

# CalSTRS

## CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

### CORPORATE GOVERNANCE PROGRAM *Policies*

INVESTMENT BRANCH  
APRIL 2006

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**INTRODUCTION**

**Philosophy:** The California State Teachers' Retirement System (CalSTRS) is committed to holding and managing equity investments and to exercising the shareholder rights appurtenant to those investments, all for the benefit of its participants and beneficiaries. It is the fiduciary responsibility of the Teachers' Retirement Board (TRB) to discharge its duty in the exclusive interest of the participants and beneficiaries and for the primary purpose of providing benefits to participants and their beneficiaries. The TRB should defray the reasonable expenses of administering the Fund; the investment policy of the Fund should reflect and reinforce this purpose. The TRB views its corporate governance role as that of a catalyst for enhanced management accountability, disclosure and performance. The objective of the TRB's corporate governance effort is to enhance long-term shareholder returns.

CalSTRS is a long-term investor; its long-term strategy is demonstrated through its significant commitment to passively managed portfolios in its three largest asset categories: Domestic Equities, Fixed Income, and non-U.S. Equities. CalSTRS' thrust in corporate governance is to maximize the longer-term value of the shares, consistent with its role as a significant capital allocator. CalSTRS recognizes that the lending of securities, especially equity common shares is an important practice in the investment world, improving market liquidity, reducing the risk of failed trades, and adds significant incremental return to investors. CalSTRS will use its best efforts to ensure that the portfolio's shares that are out on loan will not cast votes that are contrary to CalSTRS' stated corporate governance policies. As a long-term investor, CalSTRS believes that its beneficiaries interests are more appropriately served when votes are cast by market participants who have an economic interest in the underlying company. CalSTRS will seek to coordinate the lending process with all the parties, including the investment lending officers and the custodial relationships in its effort to insure that under-voting or voting abuse is not suffered by the fund. It is understood that this effort will result in the recall of loaned shares and the restriction of lending certain shares.

**Statutory Authority:** Education Code Section 22354 requires the Board to retain investment managers who are experienced and knowledgeable in corporate management issues to monitor corporations whose shares are owned by the System plan and to advise the board on the voting of the shares owned by the plan and on all other matters pertaining to corporate governance.

While CalSTRS is not subject to the Employee Retirement Income Security Act (ERISA), applicable provisions of both the California Constitution and the Education Code make clear that CalSTRS' commitment to corporate governance is a diligent exercise of its fiduciary responsibility. As observed by the U.S. Department of Labor:

“In general, the fiduciary act of managing plan assets which are shares of corporate stock would include the voting of proxies appurtenant to those shares of stock. ... Moreover, because voting such proxies involves plan asset management, section 403(a) requires that plan trustees have the exclusive authority and responsibility for voting these proxies...”

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Thus, CalSTRS' legal authority for corporate governance springs from its fiduciary concerns as a prudent investor and the statutory obligation imposed on it by the Legislature.

The following represent the approved policies to be used in the exercise of CalSTRS' shareholder rights and the implementation of its Corporate Governance Program. The policies are designed to set boundaries for the management of proxies and other corporate actions. As with all other plan assets, these corporate governance policies cannot be altered without explicit direction from the TRB.

1. **LAWS AND STATUTES:** The Corporate Governance Program (Program) for the California State Teachers' Retirement System (CalSTRS) will be managed in a prudent manner for the sole benefit of the CalSTRS participants and beneficiaries, in accordance with the Teacher's Retirement Laws and other applicable State statutes.
2. **REGULATIONS:** For domestic equities, the Program will comply with the rules of the Securities and Exchange Commission (SEC), equity exchanges, and other regulatory agencies. For non-U.S. equities, the Program will comply with the appropriate regulatory body in the respective country.
3. **PROGRAM OBJECTIVE:** The Program shall be managed to provide long-term enhanced shareholder value through clear and certain disclosure and accountability. Enhancing shareholder value shall always take precedence, non-financial or collateral benefits notwithstanding.
4. **PROGRAM COMPONENTS:** The Program shall consist of the following components:
  - a. Voting of Proxies: CalSTRS will make a best effort to vote all domestic and non-U.S. proxies; exceptions may be made based on the legal requirements or local conventions of certain markets and where practical difficulties make an informed and meaningful decision impossible. Voting of proxies shall be in conformance with all approved documents such as the "Financial Responsibility Criteria for Corporate Investments." (Attachment A)
  - b. Annual Workplan Companies: CalSTRS will continue its practice of identifying for enhanced shareholder action, on an annual basis; companies in which the System holds a significant passive investment position that are underperforming applicable performance benchmarks. In the organization and completion of this Workplan, staff shall consider the market value of the investment, CalSTRS' ownership percentage, priorities identified in the annual business plan and the resources required and the direct cost involved in seeking a desired result.

