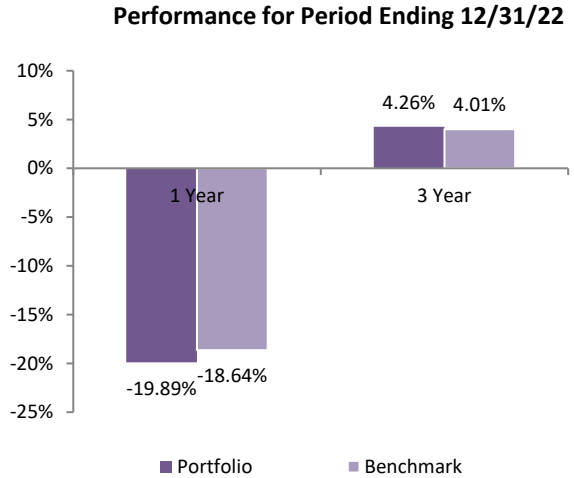
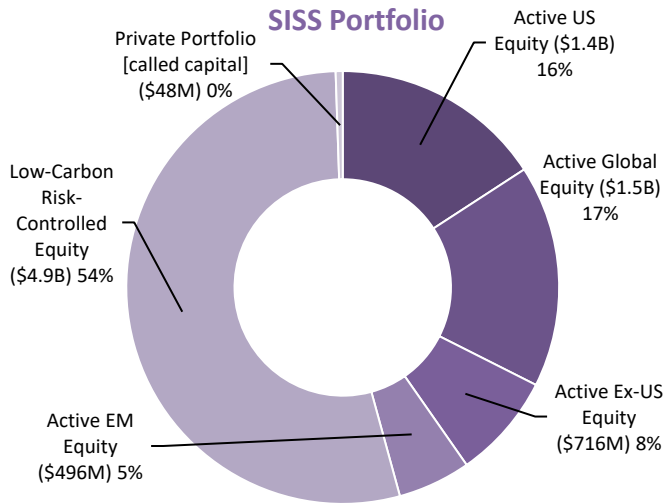

Investment Committee Semi-Annual Activity Report

| 2. Sustainable Investment &
Stewardship Strategies

INVESTMENT: SISS Portfolio



INVESTMENT: SISS Portfolio Updates

SISS Public Portfolio

The SISS Public Portfolio invests to enhance investment returns to the Total Fund (Fund) with the ancillary benefits of improving the overall market through active engagement and integration of environmental, social, and governance considerations into portfolio construction.

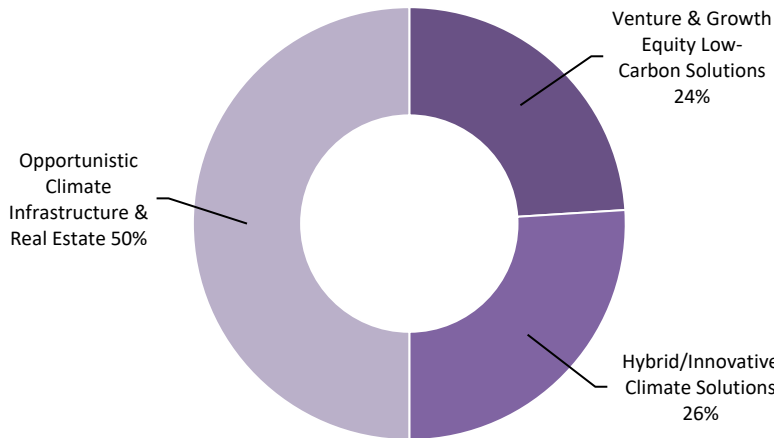
Staff continued to redeem capital from low conviction strategies and reduce exposure to higher risk strategies to improve the risk-adjusted performance of the portfolio. Redemptions were redeployed to the Low-Carbon Index and to fund SISS Private Portfolio investments. Additionally, staff established a new pool of 13 sustainability-focused public equity strategies to enhance future portfolio construction opportunities.

SISS Private Portfolio

The SISS Private Portfolio serves as a source of long-term capital appreciation for the Fund. The goal of the SISS Private Portfolio is to opportunistically improve the risk and return characteristics of the Fund through investments that demonstrate positive contributions to a more sustainable global economy.

The SISS Private Portfolio is structured to advance its goals through a “Scaling” portfolio component and a “New Opportunities” portfolio component. The Scaling portfolio leverages existing CalSTRS partnerships with other asset classes to further the goals of the collaborative model and increase sustainability-focused co-investment and joint venture opportunities. The New Opportunities portfolio allows SISS to explore new CalSTRS sustainability-focused partnerships that take advantage of unique alpha opportunities and that may not fit ‘neatly’ in other asset classes.

