contribution rate shall be adjusted if the normal cost rate increases or decreases by more than 1.00 % of the creditable compensation upon which members' contributions to the DB Program are based above or below the normal cost rate in effect at the time the percentage is first established or, if later, the normal cost rate in effect at the time of the last adjustment.

History: Adopted June 9, 2016; Amended January 28, 2022 [to reflect minor revisions to section 7f].

## G. Actuarial Valuations of the Defined Benefit Supplement Program and the Cash Balance Benefit Program

### 1. Additional Earnings Credit

In awarding an additional earnings credit as a plan amendment pursuant to sections 25006 and 26605 of the Education Code, the following policy shall apply:

- a. No credit shall be awarded if the ratio of the market value of assets to the actuarial liability is less than or equal to the sum of 100 percent and one standard deviation of the assumed annual rate of investment return, as determined in the most recently adopted Actuarial Experience Study, rounded to the nearest one-tenth of one percent.
- b. If the ratio of the market value of assets to liabilities exceeds the sum of 100 percent and one standard deviation of the assumed annual rate of investment return, as determined in the most recently adopted Actuarial Experience Study, rounded to the nearest one-tenth of one percent, an additional earnings credit shall be awarded as a percentage of the member's balance of credits, equal to the lesser of:
  - i. The difference between the assumed annual rate of investment return and the minimum interest rate for the valuation year and
  - ii. A percentage such that the resulting ratio of the market value of assets to liabilities, after the awarding of the additional credit, is equal to the sum of 100 percent and one standard deviation of the assumed annual rate of investment return, rounded to the nearest one-tenth of one percent.
- c. If, after the award of credits as described above, the ratio of the market value of assets to the actuarial liability exceeds the sum of 100 percent and two standard deviations of the assumed annual rate of investment return, as determined in the most recently adopted Actuarial Experience Study, rounded to the nearest one-tenth of one percent, the additional earnings credit shall be increased by an amount equal to a percentage such that the resulting ratio of the market value of assets to liabilities is equal to the sum of 100 percent, two standard deviations of the assumed annual rate of investment return, as determined in the most recently adopted Actuarial Experience Study and 50 percent of the ratio of the market value of assets to the actuarial liability in excess of two standard deviations of the assumed annual rate of investment return, as determined in the most recently adopted Actuarial Experience Study, rounded to the nearest one-tenth of one percent. For example, if the funded ratio after the first allocation is equal to 150% and 100% plus two standard deviations is 130%, the

additional credits should be such that the resultant funded ratio is equal to 140% (130% plus 50% of the difference).

- d. For purposes of determining whether additional credits are awarded prior to the adoption of the Experience Study in 2016, one standard deviation of the assumed annual rate of investment return for the Defined Benefit Supplement Program shall be 13.9 percent, and for the Cash Balance Benefit Program, the standard deviation shall be 13.2 percent.
- e. The board shall award an additional earnings credit as a plan amendment to the Defined Benefit Supplement Program and the Cash Balance Benefit Program, as applicable, pursuant to a resolution adopted by the board no later than June 30 of the plan year for which the credit is being awarded.
- f. The additional earnings credit shall be applied to the member's balance of credits as of the date the resolution is adopted by the board.
- g. The additional earnings credit credited to the member's nominal account shall be based on all information concerning the balance of credits as of the end of the plan year that is known as of the date that the additional earnings credit is credited to the member's nominal account.

## 2. Additional Annuity Credit

In recognition that annuities are determined based on the assumed rate of investment return as of the benefit effective date, no additional annuity credits shall be awarded pursuant to Sections 25007 and 26607 of the Education Code.

History: Adopted April 2, 2015.

## Section 8

### Audits and Risk Management Policies

#### A. External Auditor Independence and Allowable Services

##### 1. Independence

The purpose of this document is to define the standards of independence for the external auditor to be engaged by the CalSTRS Teachers' Retirement Board. These standards will meet or exceed standards proposed by professional accounting and auditing organizations.

"Independence" is a highly subjective term, because it concerns an individual's ability to act with integrity and objectivity. Integrity relates to an auditor's honesty, while objectivity is the ability to be neutral during the conduct of the engagement and the preparation of the auditor's report. Two facets of independence are independence in fact and independence in appearance. Public confidence would be impaired if the auditor actually lacked independence. That confidence would also be impaired if the public believed circumstances existed that might influence the auditor's independence. Independence, in fact, is impossible to measure since it is a mental attitude.

The external audit firm engaged to perform a financial statement audit and/or other audit services shall be independent in fact and in appearance. The external audit firm engaged to perform the financial audit and/or other audit services shall not contemporaneously perform services that conflict with auditor independence. This policy statement is based on the principal that independence of the external auditor is paramount to ensure objectivity and to express an unbiased auditor's opinion.