"Enhanced shareholder action" includes, but is not limited to:

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- Informal or formal expressions of concern to company management concerning corporate governance practices that are adversely affecting shareholder value;
  - Development of shareholder proposals, either individually or in concert with other institutional investors;
  - Participation by CalSTRS in litigation, consistent with its policy with regards thereto, in the event that the subject company's underperformance is related to matters that are or may become the subject of such litigation.
- c. Corporate Governance Organizations: CalSTRS will continue its active participation in the Council of Institutional Investors and in other forums designed to have an impact on corporate governance practices.
- d. Recognizing Good Corporate Governance in Companies: To promote improved corporate governance, CalSTRS may recognize companies that represent best practices in corporate governance.
- e. Targeted Investor Coalitions: CalSTRS will, time and circumstances permitting, partner with other institutional investors in an effort to maximize its corporate governance efforts, exclusively on behalf of the plan beneficiaries and participants
- f. Securities Litigation: CalSTRS will manage its interests in securities litigation matters as assets of the trust fund with the goal of enhancing the long-term value of the portfolio consistent with the Investment Management Plan. Consistent with this goal, CalSTRS will pursue the following objectives:
- Increasing the net monetary value of settlements;
  - Increasing the long-term value of shares in a company subject to shareholder litigation held in CalSTRS' portfolio;
  - Deterring wrongful corporate conduct that undermines the integrity of the financial markets.

In most cases, CalSTRS' interests in securities class action litigation claims will be adequately addressed solely through passive participation as a class member. However, in select cases a higher level of involvement will be appropriate, including:

- ***Moving for Lead Plaintiff Status***: In securities class action cases where CalSTRS' potential damages exceed \$5 million, or in other cases where there is an exceptional opportunity to preserve or enhance the long-term value of a significant portfolio holding or to deter wrongful corporate conduct, CalSTRS will consider moving for lead plaintiff status. If staff concludes that a

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securities class action meets one or more of these criteria, the case will be referred to a law firm on the evaluation counsel panel for evaluation and recommendation to the Board.

The evaluation counsel panel shall be established under the direction of the General Counsel and shall consist of law firms that are experienced in the litigation of federal and state securities cases, including but not limited to class actions, so-called "opt-out" individual actions, and derivative cases. Such counsel shall be selected and compensated on a retainer basis to evaluate the case, make a recommendation thereto, and to represent CalSTRS in the filing of a motion for lead plaintiff status if such action is approved, but shall not otherwise be eligible to represent CalSTRS as lead class counsel in that case if CalSTRS is selected as lead plaintiff.

A determination on whether to seek lead plaintiff status shall be made by the Board based on the recommendation of the General Counsel and evaluation counsel. The recommendation of evaluation counsel should address the merits of the case, potential applicable defenses and recoverable damages. If, pursuant to Board approval, lead plaintiff status is sought and approved by the Court, CalSTRS will conduct a competitive selection of lead class counsel in order to secure the most qualified counsel at a fee structure that aligns the interests of the class and lead counsel.

- ***Alternatives to Lead Plaintiff Status Requiring Board Approval:***  
In some instances where seeking lead plaintiff status is not sought or where the court has denied a motion therefore, CalSTRS may consider the following alternatives: 1) Participating as a co-lead plaintiff with other institutional investors; 2) Opting out of a class and filing a separate securities action in state or federal court; 3) Filing a shareholder derivative claim in state or federal court; and 4) Formal intervention in pending litigation. Such actions shall require the approval of the Board following an evaluation by the General Counsel and evaluation counsel.
- ***Litigation Alternatives Delegated to Staff:*** If, in a particular case, the seeking of lead plaintiff status or the above alternatives is either not deemed to be appropriate or is not approved by the Court, but staff believes that some active involvement by CalSTRS would be consistent with the goal and objectives of this program, on the recommendation of the General Counsel and approval of the Chief Executive Officer CalSTRS may: 1) Attempt to persuade another claimant whose interests are aligned with CalSTRS to seek lead plaintiff status; 2) File briefs or motions with the Court concerning the selection of lead plaintiff, lead counsel, or other litigation matters; 3) File a notice of appearance and more actively monitor the case; 4) Participate in settlement negotiations or consult on a proposed settlement; or 6) File

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objections to inadequate or otherwise objectionable class action or derivative settlements.

