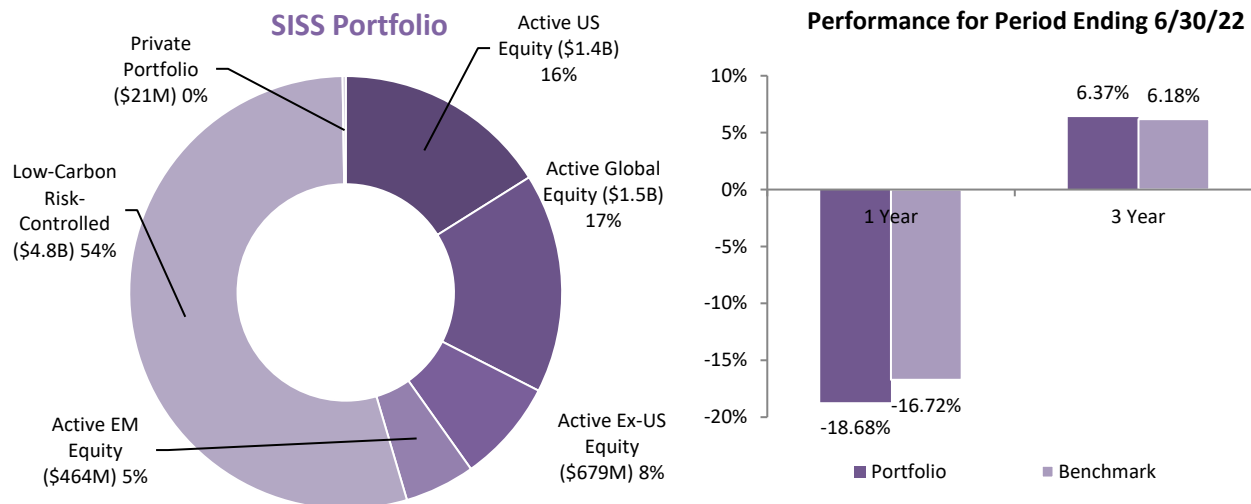

Investment Committee Semi-Annual Activity Report

| 2. Sustainable Investment &
Stewardship Strategies

INVESTMENT: SISS Portfolio



INVESTMENT: SISS Portfolio Updates

SISS Public Portfolio

Staff continued to redeem capital, when possible, from low conviction strategies (where limited partner structures do not allow for immediate liquidity) or reduce exposure to higher risk strategies in efforts to improve the risk-adjusted performance of the portfolio and further align the portfolio to the SISS risk budget. Redemptions were redeployed to the Low-Carbon Index and to fund the inaugural investments in the new SISS Private Portfolio. Additionally, staff made significant progress in identifying a short-list of potential new sustainability-focused public equity managers (through an Alternative Solicitation Process, or ASP) to further diversify and enhance the actively managed part of the Portfolio.

SISS Private Portfolio

Staff made the second SISS Private Portfolio investment to a diverse and emerging manager who focuses on North American medium-size companies providing industrial decarbonization solutions. The private equity investment aligns with the SISS Private Portfolio mandate to opportunistically pursue investment benefiting from the low-carbon transition while supporting the goals of the Collaborative Model.

STEWARDSHIP: Proxy Voting

Staff continues to fulfill the Board’s fiduciary duty to treat proxy votes as plan assets. During the period, **staff voted proxies at 7,597 meetings**, consisting of 2,697 U.S. meetings and 4,900 international meetings. The first half of 2022 includes peak proxy season, which is May to June when 70% of all U.S. companies hold their annual general meetings.

In the U.S., staff voted on a variety of issues, in alignment with the [CalSTRS Corporate Governance Principles](#), including:

- 16,683 director votes
- 2,589 auditor ratification votes
- 3,011 compensation plan related votes
- 454 mergers/acquisitions
- 643 shareholder proposals

This year CalSTRS implemented [enhanced voting tactics](#) against companies who have moved too slowly to achieve greater board diversity or significantly address climate change. As a result of these enhanced tactics, in the 2022 proxy season CalSTRS voted against nearly 400 directors at companies that had not disclosed fundamental greenhouse gas (GHG) emissions data and against more than 4,000 directors at companies with boards comprised of less than 30% women.

STEWARDSHIP: Engagement Priorities and Highlights

Net Zero Transition

CalSTRS participation as a lead in the joint investor [Climate Action 100+](#) initiative is contributing to significant results supporting the transition to a net zero global economy. Over the past five years the world's largest investor coalition on climate change has influenced 134 high-emitting companies to set greenhouse gas (GHG) reduction targets, including all eight of the CalSTRS-led focus companies. (Daikin Industries, ENEOS, Nippon Steel, Toray Industries, Dominion Energy, Duke Energy, Phillips 66, and Southern Company.)