The principles of independence with respect to services provided by the external auditors, are largely predicated on three basic principles, violations of which would impair the external auditor's independence: (1) external auditors cannot function in the role of management, (2) external auditors cannot audit their own work, and (3) external auditors cannot serve in the advocacy role for their client.

To ensure external auditor's independence, this policy further explains the services that the external auditor is allowed to perform and services that the external auditor is not allowed to perform.

##### 2. Services that the External Auditor is Allowed to Perform

The following items are within the scope of services that may be provided by the independent financial statement auditor, including its subsidiaries or affiliates. In general, these services to be provided are those that are provided in the



Statements of Auditing Standards and the Statements of Standards for Attestation Engagements promulgated by the Auditing Standards Board of the American Institute of Certified Public Accountants.

- a. Annual financial statements audit;
- b. Preparation of draft financial statements that are based on management's chart of accounts and trial balance and including any adjusting, correcting, and closing entries that have been approved by management;
- c. Required external auditor communications to management;
- d. Presentation of audited financial statements to the Audits and Risk Management Committee;
- e. Attest services;
- f. Report to management and recommendations to management on internal control structure, risk management and/or accounting policies as a result of performing the audit and/or other allowed services;
- g. Training when requested by CalSTRS program management; and,
- h. Any other services approved by the Audits and Risk Management Committee and the Teacher's Retirement Board.

### 3. Services that the External Auditor is Not Allowed to Perform

The independent financial statement auditor, including its subsidiaries and affiliates, shall not perform the following services for CalSTRS or any other services for CalSTRS that the board believes will impair auditor's independence while engaged to perform CalSTRS' financial statements audit. These non-audit services include:

- a. Bookkeeping or other services related to the accounting records or financial statements of the audit client;
- b. Financial information systems design and implementation;
- c. Appraisal or valuation services, fairness opinions, or contribution-in-kind reports;
- d. Actuarial services;
- e. Internal audit outsourcing services;
- f. Management functions;

- g. Human resources;
- h. Broker or dealer, investment adviser, or investment banking services;
- i. Legal services unrelated to the audit;
- j. Expert services unrelated to the audit;
- k. Tax Services under PCAOB Rules 3521, 3522(a) and 3523, and,
- l. Any other service that the board determines is impermissible.

#### 4. Undue Influence

No member of the Teachers' Retirement Board shall influence the auditors, or the firm engaged to perform audit services and other allowed services. Therefore, no person associated with CalSTRS shall take any action to fraudulently influence, coerce, manipulate, or mislead the independent financial statement auditor. To the contrary, persons associated with CalSTRS shall promptly provide all information required for the auditor to perform the audit procedures and complete the audit and form an opinion on the CalSTRS financial statements.

History: Adopted September 7, 2005; Amended January 31, 2020 [to reflect gender-neutral language and remove references to CalSTRS staff].

# Appendix I

Delegation of Authority  
to  
Chief Executive Officer  
By the California State Teachers' Retirement Board

WHEREAS, it is the duty of the Teachers' Retirement Board to administer the System faithfully without prejudice and consistent with the law and Board policy;

WHEREAS, the Teachers' Retirement Board has a fiduciary duty with respect to the interests of the members and beneficiaries of the System;

WHEREAS, management of the System is vested by law in the Teachers' Retirement Board;

WHEREAS, the Teachers' Retirement Board has exclusive control of the investment of the Teachers' Retirement Fund;

WHEREAS, the Teachers' Retirement Board may delegate authority to the Chief Executive Officer to perform any act within the power of the Board itself to perform. Unless the delegation provides that the Chief Executive Officer has the authority to act finally, any such acts shall be reported to the Board at its next regular meeting and shall be subject to review, reversal or ratification by the Board (Ed. Code, sec. 22208, 5 Cal. Code Regs., tit. 5, sec. 20520);

WHEREAS, the Teachers' Retirement Board desires to restate the delegation to the Chief Executive Officer. Now, therefore, be it

RESOLVED, that the Teachers' Retirement Board does hereby delegate to the Chief Executive Officer authority to act as follows:

The management of the California State Teachers' Retirement System is vested in the Chief Executive Officer who shall be the executive and administrative head of the System. The Chief Executive Officer shall operate the System within the framework established by the Constitution, laws, and in accordance with rules and policies adopted by the Teachers' Retirement Board. The Chief Executive Officer shall act as advisor to the Board on all matters pertaining to the System, act as liaison between the Board, members, member organizations, employers, employer organizations, State departments and agencies, the Legislature, and shall also act as Secretary of the Board. Notwithstanding this section, the Chief Executive Officer has the duty to bring to the attention of the Board all matters which are sensitive in nature or have a significant policy impact.



