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CALSTRS

California State Teachers' Retirement System

Corporate Governance Principles

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I. Introduction

The California State Teachers' Retirement System (CalSTRS) was established in 1913 for the benefit of California's public school teachers and is the largest educator-only pension fund in the world. CalSTRS administers a hybrid retirement system consisting of traditional defined benefit, cash balance and voluntary defined contribution plans. CalSTRS also provides disability and survivor benefits. The CalSTRS mission is to secure the financial future and sustain the trust of California's educators. CalSTRS seeks to accomplish this goal by prudently managing the investment portfolio to provide long-term retirement benefits with the least amount of risk.

The system is administered by the 12-member Teachers' Retirement Board. The board is charged with maintaining a strong, stable fund in order to pay benefits to CalSTRS members and their beneficiaries. To fulfill that responsibility, the board oversees the Investments Branch staff responsible for the day-to-day management of the portfolio. CalSTRS believes an essential part of managing the portfolio is an attention to good corporate governance. CalSTRS not only sees good corporate governance practices as a way to add value but also to mitigate risk in the portfolio.

The principles described in this document establish a framework for CalSTRS' proxy voting activities. Not only is the voting of proxies a fiduciary duty, CalSTRS also believes that the execution of proxies is an important shareholder right and we always seek to exercise the right in a consistent fashion that is in the best interests of our beneficiaries. These guidelines should not be regarded as mandatory and are not designed as a substitute for analysis and judgment, which should be exercised as circumstances dictate. It is CalSTRS' intent to exercise our voting authority in accordance with our financial interests, whenever possible. While logistics or other factors may sometimes interfere with this intent, CalSTRS' ultimate goal is to work with the indicated parties to remove any barriers to voting.

The principles described in this document not only lay the foundation for CalSTRS' proxy voting, but all the activities of the Stewardship program, which include corporate engagements and market-wide efforts to address environmental, social and governance (ESG) risks and support sustainable business practices. These principles are based on what we believe are best practices in the marketplace and we conduct corporate engagements in order to move the marketplace toward these best practices. Similarly, CalSTRS supports market-wide governance initiatives that will improve the investing landscape for shareholders and our beneficiaries.

II. Stewardship Code for Engagement

The principles described in this document establish a framework of what we consider sound corporate governance. Transparency and disclosure are the underlying tenets of all the CalSTRS Corporate Governance Principles and therefore we think it is important to describe the process for engaging the companies in which CalSTRS invests.

A. Publicly Disclosing the CalSTRS Principles and Proxy Votes

As stated above, we think disclosure is of utmost importance. Therefore, CalSTRS is committed to disclosing our Corporate Governance principles and proxy votes. We believe by publicly disclosing our principles we can not only use the principles to advocate for better corporate governance but also provide a framework for our engagement activities. The principles allow for constructive dialogue and healthy debates between us as investors and the companies in which we invest.

B. Monitoring Portfolio Companies

As a predominantly passive investor, we consider our investments long-term, patient capital. Since our investment strategy is heavily weighted toward passive investments, we often do not have the flexibility to simply sell an investment because of governance concerns. We feel it is our duty as fiduciaries to actively monitor and engage the investments in our portfolio for financial, strategic, governance, sustainability risks, and other risks.

C. Escalating Engagement Activities

All of CalSTRS' engagement activities begin with private contact with the company. We are always open to having dialogue with the companies in which we invest, and hope companies seek our input on matters important to shareholders, as we are the ultimate long-term shareholder. At times we do submit shareholder proposals at companies, but once again we are very open to having a dialogue with companies on issues important to us. In fact, we see the withdrawal of our shareholder proposals as a measure of success as together CalSTRS and the company has come to a mutually agreeable solution. It is only in very rare circumstances where we will take engagement to the public landscape or media. These cases are generally the most egregious cases of poor governance or where companies have been completely unresponsive to our inquiries.

D. Working Collectively with Other Investors

Periodically we may work collaboratively with other investors, if our interests are aligned. CalSTRS is an active member of the Council of Institutional Investors (CII), International Corporate Governance Network (ICGN), and other groups that work toward the common goal of advocating for good governance. In all instances, we strive to work with other investors who share our common goals and our philosophy for engagement.