- ***Non-Litigation Alternatives:*** In considering the appropriate response to a company that is subject to shareholder litigation, CalSTRS will evaluate the pursuit of alternatives to litigation that address the underlying cause of the company's problem. For example, contacting appropriate regulatory and/or law enforcement agencies about potential prosecution of wrongdoers may deter similar conduct in the future that undermines the integrity of the financial markets. As another example, filing shareholder resolutions or negotiating for corporate governance changes like the addition of independent directors or the creation of an independent audit committee may address the problems that lead to the litigation and could aid in the long-term recovery of the company and the value of its stock.
- g. Statement of Investment Responsibility: The "Statement of Investment Responsibility" (Attachment B) remains in effect.
- h. Regulatory and Legislative Advocacy: CalSTRS will, upon the completion of sound analysis, advocate for both the institution and the repeal of laws and regulations that improve the financial and legal market place, relative to the stated Investment Management Plan and the exclusive benefit of the plan beneficiaries and participants.
5. **BUSINESS PLAN:** The Program will be managed in accordance with a business plan which will be prepared on an annual basis and will describe CalSTRS' objectives for the next twelve-month period. The annual business plan will emphasize CalSTRS' strategic and tactical corporate governance priorities; once approved, staff will present a general implementation plan to the Subcommittee on Corporate Governance/Investment Committee, with the expressed recognition that tactics may have to be altered in the course of the execution of the plan and that staff has the delegated authority to make the adjustments as needed and appropriate.
6. **MONITORING:** Staff shall monitor adherence to the corporate governance policy for all internal and external managed portfolios.
7. **AUTHORIZED ACCESS:** Authorization memoranda, delineating access and authority levels relating to CalSTRS corporate governance related business, will be provided to the master custodian, staff and proxy voting intermediary. Whenever there is a change in authorized personnel a written notice shall be provided to each affected party, within 48 hours of change.
8. **DELEGATION OF AUTHORITY:** The Chief Investment Officer (CIO) or designee has the authority to manage the Corporate Governance Program and may use other investment personnel to implement these policies.

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9. **DECISION-MAKING AUTHORITY:** Subject to the review and approval of the Investment Committee/ Subcommittee on Corporate Governance/ TRB, staff shall:
- Review and make recommendations with regard to this Policy, the Financial Responsibility Criteria for Corporate Investments (Attachment A), the Statement of Investment Responsibility (Attachment B);
  - Report staff on the status of current proxy votes, and recommend to the Investment Committee/Subcommittee on Corporate Governance/ TRB action to be taken on votes which do not fall within the guidelines;
  - Develop the Annual Corporate Governance Business Plan;
  - Present annual summaries of votes cast on behalf of the TRB;
  - Act as liaison between the TRB and the Council of Institutional Investors;
  - Monitor developments in the corporate governance area that may affect the value of shares held by CalSTRS;
  - Develop and propose various actions related to corporate governance, including, but not limited to, shareholder resolutions, criteria for selection of companies for focus lists, criteria for entering into litigation related to securities fraud and/or to accomplish the purposes of the corporate governance policy, so long as these actions are consistent with the Investment Management Plan.
10. **REPORTING:** Staff shall present regular reports to the Sub-Committee on Corporate Governance/Investment Committee on actions and major activity.