## Administrative Duties and Responsibilities

In the administration of the System, the Chief Executive Officer has the duty and the authority to:

1. Present recommendations to the Teachers' Retirement Board (Board) with respect to policies, rules and regulations for the purpose of carrying out the provisions of the laws applicable to the System;
2. Submit to the Board reports, resolutions and procedures, and make recommendations for legislative action on changes in the programs and the laws being administered;
3. Appear before legislative committees and address other groups regarding the provisions of the retirement laws, operations of the System and its programs, and positions taken by the Board on proposed laws and other issues;
4. Determine the amount of and make timely payment of annuities, allowances, and refunds to members, former members and their survivors who are the beneficiaries of the System, all in accordance with governing laws; this includes the authority to adjust any benefit payments and to collect overpayments of benefits pursuant to and in accordance with the law and Board policy;
5. Negotiate, enter into, amend and terminate contracts for goods and services.
6. Submit to the Board for its approval an annual operations budget that is appropriate to the fulfillment of CalSTRS' mission and subsequently present it to the Department of Finance and the Legislature for inclusion in the State's annual budget in accordance with the Board's constitutional authority. Thereafter, the Chief Executive Officer is responsible for administering CalSTRS operations within authorized budget resources;
7. Prepare and submit to the Board the Comprehensive Annual Financial Report, which covers the operations of the System for the preceding fiscal year including investment results, and thereafter send copies of the report to the Controller, the Governor, the Legislature and any other persons/entities as appropriate;
8. Maintain membership and participate in the proceedings of nationally recognized organizations in the fields of public retirement administration, investments, and other disciplines as appropriate for the purpose of keeping abreast with the latest developments applicable to public pension plan administration and to further the interests of the California State Teachers' Retirement System; and
9. In consultation with the Board chair, act as the prime spokesperson for the System to the public, the press and the Legislature.



## Authority and Duties

The Chief Executive has the authority to act finally with respect to the following matters:

- a. Planning, organizing and directing the work of the System as deemed necessary to fulfill the functions thereof;
- b. Negotiating, entering into, amending and terminating consulting contracts of a non-investment nature as may be necessary for the administration of the System. In accordance with this policy, and corresponding provisions of the Board Policy Manual, the CEO is delegated authority to enter into contracts that do not exceed \$1,000,000 in cumulative value and sole source contracts that do not exceed \$100,000 in cumulative value. Any contract or purchase which exceeds these values must be approved by the Board itself. The CEO is delegated additional authority to approve up to an additional fifteen percent (15%) not to exceed \$1,000,000 in cumulative value on a contract previously approved by the Board;
- c. Negotiating, entering into, amending and terminating contracts for investment management, advice, consulting, and legal counsel and authorizing expenditures for such investment services to be paid out of the continuous appropriation;
- d. Execute, on the recommendation of the Chief Investment Officer, all documents or authorize the issuance of instructions, both when the System is acting directly and when the System is acting in its capacity as a constituent of an entity in which the System holds an interest, necessary to purchase, sell, convey, assign, incur debt, encumber assets or otherwise manage investments and assets of the System including, but not limited to, those involving real estate, mortgages, equities, fixed income, alternative investments, and special situations, including investments related to the Credit Enhancement Program, in compliance with policy guidelines adopted by the Board or Investment Committee, including authorized investment delegation levels. A copy of this Delegation of Authority and the most current list of discretion levels delegated to the Chief Investment Officer and investment staff shall be maintained in the Board Policy Manual;
- e. Vote, vote by proxy and otherwise act in accordance with Board policy and applicable procedure on all matters relating to the corporations, limited partnerships, limited liability companies and other entities through which the System holds title to investments, including but not limited to matters of corporate governance;



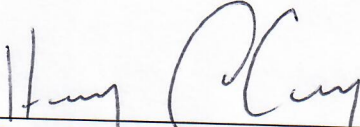
- f. Establishing and directing the maintenance of an effective system of internal controls and records and accounts following recognized accounting principles;
- g. Directing the preparation of accurate statistical records to serve as a basis for actuarial investigations, valuations, and computations in sufficient detail to permit the valuation and establishment of experience factors;
- h. Appointing such employees as are necessary to carry out the provisions of the law applicable to the System and defining the duties thereof;
- i. Initiating, prosecuting, and defending appeals, writs and other litigation in the courts and administrative forums as necessary to comply with and enforce applicable law and to carry out the decisions and policies of the Board. Board approval will be obtained before taking such action where required by Board policy or otherwise appropriate under the circumstances;
- j. Settling and compromising claims and controversies and paying on behalf of the Board and the System all claims and controversies relating to benefits, personnel, and other legal matters for amounts not to exceed \$200,000 per individual claim and controversy;
- k. Accept service of summons and any other legal service of process for and on behalf of the Board and the System;
- l. Initiate, prosecute and defend subrogation actions, appeals, and other related litigation matters, such as cross complaints, and to file liens, intervene in court proceeding, join parties to actions, consolidate actions, compromise claims, contract with outside counsel, and take other such action as necessary to recover amounts owed to the System.
- m. Make programmatic decisions regarding the System's defined contribution programs, including but not limited to selecting investment options available to plan participants. Any authority the Chief Executive Officer has to enter into contracts shall be subject to the limitations imposed in section above.