E. Supporting Standardized Sustainability Reporting

CalSTRS believes that sustainability reporting is a critical function for companies to identify and address financial risk and growth opportunities that result from environmental, social, and governance factors. CalSTRS is committed to sustainable business practices, and we endorse the International Sustainability Standards Board (ISSB) Standards. The ISSB Standards establish a global baseline of sustainability-related disclosures, essential for evaluating a company's sustainability-related risks and opportunities and facilitating informed decision-making by investors.

III. Corporate Governance Principles

A. Board of Directors

CalSTRS believes the board has the fiduciary duty to represent and protect the interests of shareholders as they exercise oversight and management of the company's business needs and strategic direction. In CalSTRS' view, an effective board would be comprised of directors with a diverse mix of skills, experience, expertise, perspectives, and other personal attributes—and would focus on the company's business needs and challenges. The directors should be free of conflicts and ensure they devote sufficient time and energy to their board. Additionally, the board should have an effective means of evaluating its collective performance, the individual director's contributions and management performance on a regular basis. Periodically, the board should have an independent outside evaluation/assessment of its performance. The board is expected to be responsible for the oversight and proper disclosure of all important issues.

Accordingly, CalSTRS supports the following:

1. **Board Composition**

   a. **Director Qualifications**: The board should be composed of diverse individuals with the skills, education, experiences, expertise and personal qualities that are appropriate to the company's current and long-term business needs.

      This diversity is critical in order for the board to properly oversee management, business strategy and risk mitigation. The board should establish a format, such as a skills and diversity matrix, to disclose the various skills, experience and backgrounds of board members and how those attributes enhance the long-term strategy of the company. A skills and diversity matrix is a useful tool to highlight the skills, experience and demographic of each board member and assess the overall composition of the board. The skills and experience needed include, but are not limited to, financial and/or accounting, industry expertise, business management, governance, customer service, leadership, risk management, including climate risk management and cyber-risk management, and strategic planning.

      Board members should stay current in their knowledge and expertise either through continuing education or some other mechanism, to ensure they are carrying out their fiduciary duty and properly overseeing management on shareholders' behalf.

   b. **Board and Director Independence**: The board should be comprised of at least two-thirds of independent directors who do not have a material or affiliated relationship with the company, its chairperson, CEO or any other executive officers. Directors should seek to avoid the appearance of a conflict of interest by not engaging in any related party transactions with the company. Directors may not be considered independent if they own 20 percent or more of the company, they are employed by a company that owns 20 percent or more interest in the company, are an immediate family member of an executive employed by the Company, or they engage in related party transactions in excess of $120,000. CalSTRS embraces the importance of independent directors and the need for a majority of the directors to be independent, but in some countries independent boards are not the norm. In an effort to support companies that are making progress towards increased independence, CalSTRS may support and vote for current qualified independent directors.

c. **Comprehensive Director Service**: CalSTRS will consider service on other boards when evaluating a director.

2. Board Structure

a. **Independent Chair**: The board should be chaired by an independent director. The chair is responsible for leadership of the board and ensuring its effectiveness on behalf of the shareholders The independent chair should be someone who has not had a substantive employment relationship with the company in the past five years.

b. **Board Size**: The appropriate size for the board should depend on the size and complexity of the business operations. The board size should be large enough to accommodate at least three board members on the key board committees.

c. **Board Committees**: Companies should have audit, nominating and compensation committees with a minimum of three directors on each committee. These committees should consist of entirely independent directors.

d. **Annual Board Elections**: The board is expected to be declassified and not have staggered terms. CalSTRS supports annual election of all directors and believes directors should be accountable to the shareholders they represent and therefore should stand for election every year.

e. **Board Refreshment**: The board should have a mechanism to evaluate and refresh itself on a regular basis to ensure there is proper board composition to meet the current and long-term business needs of the company.

Regular board refreshments should provide the board with the opportunities to increase its board diversity and allow fresh perspectives on the board.

i. **Board Evaluations**: The board should establish and disclose the process used to evaluate the board dynamics and the performance of the directors. Periodically, the board should have an independent evaluation/assessment of its performance.

ii. **Board Succession Planning**: The board should implement and disclose a board succession plan that addresses future board retirements, committee rotations, committee chair nominations, skills and experience relevant to the company’s strategic direction and operating environment.

iii. **Director Tenure**: An effective board should have both short- and long-tenured directors to ensure that fresh perspectives are provided, and that experience, continuity and stability exist on the board. CalSTRS does not support limiting director tenure but believes the board should regularly review the average tenure of the board and consider policies and procedures to encourage board refreshment as part of the annual board review.