Approved by the Subcommittee on Corporate Governance: October 13, 1999  
Adopted by the Investment Committee: October 13, 1999  
Amended by the Subcommittee on Corporate Governance: January 5, 2000  
Adopted by the Investment Committee: January 5, 2000  
Adopted by the Investment Committee: July 14, 2005  
Amended and adopted by the Teachers' Retirement Board: April 7, 2006

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Attachment A

**CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM  
FINANCIAL RESPONSIBILITY CRITERIA  
FOR CORPORATE INVESTMENTS**

The following criteria deal with matters considered of a financial nature only. In most cases they are general policy guidelines to voting shares held at annual and special corporation shareholder meetings. They are not designed to substitute for analysis and judgment, which should be exercised as circumstances dictate. The guidelines should not be regarded as mandatory, if local factors and prudence suggest otherwise. Each issue will be reviewed to ascertain surrounding facts, and exceptions may be made based on the legal requirements of the countries, local conventions or states in which the company is registered. It is recognized that, in foreign markets, there may be practical difficulties in obtaining notices of company meetings and that the timeliness and disclosure requirements, which prevail in the U.S., are often not evident. In those circumstances where adequate and timely disclosure of information necessary to reach an informed and meaningful decision is not possible, the responsible party may abstain. It is also recognized that the decision to abstain by the party responsible for voting the proxy may be due to practical difficulties, to other financial criteria which outweigh the benefits to be gained by voting or to practical difficulties and circumstances beyond its control. Notwithstanding any limitations, it is expected that there will be no abstentions on issues that may affect the economic value of the shareholdings. It is expected that in all cases, the parties will make a good faith effort to get the necessary materials, but it is recognized that, in foreign markets, the means for obtaining planned company meeting notices, dates and agendas, may not be readily available. Nevertheless, a true and accurate record shall be kept of the materials, which have been obtained, and of how proxies have been voted or otherwise managed. This record shall include, to the extent possible, a description of efforts made to obtain materials, which were not successful and the reasons why the efforts were not successful. It is understood that it is the intent of the Teachers' Retirement Board to exercise its voting authority, either directly or through other parties, to whom it has delegated responsibility for voting proxies, according to their judgment of its best financial interests, whenever and wherever possible, and that, while logistics or other factors may sometimes interfere with this intent and principle, it is the ultimate goal of CalSTRS to work with the indicated parties to remove the barriers to voting all shares over time.

**INVESTMENT PROTECTION STANDARDS**

Every financial organization that provides investment banking services and is retained or utilized by the California State Teachers' Retirement System (CalSTRS) should adopt the terms of the Investment Protection Standards. On April 28, 2003, the New York Attorney General, the Securities and Exchange Commission, the New York Stock Exchange, NASD, and the North American Securities Administrators Association announced a settlement with ten of the nation's largest investment firms (hereinafter "the Global Settlement"), the terms of which significantly reduce the conflicts of interest between Research and Investment Banking. In retaining and evaluating any such financial organization, CalSTRS will give significant consideration to whether such organization has adopted the Investment Protection Standards.

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The Investment Protection Standards include, but are not limited to, the following:

- Severing the link between compensation for analysts and investment banking;
- Completely separating Research and Investment Banking, including physical separation. Research will not report directly or indirectly to or through Investment Banking.
- Requiring that Research have its own dedicated legal and compliance staff.
- Requiring firms to create and enforce firewalls reasonably designed to prohibit all communications between Research and Investment Banking.
- Prohibiting Research from participating in efforts to solicit investment banking business. Analysts may not participate in "pitches" or Investment Banking sponsored road shows.
- Prohibiting investment banking input into analyst compensation;
- Establishing written criteria (exclusive of Investment Banking input) to be used for compensation decisions.
- Compensating analysts in significant part based on the quality and accuracy of their work.
- Investment Banking shall have no input into an analyst's evaluation.
- Decisions concerning compensation shall be documented.
- Creating a review committee to approve all research recommendations.
- The review committee will review all changes in ratings, if any, and material changes in price targets, if any, contained in the firm's research reports.
- The review committee will conduct periodic reviews of research reports to determine whether changes in ratings or price targets, if any, should be considered.
- The review committee will monitor the overall quality and accuracy of the firm's research reports.
- Requiring that upon discontinuation of research coverage of a company, firms will disclose the coverage termination and the rationale for such termination.

