

CALSTRS

CALIFORNIA STATE TEACHERS'
RETIREMENT SYSTEM

DIVESTMENT POLICY

INVESTMENT BRANCH
MARCH 2009

N. Divestment Policy

DIVESTMENT POLICY

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

This policy sets forth CalSTRS’ policy for responding to external or internal initiatives to divest of individual or groups of securities for purposes of achieving certain goals that do not appear to be primarily investment related. The Investment Committee opposes any divestment effort that would either implicitly or explicitly attempt to direct or influence the Investment Committee to engage in investment activities that violate and breach the Trustees’ fiduciary responsibility. Consistent with its fiduciary responsibility and the concepts of diversification and passive index management, the Investment Committee does not and will not systemically exclude or include any investments in companies, industries, countries or geographic areas, except in cases where: one of the CalSTRS 21 Risk Factors is violated over a sustained time frame to the extent that it becomes an economic risk to the Fund, a potential for material loss of revenue exists, and where it weakens the trust of a significant portion of members to the System.

When pressured to divest, CalSTRS firmly believes that active and direct engagement is the best way to resolve issues. Face to face meetings with shareowners and senior management, or the Board of Directors, are essential to bringing about change in a corporation. No further action will be taken until all efforts at engagement have been fully exhausted; efforts at engagement include, but are not limited to: shareholder resolutions, media campaigns, and other efforts at engagement.

CalSTRS’ commitment to engagement with companies rather than divestment is based on several considerations: (i) divestment would eliminate our standing and rights as a shareowner and foreclose further engagement; (ii) divestment would be likely to have negligible impact on portfolio companies or the market; (iii) divestment could result in increased costs and short-term losses; and (iv) divestment could compromise CalSTRS’ investment strategies and negatively affect investment performance.

If engagement fails to resolve the risk factor sufficiently, the CIO will bring the issue before the Investment Committee for consideration of divestment from the applicable securities. The Investment Committee will receive input from the following, but not limited to: investment managers, investment consultants, investment staff, fiduciary counsel, academics, and experts in the particular field or issue. If the Investment Committee determines that the making of an investment or continuing to hold a security is imprudent and inconsistent with the fiduciary duty,

the Investment Committee will instruct investment staff to remove the security from the portfolio.

Divestment does not apply to segments of the portfolio that track market indices, as CalSTRS policies require those segments to invest in all companies included in an index. Additionally, the policy does not apply to investments in a Limited Partnership due to CalSTRS position of limited liability as a Limited rather than General Partner.

CalSTRS will exclude or eliminate investments that fall within the terms of a State or Federal law regarding divestment, if the Investment Committee finds that divestment is consistent with its fiduciary duties and divestment is determined not to be imprudent.

REPORTING

On at least a quarterly basis, the Chief Investment Officer will prepare a comprehensive report that shows the performance difference between any divestment taken under this Policy and the unmodified CalSTRS benchmark of the respective asset class.

Any divestment decision should be reviewed at least annually by the CIO to ensure the key factors and risks continue to warrant divestment. The Investment Committee, at any time, can request a divestment decision be revisited.

Approved: March 5, 2009