



Investment Committee

Item Number 12 – Open Session

Subject: SISS – 2023 Stewardship Priorities, 2022 Highlights

Presenter(s): Kirsty Jenkinson and Aeisha Mastagni

Item Type: Consent Action

Date & Time: January 26, 2023 – 20 minutes

Attachment(s): Attachment 1 – CalSTRS Stewardship Priorities

Attachment 2 – 2022 Stewardship Highlights

Attachment 3 – 2023 Stewardship Framework and Goals

Attachment 4 – 2022 Addressing Climate-Related Financial Risk Report (SB964)

PowerPoint(s): SISS Stewardship Highlights and Framework

Item Purpose

[CalSTRS Stewardship Priorities](#) (Attachment 1) were reaffirmed by the Board in January 2021, as a three-year plan. The longer approval cycle is more aligned with staff’s ability to affect change and reflects the breadth and the relevance of the current priorities beyond one year. The priorities are designed so staff can effectively use CalSTRS influence as a significant global investor to drive long-term value creation on behalf of California’s educators.

In September 2021, the Teachers’ Retirement Board approved a staff recommendation and pledged to achieve net zero portfolio emissions by 2050 or sooner. The pledge is built on three strategies: managing and reducing portfolio emissions, using our influence to accelerate the global shift to a net zero emissions economy, and increasing investments in low-carbon solutions. This item focuses on our efforts to exert influence to accelerate the **Net Zero Transition** and manage other risks through the remaining Stewardship Priorities: **Corporate & Market Accountability, Board Effectiveness, and Responsible Firearms**.

When the Board agreed to a three-year plan, staff committed to report on the activities and tactics undertaken to implement the Stewardship Priorities. The purpose of this item is to inform the Board of achievements over the past calendar year (Attachment 2) and provide a framework and goals for staff’s engagement activities in 2023 (Attachment 3).

Staff will continue to report quarterly through the [Engagements in Action](#) and inform the board on significant and high-profile engagement activities, in response to emerging situations, as needed. Staff will also continue to provide specific climate risk-related reporting as required by California Senate Bill – SB 964 (Attachment 4).

Recommendation

None.

Executive Summary

CalSTRS has a long history of proactive engagement with portfolio companies on sustainability issues that impact long-term company performance and with policy makers to ensure efficient markets and proper shareholder rights. Our thoughtful, analysis-based approach to engagement is well-respected in the global marketplace. This reputation, in addition, to our size, makes CalSTRS an attractive partner on a wide variety of initiatives.

This creates significant opportunities, but also requires the team to be able to prioritize and allocate resources appropriately, both to align with our goals, and to affect change where we have the greatest potential for success and the largest impact.

Attachment 2 details CalSTRS stewardship activities over 2022 and Attachment 3 describes the tactics that will be utilized in 2023 to affect change. While there is significant crossover between all our Stewardship Priorities, we have organized our activities under each priority.

Background

In January 2020, the Board approved the [CalSTRS Stewardship Priorities](#) (the Stewardship Priorities) to help prioritize and focus staff’s activities on the most relevant issues for engagement that mitigate risk, support long-term value creation, and promote practices that provide for a sustainable financial market. The Stewardship Priorities also communicate to a wider audience including stakeholders, investment peers, and other market participants that have an interest in how CalSTRS uses our position as a large, long-term oriented asset owner to influence companies and policy makers.

CalSTRS utilizes four main tactics to implement our Stewardship Priorities:

- 1) Proxy Votes:** At CalSTRS, we treat proxy votes as plan assets and vote all proxies internally, both domestic and international, in alignment with our Corporate Governance Principles. We use our proxy votes as a lever to hold directors accountable and require companies to respond to risks and opportunities. In addition to company management ballot items, we often support shareholder submitted proposals (“shareholder proposals”) that align with our goals and call on companies to better manage risk or improve public disclosure.

- 2) **Direct Company Engagement:** Direct company engagement can be an effective tool for targeting companies that are ‘under-engaged’ by the wider marketplace or in instances where CalSTRS has a specific outcome we are trying to achieve that is directly tied to our Stewardship Priorities.
- 3) **Collaborative Engagements:** Collaborative engagements allow CalSTRS to scale our influence as a global investor with other like-minded investors. Effective engagements resulting in substantive commitments from companies is time intensive and utilizing collaborative engagements provides for an effective use of resources.
- 4) **Policy Advocacy:** Like proxy voting, policy advocacy is applicable to wide-ranging aspects of CalSTRS’ portfolio. We influence regulators and policy makers to support actions that provide for well-functioning and efficient markets that support long-term value creation.

Strategic Plan Linkage:

Board Policy Linkage: This item is covered under the CalSTRS [Sustainable Investment & Stewardship Strategies Program and Portfolio Policy](#) and the [CalSTRS Corporate Governance Principles](#).

In September 2021, the board approved a staff recommendation and pledged to achieve a net zero portfolio emissions by 2050 or sooner. This pledge is built on three strategies: Managing and reducing portfolio emissions, using our influence to accelerate the global shift to a net zero economy, and increasing investment in low-carbon solutions. This item focuses on our stewardship activities which are the primary means through which CalSTRS seeks to influence meaningful corporate and market change, leveraging our significant public equity ownership stakes in global companies.

Optional Reference Material:

Attachment 4 is CalSTRS Addressing Climate-Related Risk Report in response to California Senate Bill 964 (SB 964). The report focuses on CalSTRS investment-related activities addressing climate risk across the fund, including proxy voting, corporate engagement and investment in climate solutions.

More information about [CalSTRS Path to Net Zero](#) can be found on the CalSTRS website.