Highlights from Climate Action 100+ engagements include:

- In February 2022, Dominion Energy and Duke Energy expanded their 2050 net zero goals to include Scope 2 and certain Scope 3 emissions. The companies' net zero goals will include GHG emissions from purchased power, and upstream methane and carbon emissions related to purchased gas and downstream carbon emissions from customers' consumption.
- Southern Company committed to a "just transition" in its effort to reduce emissions while balancing social and economic prosperity. "Just transition" refers to securing the rights and livelihoods of workers as the economy makes fundamental shifts toward decarbonization. In April 2022, the company released a 22-page report outlining its 'Just Transition Principles' and internal and external partnerships involved in asset retirements. This includes work with employees, labor partners, communities and local governments to facilitate a smooth and just transition. The company also commits to practice conservation, promote biodiversity and recognize its role in helping neighbors and communities do the same. Southern Company has established a GHG emissions reduction goal of net zero emissions by 2050, and an intermediate goal of a 50% reduction by 2030.
- In May 2022, Phillips 66 made a final investment decision to move forward with the conversion of its Rodeo, California refinery into one of the world's largest renewable fuels facilities. Once completed in 2024, the facility will process waste fats, used cooking oil and other renewable feedstocks to produce more than 800 million gallons of renewable diesel, renewable gasoline and sustainable aviation fuel, each year. The carbon emission reductions associated with this renewable fuel production is equivalent to taking 1.4 million cars off the

road each year. The company says the conversion will preserve more than 650 jobs and help California meet both its demand for transportation fuels and its environmental goals.

Lastly, CalSTRS continues to engage large emitting companies, independent of CA100+, including ExxonMobil. In January 2022, staff met with ExxonMobil lead independent director Ken Frazier (now retired) to discuss the [company's announced ambition](#) to achieve net zero GHG emissions for operated assets by 2050. The move signals significant progress since the 2021 activist campaign that put three new directors on the board. The company also set a goal of achieving net-zero Scope 1 and Scope 2 greenhouse gas emissions in its Permian Basin operations by 2030.

Board Effectiveness: Human Capital Management & Diversity

California Investors for Effective Board Diversity

Building on the success of the California Board Diversity Initiative – initiated in 2015 and focused on increasing the board diversity of California companies – the same California-based investors (LACERA, CalPERS, CalSTRS and SFERS) expanded their focus from California headquartered companies to the S&P 500, with continued advocacy of diversity inclusive of gender, racial, ethnic diversity and LGBTQ+ identity. The California group sent 57 letters to S&P 500 companies which had not disclosed board diversity metrics or objectives, which resulted in 42 companies appointing 31 women of which 17 identified as racially/ethnically diverse, and 22 men who identified as racially/ethnically diverse to corporate boards.

Thirty Percent Coalition

CalSTRS is a member of the [Thirty Percent Coalition](#) and was co-chair of the Institutional Investors Committee through the end of 2021. In March, the coalition announced an expanded mission to formally call on companies to increase diversity – inclusive of gender, race and ethnicity – in senior leadership ranks. Coalition members hold over \$8 trillion in assets under management and continue to achieve measurable outcomes. To date, the multiyear “Adopt a Company” campaign has resulted in over 500 public companies having appointed a woman to their boards, many for the first time.

Corporate and Market Accountability

Securities and Exchange Commission (SEC) Proposes Climate-Related Disclosures

In March 2022, the SEC took a major step toward requiring companies to report climate-related disclosures. The agency announced [draft rules](#) intended to help investors understand climate-related risks at public companies. CalSTRS is supportive of the proposed rules and [responded](#) with a detailed letter to the SEC's request for feedback specifically asking the SEC to consider further enhancements to the proposed rules by (1) including Scope 3 (value chain) emissions disclosure requirements, (2) requiring attestation (third party validation) of a company's reported greenhouse gas emissions, and (3) using the International Sustainability Standards Board's (ISSB) Climate Standard as the basis for its rulemaking.

Responsible Firearms

In the Spring of 2022, CalSTRS achieved a significant victory in the effort to reduce violence associated with the misuse of firearms when the U.S. Bureau of Alcohol, Tobacco Firearms and Explosives issued a new rule to require serial numbers on ghost guns. The announcement culminated a [yearlong effort](#) by the CalSTRS Stewardship Team which included engagements with the credit card industry and submitting a letter in support of the then proposed regulation aimed at ghost guns.

When the rule takes effect in August 2022, the parts used to make ghost guns will be required to be registered and sold by a federally licensed firearms dealer including proper paperwork and a background check completed by the purchaser. Credit card companies say they are aware of the new regulations and will work with retailers to ensure firearms transactions are legal.

Since 2016 ghost guns have become a growing problem in law enforcement investigation because the weapons lack a serial number and are extremely difficult to trace when recovered at a crime scene. By 2021, the ATF received reports of more than 20,000 ghost guns being recovered from crime scenes across the country.

CalSTRS and investors with the Principles for a Responsible Civilian Firearms Industry continue to engage the credit card industry to establish best practices at the point of sale and to understand the challenges of ensuring retailers comply with laws in transaction which firearms purchased online and shipped across state lines.