iv. **Board Diversity**: Board diversity can lead to better decision making, reduced risk, improved corporate governance and ultimately enhances the long-term performance and sustainability of the companies in our portfolio. Board diversity should be considered by the board and the nominating committee. When considering board diversity in the director nomination process, the board should consider attributes such as skills, background, experience, perspective, gender, age, sexual orientation, gender identity, cultural, racial and ethnic compositions and historically underrepresented groups, that are most appropriate to the company's long-term needs. The board should disclose its commitment to identify diverse director candidates in every board search, in its governing documents. Diversity goals should include cultural diversity in addition to gender, racial and ethnic diversity. CalSTRS will hold members of the board's nominating and governance committee and, if necessary, the entire board accountable if sufficient progress on board diversity has not been made. The board should annually disclose its director demographic information, including race, ethnicity and gender, in the proxy.

3. Roles and Responsibilities

a. **Fiduciary Duty**: The ultimate responsibility of the board is to serve the interests of its shareholders. Directors should provide the necessary oversight to protect the assets and interests of the shareholders.

b. **Director Time Commitment**: It is CalSTRS' view that a director's responsibilities and duties are increasingly complex, demanding and time-consuming. CalSTRS believes that directors must be able to devote the time and energy necessary to responsibly fulfill their commitment to the company and effectively represent shareholders' interests. Generally, CalSTRS believes that any company executive should not serve on more than two public boards and directors should not serve on an excessive number of boards, the quantity may be dependent upon various factors, like participation in key committees.

c. **Director Attendance**: CalSTRS believes that directors need to make a substantial time commitment to adequately fulfill the board's responsibilities and duties to the company. CalSTRS expects directors who have been on the board for a full year to attend at least 75 percent of the board meetings and key board committee meetings, absent extraordinary circumstances.

d. **Board Oversight**: The board should provide oversight of the company, which includes overseeing management actions as well as the company's strategic plans, business conduct and risk management. The board should identify and monitor all major risks in these areas and ensure mitigation plans are in place. The board should adequately disclose and communicate its oversight role and responsibilities to shareholders on a regular basis.

i. **Role in Risk Oversight**: The board should disclose its risk oversight process and responsibilities to ensure that the company is effectively managing, evaluating and mitigating its risk profile and risk management plan. The board should regularly review and approve the risk management plan that management will implement.

ii. **Board Oversight of Political and Charitable Contributions**: The board should have a policy on its oversight of the company's charitable contributions, lobbying activities and expenses, and political contributions and that policy should be readily accessible to shareholders. A detailed policy should provide the means for evaluating the benefits and risks of using the corporate treasury for political and charitable contributions, and it should include the company's decision-making criteria and the parameters for giving. The board should, at a minimum annually review, monitor and disclose all charitable and political contributions to ensure they are in alignment with the interests of shareholders and are in compliance with the company's established policy, consistent with applicable state and federal laws. More frequent disclosure of contributions may be appropriate in certain situations. The company should also disclose the annual contributions, both monetary and non-monetary, made to trade associations and/or other tax-exempt organizations involved in political activities, such as 527 Committees and 501(c)4 "social welfare" organizations. Political activities include, but are not limited to, funding election campaigns intended to influence the public with regard to candidates, public officials or ballot measures, as well as expenditures for lobbying.

iii. **Human Capital Management**: The majority of a company's value comes from intangible assets. Human capital is an intangible asset of particular importance given that effective management can create a competitive advantage. Boards should set high standards and provide clear disclosures that demonstrate oversight of its human capital, the most important asset of any organization. Practices that create an engaged and stable workforce can provide long-term value for companies. Boards should have an active role in setting company culture and oversight of the company's approach to human capital management, which comprises employee wellbeing; incentives and compensation; retention and development; health and safety; fair labor practices; commitment to diversity, equity and inclusion; pay equality; employee development; providing a workplace free of sexual harassment and other forms of harassment; and promoting ownership and accountability. Companies should ensure they employ effective oversight of human capital management practices for domestic and international employees, as well as employees throughout their value chain.

iv. **Human Capital Reporting:** Comprehensive reporting on human capital incorporates the practices noted above alongside strategy considerations and can be tailored to each business. However, there are metrics that are foundational to all companies and provide investors with a baseline for understanding human capital management quality. Four foundational metrics that are necessary in reporting include:

- Workforce headcount – including the number of employees of the organization, broken down by part-time, full-time, contingent

workers (independent contractors, temporary workers, etc.)
- Total cost of the work force – including wages, benefits and other employee expenses and investment in the workforce
- Workforce stability metrics – including turnover data, and actions to attract and retain workers
- Workforce diversity data – including gender, racial, ethnic, LGBTQ+ diversity broken down by seniority and employee bands/levels

v. **Employee Diversity Disclosure:** Companies should annually disclose their EEO-1 report, to enable shareowners to understand the composition of the workforce and provide context for workforce investment and strategy decisions. This information would also allow investors to assess the board's diversity, relative to its workforce.

e. **CEO Evaluations and Succession Planning**: One of the primary duties of boards is to hire and fire management. As part of its governing of management, the board should be responsible for the CEO evaluation and CEO succession planning.

i. **CEO Evaluations**: The board should be responsible for conducting CEO evaluations because they provide important feedback for job performance and continued skill development for the CEO. The board should have and disclose the process to annually evaluate the CEO performance.

ii. **CEO Succession Planning**: The board should have and disclose the process for CEO succession planning to ensure companies are well-prepared to have a successor in the event of a planned or an unexpected departure of the CEO. The CEO succession plan should include a development process that considers leadership skills, experiences and competencies in identifying and assessing internal and external candidates to achieve the company's future business strategy. The CEO succession plan should address short- and long-term succession scenarios.

f. **Accountability to Shareowners**

i. **Director Election Standard**: Charters and bylaws should provide that directors in uncontested elections are to be elected by a majority of the votes cast. In contested elections, plurality voting should apply.

ii. **Proposals Receiving Majority Vote**: The board should have a process for reviewing proposals that receive significant shareholder support. The board should implement proposals that receive the majority of votes cast. CalSTRS will hold the entire board accountable if the board fails to respond to a shareholder proposal that received majority support. It is important that directors are held accountable for listening to the will of shareholders.

iii. **Director Indemnification and Limitation of Liability**: Directors should be afforded some form of reasonable protection such as limitation of liability or indemnification due to damage caused by violations of the duty of care, as long as the director's conduct satisfies a "good faith" standard.

iv. **Shareholder Engagement:** The board should implement a process to take into consideration the perspectives of shareholders on material issues. The company should provide annual disclosure of how shareholders engagement contributed to board discussions.

B. Auditors and Audit-Related Issues

The external auditor is to be independent and should avoid conflicts of interest when auditing the company's financial statements. The external auditor is to provide reasonable assurance that the financial statements are free from material misstatements, whether due to fraud or error.

The audit committee plays a critical role in providing oversight of the company's financial reporting processes, internal controls and independent auditors. The audit committee should be proactive in promoting auditor independence and audit quality. Additionally, the audit committee should regularly evaluate the external and internal auditors and review management reports related to compliance with laws, regulations and internal procedures. The Audit Committee should be governed by a formal, written charter stating its responsibilities and there should be disclosure in the proxy statement stating that audit committee has complied with the charter responsibilities. The audit committee is to be composed entirely of independent directors with the necessary financial skills and experience to perform its oversight duties.

Accordingly, CalSTRS supports the following:

1. **Non-Audit Services**: The non-audit services should be limited to 30 percent of total fees, including tax services, but should not include consulting services.

2. **Auditor Liability**: The external auditors should not receive indemnification from the company. Contracts with the external auditors should not require the company to use alternative dispute resolution.

3. **Auditor Ratification**: Shareholders should be able to annually ratify the selection of the company's independent external auditor.

4. **Auditor Tenure/Rotation**: CalSTRS encourages boards to periodically review the external auditor's tenure and any possible impact on the independence of the auditor. Companies should have a policy on audit firm rotation which promotes change to ensure a fresh perspective and review of the financial reporting framework.

C. Principles for Executive Compensation

CalSTRS is a long-term investor and has been involved in corporate governance issues such as executive compensation for over two decades.

The following executive compensation principles are intended to serve as an intellectual framework for a fuller discussion of the matter and as an aid in more effective evaluation/regulation of executive compensation. CalSTRS believes that a thorough review of pay practices is an important fiduciary duty that both boards of directors of corporations and institutional investors should exercise with diligence and care.