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- Prohibiting Investment Banking input into company-specific coverage decisions (i.e., whether or not to initiate or terminate coverage of a particular company in research reports furnished by the firm).
- Disclosing in research reports whether the firm has received or is entitled to receive any compensation from a covered company over the past 12 months.
- Each quarter, firms shall publish on their websites a chart showing their analysts' performance, including each analyst's name, ratings, price targets, and earnings per share forecasts for each covered company, as well as an explanation of the firm's rating system.
- Establishing a monitoring process to ensure compliance with the standards.
- Each firm shall conduct an annual review to provide reasonable assurance that the firm is in compliance.
- CalSTRS reserves the right to request an independent audit or confirmation of compliance with these Standards and in the case of those firms party to the Global Settlement, a copy of the report prepared by the Independent Monitor.

Note: Upon approval by CalSTRS of a firm's plan or policy, these Standards are to be implemented consistent with the timeframes established in the Global Settlement. In submitting plans, a firm may propose a specific alternative method for complying with one or more of the Standards, which will be considered only if such alternative method is consistent with the intent of the Standards and achieves the same substantive objective.

CalSTRS will give significant consideration, in retaining and evaluating money managers, as to whether such managers are abiding by the following:

1. Money management firms must disclose periodically any client relationship, including management of corporate 401(k) plans, where the money management firm could invest State or Pension Fund moneys in the securities of the client.
2. Money management firms must disclose annually the manner in which their portfolio managers and research analysts are compensated, including but not limited to any compensation resulting from the solicitation or acquisition of new clients or the retention of existing clients.
3. Money management firms shall report quarterly the amount of commissions paid to broker-dealers, and the percentage of commissions paid to broker-dealers that have publicly announced that they have adopted the Investment Protection Standards.

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4. Money management firms affiliated with banks, investment banks, insurance companies or other financial services corporations shall adopt safeguards to ensure that client relationships of any affiliate company do not influence investment decisions for the money management firm. Each money management firm shall provide the State Investment Officers with a copy of the safeguards plan and shall certify annually to the State Investment Officer that such plan is being fully enforced.
5. In making investment decisions, money management firms must consider the quality and integrity of the subject company's accounting and financial data, including the its 10-K, 10-Q and other public filings and statements, as well as whether the company's outside auditors also provide consulting or other services to the company.
6. In deciding whether to invest State of Pension Fund moneys in a company, money management firms must consider the corporate governance policies and practices of the subject company.

The principles set forth in paragraphs 5 and 6 are designed to assure that in making investment decisions, the money management firms give specific consideration to the subject information and are not intended to preclude or require investment in any particular company.

**A. AUDITORS**

1. The Audit Committee has a unique role in the capital markets and the overall governance structure. The Audit Committee shall have at least 3 members and no more than 5. The Audit Committee shall adopt a formal, written charter and provide a report that references the charter and disclosure, in the company's annual report/proxy statement whether the Audit Committee has complied with its charter responsibilities. Any amendments to the Audit Committee charter shall be reported to the shareholders in the annual report/proxy statement. The Audit Committee members must have full access to company financial documents. The Audit Committee shall regularly evaluate the relationship between management and the external and internal auditors.
2. The Audit Committee shall have responsibility and authority to select, retain/replace and evaluate the external auditor, including any issues that may impair the external auditor's independence and direct the scope of the duties to be performed. The Audit committee and the Board of Directors, as the fiduciary representatives of shareholders, are the ultimate authority to which the external and internal auditors are accountable.

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3. All members of the Audit Committee will be persons whose past/current employment experience/education demonstrates expertise in finance and/or accounting, including being or having been a CEO or other senior executive officer with financial oversight responsibilities. The Board of Directors shall provide a written and signed statement in the annual report/proxy statement, attesting that it has determined that the members of the Audit Committee have the expertise in finance and/or accounting necessary for the execution of its oversight and monitoring duties. The Board of Directors shall attest in this statement that the Audit Committee members can read and understand fundamental financial statements, including a company's balance sheet, income statement, and cash flow statement. The Board of Directors shall assess the adequacy of the Audit Committee on an annual basis. This report should have the same protections offered by the SEC in its "safe harbor" for the existing Executive Compensation report included in the proxy statement.
4. CalSTRS supports the limitation of non-audit services that an external auditor can provide to an audit client. If non-audit services other than taxation issues are provided and disclosed, CalSTRS shall cast a negative vote against that auditor's continuance. External auditors that also have direct investments in audit clients or affiliates of audit clients will not be considered as Independent Auditors/Accountants and CalSTRS shall cast a negative vote against the auditor's selection/adoption.
5. CalSTRS supports limiting external auditor firms to seven consecutive years of audit service to portfolio companies.