SISS Private Portfolio (\$586M Committed Capital)



During 2021 and 2022, SISS conducted a comprehensive mapping of the private markets low-carbon solutions landscape. This research effort included meetings with nearly 200 organizations in addition to a commissioned research report that analyzed low-carbon solution companies on a year-by-year basis from 2004 – 2020. Staff identified three broad risk and return profiles of interest for the SISS Private Portfolio: (1) Opportunistic Climate Infrastructure investments targeting 10 – 15% returns; (2) Hybrid/Innovative Climate investments targeting 15 – 25% returns; and (3) Venture Capital and Growth Equity (“VC/GE”) investments targeting +25% returns. To date, SISS has made one investment in Opportunistic Climate Infrastructure, one investment in Hybrid/Innovative Climate, two investments in VC/GE and is in late-stage diligence on additional Opportunistic Climate Infrastructure and Hybrid/Innovative Climate investments.

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 2,475 meetings**, consisting of 419 U.S. meetings and 2,056 international meetings.

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

- 2,605 director votes
- 332 auditor ratification votes
- 467 compensation plan related votes
- 56 mergers/acquisitions
- 55 shareholder proposals

In 2022, CalSTRS implemented [enhanced voting tactics](#) against companies moving too slowly to achieve greater board diversity or significantly address the risks of climate change. For the 2023 proxy season, staff intends to further strengthen votes against boards failing to address these material topics.

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 75% of focus companies to commit to achieve net zero emissions by 2050 or sooner. In addition, over a third of focus companies have set long-term targets that align with a 1.5°C pathway. CalSTRS is a lead investor for eight Climate Action 100+ focus companies. (Daikin Industries, ENEOS, Nippon Steel, Toray Industries, Dominion Energy, Duke Energy, Phillips 66, and Southern Company.)

Highlights from CalSTRS-led Climate Action 100+ engagements include:

- In November 2022, Dominion Energy and Southern Company issued reports demonstrating how the utility companies' political lobbying activities support net zero goals. The request is based on the understanding that climate change is a systemic risk and a global challenge, and public policy plays a critical role in establishing the ground rules for a rapid transition to a low-carbon economy. The reports provide investors with a better understanding of the companies' climate lobbying policies and the level of board oversight of those activities. Additionally, the companies were asked to demonstrate how the lobbying activities of member trade associations align with the companies' own climate goals. Support from investors and major utilities was instrumental in the passing of the Inflation Reduction Act of 2022.
- In November 2022, Duke Energy's leadership presented the company's planned \$145 billion dollar investment in the clean energy transition. The North Carolina based utility highlighted the 10-year plan which includes \$40 billion for zero-carbon generation, such as solar, wind and battery storage resources, and extending the life of Duke's nuclear fleet. Duke has a net zero emissions by 2050 commitment and is planning to reduce its Scope 1 emissions from electricity generation 50% by 2030. Additionally, Duke plans to retire all coal operations in 2035.
- CalSTRS staff is engaging with Phillips 66 to encourage the company to link executive compensation to its climate goals. The midstream refiner has set Scope 1 and Scope 2 emission reduction targets of 30% by 2030. CalSTRS staff is asking the company to establish measurable metrics that directly link climate performance to short and long-term executive compensation. The request from CalSTRS coincides with the Phillips 66 Board Compensation Committee's development of its 2022 Compensation Committee Report which will appear in the company's 2023 proxy statement.

In addition, CalSTRS continues to engage large emitting companies independent of CA100+. SISS leadership met with Shell's Board Chair to discuss the future of one of the world's largest oil and gas companies and to get a better understanding of how a European-based oil major is addressing climate risk.

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 S&P 500 companies to MSCI USA Investable Market Index (IMI) companies, that are lacking board diversity. The California group sent 60 letters to MSCI USA IMI companies to advocate for diversity, inclusive of gender, racial, ethnic diversity and LGBTQ+ identity. The California group collaborates with the targeted companies to provide guidance on corporate governance policies addressing diversity in board refreshment and recruitment practices.

Corporate and Market Accountability

Federal regulators strengthen rules against insider trading and improve market transparency

In December 2022, the SEC [adopted amendments to Rule 10b5-1](#) under the Securities Exchange Act of 1934. This rule, created more than 20 years ago, allows company executives and other insiders to set up stock trading plans. These plans establish the amount of stock insiders can sell and the timeframe in which they can sell them. The plans help combat insider trading, a federal crime in which someone trades a stock while possessing information not publicly available and that may impact a stock's future price.

The amendments to Rule 10b5-1 are meant to strengthen disclosure rules and close loopholes that circumvent the intent of the rule. Disruptive and illegal practices such as insider trading can impact investor confidence in the stock market. Transparent and fair financial markets, where everyone plays by the same rules, is beneficial to all investors, including CalSTRS.

Responsible Firearms

Collaborating with other investors, in the summer of 2022, CalSTRS submitted letters to MasterCard, Visa and American Express in support of a proposal submitted to the International Organization for Standardization to establish a unique merchant classification code (MCC) for firearms retailers. MCCs are four-digit numbers that a credit card issuer uses to categorize consumer purchases and businesses by the type of goods or services being offered. The codes are used for tax reporting, credit card “reward” promotions, and to gather data regarding a cardholder’s purchasing behavior. The use of merchant codes for standalone firearms retailers may allow financial institutions to identify purchasing activity that is associated with weapons trafficking or other unlawful activity. Credit card service providers and banks are implementing the merchant codes. CalSTRS staff is engaging these companies to better understand how the data may be used to reduce violence associated with the misuse of firearms.