1. **Philosophy/Policy**: Companies should have a clear overarching compensation philosophy that clearly communicates the key considerations it makes when setting pay. The philosophy should promote an alignment of interests between management and shareholders. The company's compensation philosophy should intend to create long-term value while not incentivizing excessive risk taking and should be flexible enough to allow for reasonable and fair compensation in challenging market conditions. Companies should provide full disclosures that are easily understood and presented in plain English. This may include graphical representations that depict the sensitivity of relative pay vs. relative performance, compensation mix, equity-vesting schedule, and more.

2. **Total Compensation, Plan Elements and Mix**: The design of the company's compensation structure should be comprehensive and discuss in detail all relevant components, including the mix of base, bonus and long-term incentive compensation. A significant portion of plans should be performance-based. Discussion should include why certain elements were used as well as why certain elements were not incorporated, including the relative strengths and weaknesses of the various forms of compensation in relation to the company's business objectives and situation.

    a. **Salary**: CalSTRS believes an overwhelming majority of an executive's compensation should be performance-based. Since salary is one of the few components that is not "at risk" it should be set at a level that yields the highest value for the company at the least cost. In general, salaries should be set to be as tax efficient as possible for the company.

    b. **Annual Incentive Awards**: CalSTRS believes there is a role for short-term incentive compensation as part of a bigger compensation program. Companies should describe and disclose the metrics that were used to determine awards for executives and if any changes were made from prior years.

    c. **Equity Compensation**: CalSTRS believes the predominate form of compensation should come in the form of long-term incentives. Companies should address each form of equity and equity- like compensation and the company's overall objectives in using these tools. Discussion of award structures, including the size, timing, valuation, and terms of grants should be included. Additionally, the company's approach to equity ownership and retention guidelines should be included. CalSTRS believes that on balance, equity awards should be structured in such a way so that the amount salable in any particular period (for example, through vesting or retention schedules) is at reasonable levels and remain relatively consistent over an executive's tenure so as to not overly incentivize one period over another.

    d. **Risk Management**: The company philosophy should address the risks to compensation expenditures as well as risk posed by compensation metrics. Part of this risk analysis should include the issue of unintended drivers or consequences related to incentive compensation. The role of risk in the context of the executive compensation program, should include both a defensive perspective (how the committee ensures potential compensation does not incentivize excessive risk), and an offensive perspective (how the program is designed to incentivize appropriate risk and aligns the interests of management with those of long-term owners).

e. **One-off Awards**: One-off awards outside of the normal incentive plan, such as retention awards or other discretionary compensation are scrutinized closely and judged on a case-by-case basis as CalSTRS believes such awards indicate a lack of proper structuring of the normal incentive plan.

3. **Incentive Metrics**: A well-designed compensation plan will be structured around financial and qualitative metrics that drive sustainable long-term value in the business. Companies should describe and disclose the types of metrics that are used in the short-term and long-term and articulate how those metrics link to the strategy of the company. Careful consideration should be given to ensure short- and long-term incentives are linked but not duplicative.

   a. **Adjusted Performance Metrics**: If the company intends to use any adjusted performance measures (non-GAAP or not conforming to accepted accounting principles), the company should provide a detailed rationale, including a line-item reconciliation of each metric and the impact on the program.

   b. **Non-financial Metrics**: CalSTRS understands that not all value-drivers can be captured in quantifiable metrics and in many cases, it may be crucial to include qualitative or line-of-site metrics. If non-financial metrics are used, companies should describe and disclose their total weight in the overall plan and how the company will measure the performance of those non-financial metrics.

   c. **ESG Metrics:** Companies should determine how to best incorporate material environmental, social or governance risks into compensation plans. Metrics should be measurable and linked to a company's ESG risks or key priorities.

4. **Compensation Structure**: Structural pay elements are often discussed as part of a company's overall philosophy. CalSTRS believes that well-structured plans can help drive value, while poorly structured pay packages can harm shareholder value by unfairly enriching executives at the expense of shareholders.

   a. **Dilution**: Companies should clearly articulate their philosophy in regard to the dilution associated with all equity compensation programs, addressing the intended life of individual programs/plans including optimal yearly and long-term run rates. The dilution plan should provide the rationale for projected run rates, and how the company will evaluate the effectiveness of the plan over time. This should include a detailed analysis of intended dilution from a return-on-investment perspective, supporting an optimal run rate and equity plan based on its contribution to long-term performance and other objectives as may be appropriate. Simple peer group analysis to support a targeted run rate is not adequate.

