CALSTRS

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

RISK MITIGATING STRATEGIES POLICY

INVESTMENT BRANCH

November 2024

Risk Mitigating Strategies Policy

<h1 style="text-align:center">EXECUTIVE SUMMARY</h1>

In accordance with the CalSTRS Investment Policy Statement (IPS), the California State Teachers' Retirement Board's Investment Committee (IC) has established a Risk Mitigating Strategies (RMS) asset class. The objective of the RMS asset class is to invest in strategies that provide further diversification of CalSTRS overall investment portfolio. The goal of RMS is to construct a portfolio that will invest in strategies that primarily provide protection against equity market downturns.

RMS consists of: (1) Long Duration U.S. Treasuries, (2) Trend Following, (3) Global Macro, (4) Systematic Risk Premia, and other strategies to be identified in the future. The purpose of the RMS Policy (Policy) is to expand the investment opportunity set beyond the portfolio constituents identified in the current Investment Policy Statement (IPS).

CalSTRS' RMS assets are to be invested, administered and managed in a prudent manner for the sole benefit of its participants and beneficiaries in accordance with the California Constitution, Teachers' Retirement Law, and other applicable statutes. No investment instrument or activity prohibited by the IPS shall be authorized for RMS.

The policy ensures that investors, managers, consultants, advisors, or other participants selected by CalSTRS take prudent and careful action while managing the RMS Portfolio (Portfolio). The purchase, management, and sale of all Portfolio products are performed by external and/or internal professionals (managers) who are monitored and evaluated by internal investment officers, a Portfolio consultant, and/or independent fiduciaries.

CalSTRS believes that environmental, social and governance (ESG) issues can affect the performance of our investments. As a result, CalSTRS ESG Policy has been developed as a tool that both internal and external investment managers are expected to use to assess the impact of ESG risk when making an investment on behalf of CalSTRS.

The internal investment officers and independent fiduciaries operate under the direction of the Chief Investment Officer (CIO). Review of the Portfolio falls under the general consultant (Consultant), who reports directly to the IC. If a specialty asset class consultant is retained, that consultant will report directly to the IC.

Policies approved by the IC cannot be altered without explicit direction from the IC.

POLICY

This document outlines the policy for the management of CalSTRS' RMS class. These policies are designed to set the boundaries for oversight and management of the Portfolio, while allowing sufficient flexibility in the management process to manage risk and capture investment opportunities.

Policies for the management of the Portfolio are listed below:

1. The Portfolio's assets are to be invested in a prudent manner for the sole benefit of its participants and beneficiaries, in accordance with applicable portions of the California Teachers' Retirement Law.

2. The RMS asset class will invest in a number of investment strategies including long duration U.S. Treasuries, Trend following, Global Macro, Systematic Risk Premia, and other types of strategies. The Chief Investment Officer (CIO) with concurrence of the General Consultant approves any allocation to a new strategy. The target allocation and ranges for the RMS sub-strategies are as follows:

Strategy	Target Weight	Lower Limit	Upper Limit
Long duration U.S. Treasury	35%	25%	45%
Trend Following	45%	35%	55%
Global Macro	15%	5%	25%
Systematic Risk Premia	5%	0%	15%
Other Strategies	0%	0%	10%

The table above depicts the targets and ranges for the various portfolio strategies over the long-term. However, in response to changing market conditions or other relevant factors, the actual allocation may vary within the recommended ranges and may tilt defensively or aggressively toward the extreme ends of the ranges. A range has been set for each segment to provide capacity if the portfolio falls out of balance due to specific opportunities to tactically over and/or underweight a segment based on compelling opportunities or fundamental issues.

From time to time, the actual allocations to the portfolio segments may fall outside the recommended ranges. In these instances, adjustments from the actual to the prescribed allocation range shall be implemented over a reasonable time frame with ample consideration given to preserving investment returns to CalSTRS.

3. Each strategy will have its own specific performance metric. The RMS asset class shall have a blended performance benchmark comprised of the actual weightings for each of the strategies utilized in the portfolio multiplied by their respective benchmarks.

Strategy	Benchmark
Long duration U.S. Treasury	Bloomberg U.S. Treasury 20+ Year Total Return Index
Trend Following	SG Trend Index
Global Macro	HFRI Macro: Discretionary Thematic Index
Systematic Risk Premia	SG Multi Alternative Risk Premia Index

4. The Portfolio will not hold any securities prohibited by the Portfolio Restrictions Policy.

5. To achieve the stated performance objective, the Portfolio will invest in a diversified portfolio of strategies. Staff will select appropriate investment strategies with structural aspects that provide improved diversification and potential for protection in down markets.

6. CalSTRS may enter into discretionary separate account relationships with investment funds/managers, subject to pre-approved investment guidelines. The Chief Investment Officer (CIO) or designee must approve any deviations from the approved guidelines. For this reason, investments shall be structured to facilitate alignment of interests between managers and CalSTRS, manager accountability, investment monitoring and liquidity.

7. The assets under management (AUM) in the RMS asset class shall target over the long-term ten (10) percent of the CalSTRS' total fund market value.

8. All investment products will be carefully evaluated to determine the expected benefits to the RMS class. All investment products will be approved by investment staff and a consultant (e.g., general or specialized independent consultant, if required). All investments are subject to appropriate due diligence as defined in the CalSTRS' Risk Mitigating Strategies class guidelines.

9. CalSTRS' investment personnel have authority to manage the RMS asset class. If prudent, CalSTRS may elect to manage a strategy internally. Any internally managed strategy will be approved by the CIO, DCIO and General Consultant. The delegated non-cumulative daily limits for approval of commitment, internal management trading and/or cash transfers to a strategy are designated in the Investment Policy and Management Plan (IPMP).

10. CalSTRS may employ leverage in the Portfolio in order to enhance investment returns. Such leverage may exist at the portfolio, manager or investment level. Because leverage increases the volatility of the Portfolio, careful consideration will be given to the impact of leverage on investment and portfolio risk. In addition, limitations on the amount of leverage at the individual asset or investment entity level will be negotiated or arranged wherever possible.

11. Investments in the RMS asset class should have clearly articulated and viable exit strategies through which assets can be disposed of or liquidated upon termination of the investment manager.

12. The CIO and/or DCIO shall monitor the implementation of the RMS class in compliance with investment policies. A report to the CalSTRS' IC shall be made annually or as otherwise requested.

[Link to Investment Terms Glossary at CalSTRS.com](CalSTRS.com)

Policy for Risk Mitigating Strategies Class First Reading and Adoption February 3, 2016
Revised to define APM trading limits on April 5, 2017
Revised to define new strategy target weights and utilize actual weights on June 10, 2021
Revised to update Long duration U.S. Treasury and SRP benchmarks on October 26, 2021
Revised based on previously approved items on November 26, 2024