The Chief Executive Officer shall perform such other duties as may be required for the administration of the System, other provisions of law governing the System, and for the transaction of its business.

The Chief Executive Officer may sub-delegate any and all of the powers and authority as appropriate as provided for by Section 22301 of the Education Code.

RESOLVED further, that this Resolution shall be effective when executed by the Chairperson, and that this delegation shall supersede all previous delegations of authority to the Chief Executive Officer.

January 11, 2024

  
\_\_\_\_\_  
Harry Keiley, Chairperson  
Teachers' Retirement Board

ACKNOWLEDGMENT

A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

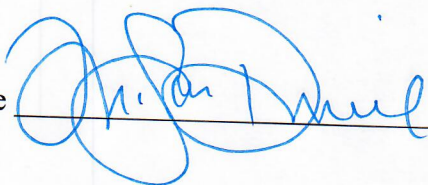
State of California  
County of Yolo

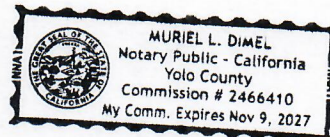
On January 11, 2024 before me, Muriel L. Dimel, Notary Public, personally appeared Harry Keiley, who proved to me on the basis of satisfactory evidence to be the person whose name is subscribed to the within instrument and acknowledged to me that he executed the same in his authorized capacity, and that by his signature on the instrument the person, or the entity upon behalf of which the person acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature

  
\_\_\_\_\_





# Appendix II

Delegation of Authority  
to the  
Chief Operating Officer  
California State Teachers' Retirement System

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer, either to act finally, or to act subject to review, ratification, or reversal by the Board; and

WHEREAS, the Teachers' Retirement Board has delegated authority to the Chief Executive Officer through that certain Delegation of Authority, dated March 23, 2010, to perform the duties required for the administration of the System; and

WHEREAS, the Chief Executive Officer may sub-delegate any and all of the powers and authority as appropriate, pursuant to Section 22301 of the Education Code and that certain Delegation of Authority, dated March 23, 2010; and

· WHEREAS, the Chief Executive Officer continues to spend significant time focusing on emerging funding issues and strategies, and as a result, the Chief Operating Officer needs sub-delegated authority to carry on the day-to-day business of the System. Now, therefore, be it

RESOLVED, that the Chief Executive Officer does hereby sub-delegate to the then duly appointed and incumbent Chief Operating Officer, authority as follows:

The full and continuous use of the Chief Executive Officer's powers are vested in  
· the Chief Operating Officer, who shall act in the Chief Executive Officer's stead at all times, until such time as the position or its authority to act has been revoked.

RESOLVED further, that this Delegation. Shall be effective when executed by the Chief Executive Officer.

January 19, 2022

  
\_\_\_\_\_  
CASSANDRA LICHNOCK  
Chief Executive Officer

Delegation of Authority  
To  
Director of Human Resources  
California State Teachers' Retirement System

WHEREAS, Section 22208 of the Education Code, and the California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer (CEO) either to act finally, or to act subject to review, ratification, or reversal by the board; and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code. Now, therefore, be it:

RESOLVED, that the CEO does hereby delegate to the Director of Human Resources the power and authority as follows:

With respect to a CalSTRS employee's, former employee's or entity's dispute regarding personnel matters, I hereby delegate my authority to settle any dispute up to \$50,000.00. I further delegate my authority to sign any and all documents relating to personnel matters, including but not limited to adverse actions, as the official representative of CalSTRS.

RESOLVED further, that this Delegation shall be effective when executed by the Chief Executive Officer.

January 19, 2022

  
\_\_\_\_\_  
CASSANDRA LICHNOCK  
Chief Executive Officer

Delegation of Authority  
To  
Chief Benefits Officer  
California State Teachers' Retirement System

WHEREAS, Section 22208 of the Education Code, and the California Code of Regulations, Title 5, Section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer (CEO) either to act finally, or to act subject to review, ratification, or reversal by the Board; and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO pursuant to the Delegation of Authority, dated July 14, 2016; and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code. Now therefore, be it:

RESOLVED, that the CEO does hereby subdelegate to the Chief Benefits Officer (CBO) the power and authority as follows:

Initiate, prosecute and defend subrogation actions, appeals, and other related litigation matters, such as cross complaints, and to file liens, intervene in court proceeding, join parties to actions, consolidate actions, compromise claims, contract with outside counsel, and take other such action as necessary to recover amounts owed to the System.