b. **Repricing**: Repricing represents a potential fundamental shift in the relationship between long-term performance and compensation. In its basic form, repricing materially undermines this relationship by altering the impact of poor performance on plan participants, thus altering the risk reward profile of the plan, and the alignment with long-term owners. CalSTRS recognizes that issues surrounding compensation plans are complex and will consider proposals to reprice or otherwise alter the performance characteristics of a plan on a case-by-case basis. In any case, decisions to reprice should only be done with the explicit approval of shareholders.

c. **Contractual Agreements**: Companies should clearly articulate the parameters by which they would utilize employment agreements, severance arrangements or other contractual arrangements, if at all. Special care should be taken to explain the rationale for these arrangements within the overall purpose of the compensation program.

d. **Perquisites**: Companies should clearly articulate the rationale for including perquisites in the company's compensation program, including the expected weight of perquisites in relation to total compensation and how the perquisites relate to the program's overall objectives. CalSTRS believes certain perquisites, such as tax gross-ups, have a detrimental impact on alignment when considered in the context of the overall plan. Care should be taken to consider the benefit to long-term shareholders in relation to the potential cost and the impact on alignment when providing rationale for perquisites.

e. **Post-Employment Benefits**: Companies should disclose the use of all post-employment benefits and the parameters under which they are used, including limitations placed and eligibility of other beneficiaries to receive benefits. Post-employment benefits include all forms of health care coverage, any deferred compensation programs, or retirement benefits. Like other forms of compensation, care should be taken to consider the benefit to long-term shareholders in relation to the potential cost and impact on alignment. In this context, certain benefits, such as post-death benefits (golden coffins) for example, would significantly weaken alignment with shareholders and should be avoided.

f. **Hedging and Pledging**: Companies should develop and disclose their policies around executives and director's ability to hedge or pledge against equity awards received as part of compensation or other stock holdings. CalSTRS believes that hedging in particular, removes the alignment of interest between the executive and the long-term shareholders and therefore should be avoided.

g. **Clawback Policies**: Companies should adopt policies which provide significant flexibility to recoup incentive compensation in circumstances where it is later determined to have been unearned. CalSTRS believes these policies should extend beyond the basic protections of law and should include circumstances beyond intentional misconduct. In addition to adopting and disclosing their clawback policies, a company should also disclose those instances when they have recouped compensation under this policy.

h. **Peer Benchmarking**: Companies should describe and disclose the process for using peer relative analysis or benchmarking, and how the compensation committee will ensure these factors do not dominate the justification for the plan design or compensation levels. This should also include the procedure and rationale for the selection of the peer group(s). Peer analysis should be used as a reasonableness check and not as a starting point for determining pay, and justification should be provided if target total compensation is significantly above median.

i. **Guaranteed Compensation**: Companies should provide disclosure, if under any circumstance, they provide for guaranteed bonuses or compensation. The rationale should include the frequency with which shareholders may expect this practice, how it fits into the context of the total plan, and its impact on performance-based compensation.

j. **Tax Gross-ups**: Companies should definitively state their position regarding tax gross-ups or any other form of tax payment on behalf of employees. In any case where a company's policy permits gross-ups or tax payments, the company should include a justification for this benefit and how it relates to the company's overall compensation philosophy.

5. **Accountability**: CalSTRS believes that the compensation committee is ultimately responsible for designing, implementing, monitoring and evaluating the executive compensation program, therefore, votes against compensation plans or advisory votes will generally result in votes against compensation committee members.

   a. **Roles and Responsibilities**: Clearly defined responsibilities of the compensation committee demonstrate rigor in creating and implementing compensation plans. The compensation committee charter should clearly outline these roles and responsibilities.

   b. **Shareholder Approval**: Compensation plans, repricing of awards within plans, and an annual advisory vote on compensation should always be submitted for shareholder approval.

   c. **Measuring Effectiveness**: Compensation committees should have a process to monitor and evaluate the effectiveness of the program over time, specifically the integrity of the performance metrics. In addition, committees should conduct a total compensation analysis and describe and disclose which tools are used, such as tally sheets.

D. Director Compensation

1. **Director Compensation**: It is CalSTRS' general belief that independent directors' compensation should be in the form of cash salary or restricted stock. Other forms of compensation such as retirement benefits or options are not warranted because they could create perverse incentives.

