CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

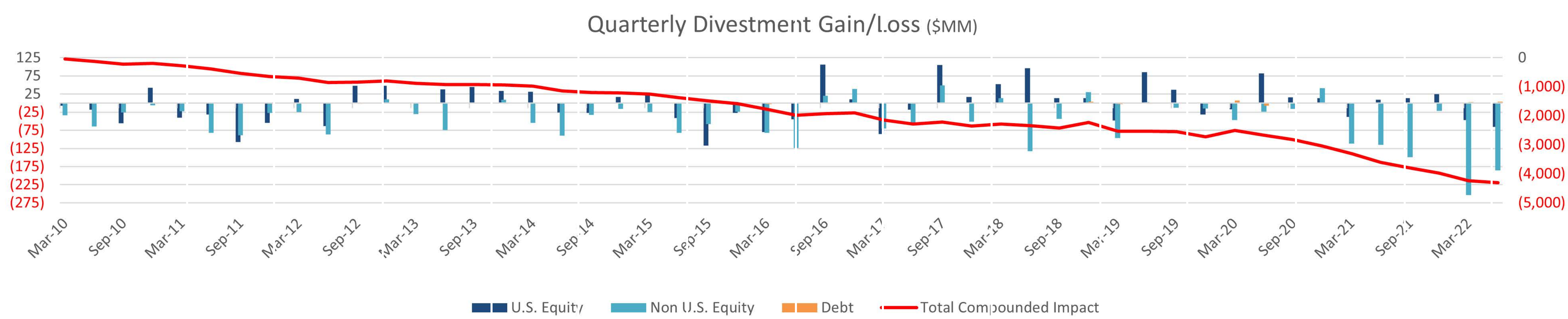
Divestment Policy Cost Analysis

As of June30, 2022

CalSTRS firmly believes that active and direct engagement is the best way to drive long-term value creation. CalSTRS Divestment Policy states that the consideration of divestment only comes after the CIO indicates that all efforts at engagement have been fully exhausted. In these instances, the Investment Committee will receive analysis and determine if continuing investment is prudent and consistent with fiduciary duty.

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 (iv) divestment could compromise CalSTRS' investment strategies and negatively affect investment performance.

Total Divestment Impact*	
Tobacco *prior to* 2010	Divestment Policy
(5,125,523,389)	(4,312,933,466)
(9,438,456,856)	



* Total Divestment Impact includes the impacts of the Divestment Policy as of January 2010 and the Benchmark Modification Program (passive strategy divestment) as of March 2000 - reinvested at the return of the Total Fund

CalSTRS' Divestment Policy Cost Analysis

Background:

This cost analysis tracks the estimated gains and losses associated with CalSTRS' two divestment related programs: The Legacy Benchmark Modification program (2000 - 2009) and The Divestment Policy Program beginning in 2010. CalSTRS has divested from several companies, beginning in 2006, when certain companies were divested due to geopolitical risk concerns, but for the purposes of this analysis the cost of The Divestment Policy Program is calculated as of January 2010.

Prior to 2010, CalSTRS passive strategies divested from all tobacco companies, when they were removed from CalSTRS benchmarks "Benchmark Modification" (Equity as of September 2000 and Debt as of July 2002). During this time there was not a policy requiring divestment for active managers.

The divestment policy outlines six current divestment-related actions that are tracked in this analysis based on their implementation dates: tobacco companies (January 2010), firearms companies (May 2013), thermal coal companies (U.S. and Non-U.S. as of July 2020), U.S private prison companies (January 2019) and Iran (as of January 2010). Included in the divestment policy cost calculation is the divestment of Sudan from October 2008 until restrictions were lifted in February 2021. Additionally, in 2018, MSCI added Saudi Arabia to their benchmarks, but CalSTRS chose not to include Saudi Arabia in the custom benchmarks - therefore the cost of divestment in Saudi Arabia is captured in the Total Divestment Impact, but is not tracked separately.

Divestment cost is reported at The CalSTRS' Board's request, as a policy requirement.

Methodology:

This cost analysis is an estimate. The gain or loss (potential cost) associated with divestment is captured at three levels: U.S. Equity, Non-U.S. Equity and Debt.

To calculate a gain/loss, a return difference is calculated by comparing the monthly return of each levels fully inclusive benchmark versus the CalSTRS' custom version which excludes divested assets. This return difference is applied to the levels beginning balance to understand that months gain or loss. The cumulative gain or loss is then compounded each month at the Total Fund's return, net of manager fees.

The Total Fund return serves as the discount rate: the rate of return we would expect had the gain been available to invest, or the return we would have lost had the loss reduced the Total Fund's value. Using a discount / re-investment rate is required to estimate the true value gained or lost over the period and is consistent with industry standard cash flow modeling.

The total divestment impact is captured in terms of two components:
1) The Legacy Benchmark Modification Program (the removal of tobacco companies from the CalSTRS' benchmarks -passive strategy divestment), which ran from March 2000 to December 2009, compounded through the present period.
2) The Divestment Policy Program, captured as of January 2010, compounded through the present period.