Initiating, prosecuting, and defending appeals, writs and other litigation in the courts and administrative forums as necessary to comply with and enforce applicable law and to carry out the decisions and policies of the Board. Board approval will be obtained before taking such action where required by Board policy or otherwise appropriate under the circumstances.

Settling and compromising claims and controversies and paying on behalf of the Board and the System all claims and controversies relating to benefits for amounts not to exceed \$200,000 per individual claim and controversy.

RESOLVED, that the CEO further hereby subdelegates to the CBO the power and authority to review, approve and sign all Statements of Issues for administrative appeals involving or arising out member benefits.

RESOLVED, further, that this Delegation shall be effective when executed by the CEO.

January 19, 2022

  
\_\_\_\_\_  
CASSANDRA LICHNOCK  
Chief Executive Officer

Delegation of Authority  
To  
Chief Financial Officer  
California State Teachers' Retirement System

WHEREAS, Section 22208 of the Education Code, and the California Code of Regulations, Title 5, Section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer (CEO) either to act finally, or to act subject to review, ratification, or reversal by the Board; and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO pursuant to the Delegation of Authority, dated July 14, 2016; and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code. Now therefore, be it:

RESOLVED, that the CEO does hereby subdelegate to the Chief Financial Officer the power and authority as follows:

To review, approve and sign all Statements of Issues for administrative appeals arising out of financial services.

Settling and compromising claims and controversies and paying on behalf of the Board and the System all claims and controversies relating to financial services for amounts not to exceed \$200,000 per individual claim and controversy.

RESOLVED, further, that this Delegation shall be effective when executed by the CEO.

January 19, 2022

  
\_\_\_\_\_  
CASSANDRA LICHNOCK  
Chief Executive Officer

# CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

*Memorandum*

*Executive Office, MS-1  
(916) 414-2200  
CLichnock@Ca!STRS.com*

**Date:** January 19, 2022

**To:** File

**From:** Cassandra Lichnock  
Chief Executive Officer

**Subject:** DELEGATION OF AUTHORITY FOR SIGNING STATEMENT OF ISSUES

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As the Appointing Power and Chief Executive Officer responsible for the administration of the California State Teachers' Retirement System and the plan pursuant to the policies and rules adopted by the board, I am delegating the authority to review, approve and sign all Statements of Issues for administrative appeals involving or arising out of audits to the Chief Auditor.

Dated 01/20/22



---

Cassandra Lichnock  
Chief Executive Officer

**Delegation of Authority  
to the  
Chief Investment Officer  
California State Teachers' Retirement System**

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer ("CEO"); and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO, pursuant to the Delegation of Authority to the Chief Executive Officer ("Delegation"); and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code and that certain Delegation. Now, therefore, be it

RESOLVED, that the CEO does hereby delegate to the duly appointed and incumbent Chief Investment Officer, Scott Chan, authority to execute all documents, or authorize the issuance of instructions, both when the System is acting directly, and in its capacity as a constituent of an entity in which the System holds an interest necessary to purchase, sell, convey, assign, incur debt, encumber assets or otherwise manage investments and assets of the System, including, but not limited to, those involving real estate, mortgages, equities, fixed income, alternative investments, credit enhancement, and special situations, in compliance with policy guidelines adopted by the Board or by its Investment Committee; and

RESOLVED further, that this delegation shall be effective when executed by the CEO and shall supersede all prior delegations to the Chief Investment Officer.

July 2024

DocuSigned by:

*Cassandra Lichnock*

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CASSANDRA LICHNOCK  
Chief Executive Officer

**Delegation of Authority  
to the  
Director of Investment Services  
California State Teachers' Retirement System**

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer ("CEO"); and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO, pursuant to the Delegation of Authority to the Chief Executive Officer ("Delegation"); and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code and that certain Delegation. Now, therefore, be it

RESOLVED, that the CEO does hereby delegate to the duly appointed and incumbent Director of Investment Services, April Wilcox, authority to execute notices or other writings, or authorize the issuance of instructions pertaining to the administration of the Investment Services program, in compliance with policy guidelines adopted by the Board or by its Investment Committee; and

RESOLVED further, that, notwithstanding the foregoing, the Director of Investment Services shall not have authority pursuant to this delegation to execute any documents to purchase, sell, convey, assign, incur debt, encumber assets, or otherwise manage CalSTRS investments and assets; and

RESOLVED further, that this delegation shall be effective when executed by the CEO and shall supersede all prior delegations to the Director of Investment Services.