2. **Director Insiders**: Company insiders who sit on the board should not receive additional compensation for their service on the board.

3. **Director Equity Ownership**: CalSTRS believes independent directors should be

required to own a minimum level of equity ownership in the company they are serving on to ensure the alignment of their long-term interests with those of the shareholders. The board should set and disclose the minimum stock ownership requirements and guidelines for the directors.

E. Employee Stock Purchase Plans

Generally, employee stock purchase plans, savings, or investment plans are to receive a positive vote, so long as it is a broad-based plan, the exercise or purchase price is not less than 85 percent of fair market value on the date of grant or purchase, and no loans are made for the purposes of settling payment for shares or any tax liability arising from exercise or purchase of such shares. Shares issued and reserved with respect to such plans shall only be done when necessary and for the specific use of the plan.

F. Governance Structure

1. Anti-Takeover Measures

a. **Poison Pills**: CalSTRS generally supports poison pills that are applied equitably to all shareholders, have at least 20 percent trigger threshold and have a sunset provision of no more than three years. CalSTRS believes that all poison pills should be approved by shareholders within 12 months or the next shareholder meeting, whichever comes first.

b. **Supermajority Vote Requirements**: CalSTRS supports proposals seeking to reduce or eliminate the supermajority requirements to amend bylaws or charter provisions.

c. **Majority Vote Requirements**: CalSTRS supports a simple majority vote requirement for all matters that require shareholder approval.

2. Shareholder Rights

a. **Act by Written Consent and/or Call a Special Meeting**: Shareholders should have the right to act by written consent and/or call a special meeting. CalSTRS supports proposals to establish this right or to set the threshold to a reasonable level enabling shareholders to act outside of the regularly scheduled annual meeting.

b. **Proxy Access**: Companies should allow shareholder access to the director nomination process and to the company's proxy statement. Generally, CalSTRS believes that a long-term investor or group of investors owning in aggregate at least three percent of the company's voting stock for three years should be able to nominate the lessor of 2 directors or 25% of the number of directors outlined in the company's current proxy statement for the annual election of directors.

c. **Amend Bylaws**: Shareholders should be able to amend the company's governing documents such as the Bylaws and Charter by shareholder resolution. Companies should not adopt policies which override the right of shareholders to amend governing documents.

3. Capital Structure

a. **Mergers and Acquisitions**: CalSTRS evaluates mergers and acquisitions on a case- by-case basis using a total portfolio view. The merger analysis considers the sales process, the valuation and deal price, the strategic rationale behind the merger, the market reaction to the merger, the change in control payments and governance issues.

b. **Golden Parachutes**: CalSTRS evaluates advisory votes on change-in-control benefits (golden parachutes) on a case-by-case basis. CalSTRS supports golden parachutes that are not excessive in absolute amount or relative to the total transaction value and do not include auto acceleration of unvested equity awards.

c. **Authorization of Shares**: CalSTRS generally supports common stock increases up to 20 percent of current outstanding shares. CalSTRS may support additional authorization of increased shares if the company demonstrates a reasonable need for those shares.

4. Other Governance Matters

a. **Bylaw Adoption or Amendment Without Shareholder Approval**: CalSTRS expects a shareholder vote on the adoption or amendment of substantive changes to the company's bylaw or charter provisions, especially if it may materially affect or limit shareholder's rights. CalSTRS may hold directors accountable for any unilateral actions that disenfranchise shareholders.

b. **Bundled Proposals**: Individual voting issues, especially those related to the company's bylaws or charter, should be voted on separately instead of as a bundled proposal.

c. **Cumulative Voting**: Whenever possible, CalSTRS will support cumulative voting proposals as required for governmental pension funds under California law (Section 6900, Government Code).

d. **Unequal Voting Rights**: CalSTRS supports the one-share, one-vote principle. CalSTRS does not support voting structures in which voting rights are not aligned with economic interests. CalSTRS does not support time-phased voting, which provides unequal voting rights based on the length of ownership in the stock. Companies with existing unequal voting structures should disclose and implement processes to move to a one-share, one-vote structure.

e. **Shares Cast vs. Shares Outstanding**: CalSTRS believes matters presented to shareholders for vote should be counted based on shares cast, not on votes outstanding.

f. **Meeting Adjournments**: CalSTRS does not support the adjournment of a special meeting allowing company more time to solicit more support for any voting item.

g. **Virtual or Hybrid Shareholder Meetings**: CalSTRS believes a hybrid annual shareholder meeting, whereby virtual or remote participation is a supplement to the regular in-person meeting is a governance best practice. Technology should be utilized to allow more shareholders to participate and not used as a substitute for the regular in-person meetings. Any shareholder who desires to attend a virtual-only meeting in person should have the choice to do so, provided the shareholder complies with reasonable admission requirements.

h. **Other Governance Issues**: CalSTRS will use judgment and analysis to evaluate and determine the vote on various miscellaneous governance issues on a case-by-case basis. The voting items are to be executed in a manner consistent with CalSTRS financial interests and Corporate Governance Principles as well as with best corporate governance practices.

G. ESG Risks and Opportunities

CalSTRS has Investment Beliefs that provide the foundational framework for all of CalSTRS' investment decision-makers to invest in a manner that reflects CalSTRS' unique view of the global investment markets. CalSTRS believes responsible corporate governance, including the management of environmental, social, and governance factors, can benefit long-term investors like CalSTRS. It is important for companies to consider ESG issues to ensure they are long-term sustainable companies and have considered and addressed all risks and opportunities that could affect the livelihood of the business.

CalSTRS' investment activities impact other facets of the economy and the globe. As a significant investor with a long-term investment horizon, the success of CalSTRS is linked to global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of sustainable global growth are not in the long-term interests of the Fund. Consistent with its fiduciary responsibilities, CalSTRS adopted the Investment Policy for Mitigating Environmental, Social and Governance Risks to ensure that the corporations and entities in which CalSTRS invests strive for long-term sustainability in their operations.

IV. Conclusion

By presenting the CalSTRS Corporate Governance Principles, CalSTRS hopes to advance best practices in corporate governance as part of our overall prudent management of ESG risks and opportunities. As the ultimate long-term shareholder, it is important that our investments are sustainable for generations to come and we want to encourage corporate companies, investors and stakeholders to have a continued dialogue on principles like these and others.

Approved by Board on June 11, 1982
Amended by Investment Committee: June 7, 1985
Amended by Investment Committee on July 19, 1985
Amended by Subcommittee on Financial Proxies on August 5, 1988
Amended by Investment Committee on October 7, 1988
Ratified by Teachers' Retirement Board on October 22, 1988
Amended by Subcommittee on Corporate Governance on March 11, 1992
Approved by Investment Committee on April 1, 1992
Ratified by Teachers' Retirement Board on April 2, 1992

Amended by Subcommittee on Corporate Governance on October 6, 1995
Approved by Investment Committee on October 6, 1995
Ratified by Teachers' Retirement Board on October 6, 1995
Amended by Investment Committee on November 5, 1997
Approved by Investment Committee on November 6, 1997
Ratified by Teachers' Retirement Board on November 6, 1997
Amended by Subcommittee on Corporate Governance on April 3, 2002
Approved by Investment Committee on April 3, 2002
Ratified by Teachers' Retirement Board on April 4, 2002
Amended by Subcommittee on Corporate Governance on July 10, 2002
Approved by Investment Committee on July 10, 2002
Ratified by Teachers' Retirement Board on July 11, 2002
Amended by the Subcommittee on Corporate Governance on July 9, 2003
Approved by the Investment Committee on July 9, 2003
Ratified by the Teachers' Retirement Board on July 10, 2003
Adopted by the Investment Committee on September 7, 2005
Ratified by the Teachers' Retirement Board on September 7, 2005
Approved by the Subcommittee on Corporate Governance on February 7, 2008
Adopted and Ratified by the Investment Committee on February 7, 2008
Approved by the Subcommittee on Corporate Governance on June 4, 2008
Adopted and Ratified by the Investment Committee on June 4, 2008
Amend to add ESG, Climate Change Governance Checklist, the Global Sullivan Principles and PRI on September 9, 2009
Reorganized by Corporate Governance Committee on April 2011
Amended to add disclosure of Political Contribution on September 7, 2011
Approved by Investment Committee on November 2, 2011
Approved by the Investment Committee on February 6, 2015 Approved by the Investment Committee on April 3, 2015 Approved by the Investment Committee on July 14, 2016 Approved by the Investment Committee on November 16, 2016 Approved by the Investment Committee on November 1, 2017Approved by the Investment Committee on November 1, 2018
Approved by the Investment Committee on January 27, 2021
Approved by the Investment Committee on January 11, 2024