July 2024

DocuSigned by:

*Cassandra Lichnock*

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CASSANDRA LICHNOCK  
Chief Executive Officer



**Delegation of Authority  
to the  
Director of Risk Mitigating Strategies  
California State Teachers' Retirement System**

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer ("CEO"); and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO, pursuant to the Delegation of Authority to the Chief Executive Officer ("Delegation"); and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code and that certain Delegation. Now, therefore, be it

RESOLVED, that the CEO does hereby delegate to the duly appointed and incumbent Director of Risk Mitigating Strategies (RMS), Steven Tong, authority to execute all documents, or authorize the issuance of instructions, both when the System is acting directly, and in its capacity as a constituent of an entity in which the System holds an interest necessary to purchase, sell, convey, assign, incur debt, encumber assets or otherwise manage investments and assets of the System, including, but not limited to, those involving real estate, mortgages, equities, fixed income, alternative investments, credit enhancement, and special situations, in compliance with policy guidelines adopted by the Board or by its Investment Committee; and

RESOLVED further, that, notwithstanding the foregoing, the Director of Risk Mitigating Strategies shall not have authority pursuant to this delegation to execute (1) investment recommendations concerning the Risk Mitigating Strategies asset class, or (2) Risk Mitigating Strategies trade tickets in amounts beyond the applicable approval limit set forth in the Investment Policy; and

RESOLVED further, that this delegation shall be effective when executed by the CEO and shall supersede all prior delegations to the Director of Risk Mitigating Strategies.

July 2024

DocuSigned by:  
*Cassandra Lichnock*  
54E1A805EE32473...  
CASSANDRA LICHNOCK  
Chief Executive Officer

**Delegation of Authority  
to the  
Head of Investment Operations  
California State Teachers' Retirement System**

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer ("CEO"); and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO, pursuant to the Delegation of Authority to the Chief Executive Officer ("Delegation"); and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code and that certain Delegation. Now, therefore, be it

RESOLVED, that the CEO does hereby delegate to the duly appointed Head of Investment Operations, Kelly Criss, authority to execute notices or other writings, or authorize the issuance of instructions pertaining to the administration of the Investment Operations program, in compliance with policy guidelines adopted by the Board or by its Investment Committee; and

RESOLVED further, that, notwithstanding the foregoing, the Head of Investment Operations shall not have authority pursuant to this delegation to execute any documents to purchase, sell, convey, assign, incur debt, encumber assets, or otherwise manage CalSTRS investments and assets; and

RESOLVED further, that this delegation shall be effective when executed by the CEO and shall supersede all prior delegations to the Director of Investment Operations.

July 2024

DocuSigned by:

*Cassandra Lichnock*

54E1A805EE32473  
CASSANDRA LICHNOCK  
Chief Executive Officer

**Delegation of Authority  
to the  
Head of Investment Performance and Compliance  
California State Teachers' Retirement System**

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer ("CEO"); and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO, pursuant to the Delegation of Authority to the Chief Executive Officer ("Delegation"); and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code and that certain Delegation. Now, therefore, be it

RESOLVED, that the CEO does hereby delegate to the duly appointed Head of Investment Performance & Compliance, Shifat Hasan, authority to execute notices or other writings, or authorize the issuance of instructions pertaining to the administration of the Investment Performance and Compliance program, in compliance with policy guidelines adopted by the Board or by its Investment Committee; and

RESOLVED further, that, notwithstanding the foregoing, the Head of Investment Performance and Compliance shall not have authority pursuant to this delegation to execute any documents to purchase, sell, convey, assign, incur debt, encumber assets, or otherwise manage CalSTRS investments and assets; and

RESOLVED further, that this delegation shall be effective when executed by the CEO and shall supersede all prior delegations to the Head of Investment Performance and Compliance.

July 2024

DocuSigned by:

*Cassandra Lichnock*

54E1A805FE32473  
CASSANDRA LICHNOCK  
Chief Executive Officer

**Delegation of Authority  
to the  
Senior Investment Director of Private Markets  
California State Teachers' Retirement System**

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer ("CEO"); and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO, pursuant to the Delegation of Authority to the Chief Executive Officer ("Delegation"); and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code and that certain Delegation. Now, therefore, be it

RESOLVED, that the CEO does hereby delegate to the duly appointed and incumbent Senior Investment Director of Private Markets, Michael DiRé, authority to execute all documents, or authorize the issuance of instructions, both when the System is acting directly, and in its capacity as a constituent of an entity in which the System holds an interest necessary to purchase, sell, convey, assign, incur debt, encumber assets or otherwise manage investments and assets of the System, including, but not limited to, those involving real estate, mortgages, equities, fixed income, alternative investments, credit enhancement, and special situations, in compliance with policy guidelines adopted by the Board or by its Investment Committee; and

RESOLVED further, that this delegation shall be effective when executed by the CEO and shall supersede all prior delegations to the Senior Investment Director of Private Markets.

July 2024

DocuSigned by:

*Cassandra Lichnock*

54E1A805EE32473  
CASSANDRA LICHNOCK  
Chief Executive Officer

**Delegation of Authority  
to the  
Senior Investment Director of Public Markets  
California State Teachers' Retirement System**

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer ("CEO"); and

WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO, pursuant to the Delegation of Authority to the Chief Executive Officer ("Delegation"); and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code and that certain Delegation. Now, therefore, be it

RESOLVED, that the CEO does hereby delegate to the duly appointed and incumbent Senior Investment Director of Public Markets, Geraldine Jimenez, authority to execute all documents, or authorize the issuance of instructions, both when the System is acting directly, and in its capacity as a constituent of an entity in which the System holds an interest necessary to purchase, sell, convey, assign, incur debt, encumber assets or otherwise manage investments and assets of the System, including, but not limited to, those involving real estate, mortgages, equities, fixed income, alternative investments, credit enhancement, and special situations, in compliance with policy guidelines adopted by the Board or by its Investment Committee; and

RESOLVED further, that this delegation shall be effective when executed by the CEO and shall supersede all prior delegations to the Senior Investment Director of Public Markets.

July 2024

DocuSigned by:

*Cassandra Lichnock*

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54E1A895EE32473  
CASSANDRA LICHNOCK  
Chief Executive Officer

**Delegation of Authority  
to the  
Senior Investment Director of Total Fund Management  
California State Teachers' Retirement System**

WHEREAS, Section 22208 of the Education Code, and California Code of Regulations, title 5, section 20520, give the Teachers' Retirement Board authority to delegate any acts within its power to the Chief Executive Officer ("CEO"); and


WHEREAS, the Teachers' Retirement Board has delegated certain authority to the CEO, pursuant to the Delegation of Authority to the Chief Executive Officer ("Delegation"); and

WHEREAS, the CEO may delegate any and all of the powers and authority as appropriate pursuant to Section 22301 of the Education Code and that certain Delegation. Now, therefore, be it

RESOLVED, that the CEO does hereby delegate to the duly appointed and incumbent Senior Investment Director of Total Fund Management, June Kim, authority to execute all documents, or authorize the issuance of instructions, both when the System is acting directly, and in its capacity as a constituent of an entity in which the System holds an interest necessary to purchase, sell, convey, assign, incur debt, encumber assets or otherwise manage investments and assets of the System, including, but not limited to, those involving real estate, mortgages, equities, fixed income, alternative investments, credit enhancement, and special situations, in compliance with policy guidelines adopted by the Board or by its Investment Committee; and

RESOLVED further, that this delegation shall be effective when executed by the CEO and shall supersede all prior delegations to the Senior Investment Director of Total Fund Management.

August 2024

Signed by:  
  
54E1A805EE32473...  
CASSANDRA LICHNOCK  
Chief Executive Officer

# Appendix III

## Existing Agreements, Exemptions, Current Policies and Practices

This policy is not intended to supersede or invalidate any existing agreements, exemptions, or current policies or practices, including but not limited to the following:

### 1. Budget

By longstanding mutual agreement with the Department of Finance, following board approval CalSTRS' annual operating budget is submitted to Finance for inclusion in the Governor's annual proposed budget without change or reduction. The Legislature, in turn, has approved these budgets without alteration in the annual Budget bill. Once its annual budget is enacted, CalSTRS has been given the flexibility to reallocate resources internally as deemed appropriate; however, CalSTRS may not exceed its budget notwithstanding changed circumstances absent enactment by the Legislature of a deficiency request. Budget bills provide CalSTRS with the flexibility to "carry over" up to 3% of its operating budget into a future fiscal year upon approval of the Board.

### 2. Contracts

#### a. Delegation of Authority:

1. Any contract or purchase which exceeds \$1,000,000 in cumulative value must be approved by the board itself. For goods and/or services obtained with a vendor through CMAS, approval by the board itself is required when cumulative purchase orders for a fiscal year with that vendor exceed \$1,000,000. When requesting board approval for CMAS purchase orders exceeding \$1,000,000 with a vendor, staff shall provide the board with a breakdown of the total amount for the vendor by project and/or program name. Approval authority for contracts and purchases below \$1,000,000 is delegated to the Chief Executive Officer or his/her designee. Additionally, any sole source contract exceeding \$100,000 will require advance approval by the board itself.
2. In the event of an officially declared state of emergency applicable to CalSTRS, or a CalSTRS emergency as declared by the Chief Executive Officer or Chief Operating Officer, with the approval of either, the board chair or vice chair, on the recommendation of the General Counsel or Deputy General Counsel, the Chief Executive Officer or Chief Operating Officer has the authority to approve on behalf of the board, non-investment contracts exceeding \$1,000,000 and up to \$10,000,000 and sole source contracts exceeding \$100,000 and up to \$1,000,000, when it is not practicable in light of the emergency to timely secure full board approval. Any contract approved under this emergency exception will adhere to CalSTRS normal procurement process, including fiscal and legal review, and will be compliant with state contracting laws. The full board



will be immediately notified if any contract is approved under this emergency exception and a complete report will be provided at the next publicly noticed board meeting.

3. In order to quickly reduce or eliminate the effects of an Information Security Incident, as defined in the Information Security Incident Response Plan Policy, or a system emergency as declared by the Chief Executive Officer or Chief Operating Officer, with the approval of either the board chair or vice chair and on the recommendation of the General Counsel or Deputy General Counsel, the Chief Executive Officer or Chief Operating Officer has the authority to approve on behalf of the board non-investment contracts exceeding \$1,000,000 and up to \$5,000,000 and sole source contracts exceeding \$100,000 and up to \$5,000,000, when it is not practical in light of the security incident to timely secure full board approval. Any contract approved under this Information Security Incident exception will adhere to CalSTRS normal procurement process, including fiscal and legal review, and will be compliant with state contracting laws. The full board will be immediately notified if any contract is approved under this security incident exception and a complete report will be provided at the next publicly noticed board meeting.

- b. **Contracts for the Procurement of Goods and Services:** By agreement, approval by the Department of General Services is not required. CalSTRS shall acquire goods and services in the best interest of CalSTRS, its members, and beneficiaries in accordance with prudent business practices and in compliance with the law. Contracts will be made based on a determination by the Chief Executive Officer or his/her designee that the contract is appropriate from a cost-benefit perspective. Contracts for personal services shall include, to the extent appropriate, knowledge transfer provisions to enhance the ability of CalSTRS staff to maintain and operate contracted programs, equipment, and facilities. In order to ensure that quality products and services are obtained at reasonable prices, CalSTRS will use a competitive bidding process except as provided below. Awards for contracts and purchases will be made to the lowest responsible bidders or the highest scored responsible bidders, depending on the solicitation method utilized. The duration or term of contracts awarded will follow guidelines set forth in SAM unless the Board specifically provides otherwise. Staff shall typically seek maximum economic advantage to CalSTRS in its acquisitions. In unique circumstances, such as emergencies, where there is only a single source, or in other situations such as the purchase of proprietary software, a contract may be awarded without competitive bidding, subject to applicable law and delegations. CalSTRS may also contract for goods and services through the various statewide leveraged procurement agreements (e.g., California Multiple Award Schedules (CMAS)). Consistent with the exemption provided to CalSTRS by Management

Memo MM 03-10, CalSTRS may exceed existing CMAS purchase order limits without obtaining approval of the Department of General Services.

- c. **Information Technology Procurement:** By longstanding agreement, CalSTRS may undertake information technology projects and procurements related to such projects without the review and/or approval of the Department of Finance or other control agencies. CalSTRS will continue to assert its plenary authority and fiduciary responsibility with respect to matters related to the investment of funds and administration of the system. CalSTRS information technology projects and procurements shall be conducted in a manner that ensures that they meet business needs and that expenditures made in their support represent a prudent investment of CalSTRS resources. Information technology projects shall be managed through appropriate project management techniques and in accordance with established security and risk management protocols to ensure both the security of member data and the integrity of CalSTRS systems.
- d. **Contracts for Legal Services:** In furtherance of its plenary authority and fiduciary responsibility with respect to matters related to the investment of funds and administration of the system and by longstanding agreement, CalSTRS may engage the services of outside counsel without approval by the Office of the Attorney General.

### 3. Agency Review

Although CalSTRS has plenary authority and fiduciary responsibility for investment of funds and administration of the system, CalSTRS will inform the State and Consumer Services Agency of significant activities and developments and will participate as appropriate in Agency meetings of officers from its constituent entities.

### 4. Out-of-State/Out-of-Country Travel

Requests for out-of-state and out-of-country travel are approved internally by CalSTRS pursuant to its plenary authority and fiduciary responsibility for investment of funds and administration of the system.

History: Amended May 7, 2020 [to add emergency delegation authority in 2(a)]; Amended February 23, 2021 [to remove language regarding “other sole source contracts” in section 2(a), to remain consistent with the board's current delegation to the CEO], Amended March 2024 [to add 2, a, 3]. Amended September 26, 2024 [to include more general emergency authority].