**B. BOARD OF DIRECTORS**

1. Generally, information and circumstances permitting, votes are to be cast in favor of annual election of all directors and against staggered terms. Exceptions may be made as circumstances dictate or when pertinent information is unavailable. Once all shareholders have decided through the voting process that the board should be staggered, nominees should be elected based on their qualifications and merits, though CalSTRS' interest may argue for actions proposing the repeal of staggered terms.
2. Generally, votes are to be cast in favor of simple majority approval, of shares outstanding, as appropriate for merger proposals. Proposals seeking higher percentages may be approved only if approval is in the financial interest of CalSTRS. Exceptions may be made when pertinent information is unavailable. For example, a proposal which sought to reduce the super majority requirement from 80% to 66 2/3% would generally receive a favorable vote; whereas, a proposal to increase the vote required from a simple majority to a higher percentage would generally not receive a favorable vote.

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3. It is concluded that corporate board members primary responsibilities should be to direct the companies in the interest of all the shareholders. Any proposed director qualifications should relate to a prospective director's capacity to function on behalf of all the shareholders; to the extent that such qualifications are disclosed, votes are to be cast on this basis. However, as a matter of policy, CalSTRS supports the concept of an independent non-executive chairman, who has not had a substantive employment relationship with the company in the past five years. Shareholder proposals which seek a non-executive chairman will generally receive support and may be introduced on behalf of CalSTRS.

Sitting directors who have been on the board for a full year and who have not attended at least 75% of the meetings will receive a negative vote. In such cases, CalSTRS will split its votes on the issue of directors and vote against the individual nominee. In casting its vote regarding directors, the financial performance of the subject corporations will be reviewed, and if long-term underperformance, relative to the market and industry group are severe, a negative vote may be cast for the entire slate of directors.

- A. It is concluded that since the Audit Committee is a subset of the entire Board of Directors, the performance of the Audit Committee is the responsibility of the entire Board of Directors. The Board of Directors must provide active and independent oversight of all of its review committees, such as Audit, Nominating, Compensation, and Governance. All persons who serve on Audit Committees must be unaffiliated, independent directors, whose only material relationship to the company is the directorship. In recognition of the unique expertise and time commitment required for the Audit Committee, CalSTRS supports the view that members of the Audit Committee should receive greater compensation than other Board Committees. The Board of Directors should also consider limiting the term of Audit Committee service, by automatic rotation or other methods.
4. Generally, votes are to be cast against blanket requests for limitations of liability and indemnification protection of directors and officers. Generally, such requests allow the protected individual to escape liability even if he or she is found by the courts to have been grossly negligent in the performance of his or her duties as a director and/or officer of the corporation. It is concluded that it is not in the best interest of shareholders to grant such protection on an-across-the-board basis. Exceptions may be made as circumstances and legal requirements dictate.
    - A. Legal requirements and circumstances permitting, positive votes may be cast for management sponsored proposals requesting increased indemnification of directors and officers due to damage caused by violations of the duty of care, so long as the director/officer satisfied a "good faith" standard. Broader protection may be supported, provided there is a reasonable basis for support.

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- B. Legal requirements and circumstances permitting, positive votes may be cast for increased indemnification proposals where a director/officer defense is unsuccessful, unless there is a final legal/court determination that the director/officer acted in bad faith and not for a purpose that he or she could reasonably believe was in the best interest of the company. Broader protection may be supported, provided there is a reasonable basis for such support.
  - C. Legal requirements and circumstances permitting, negative votes may be cast against company proposals that request the elimination or limitation of directors' liability for acts evolving from negligence, or other violations of the duty of care that go beyond reasonable standards, except in markets where local conventions suggest otherwise.
5. Votes may be withheld for the entire slate of directors if a majority of the candidates are also corporate officers. Votes may be cast against the entire slate of directors if a majority of the candidates are also corporate officers or have been corporate officers in the past of the company. Additionally, votes may be withheld when it appears that the existing board has been remiss in the performance of its oversight responsibilities. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgment of the responsible party. Finally, negative votes may be cast when committees, such as the Nominating, Compensation and Audit, are not composed of independent directors.
  6. Votes are generally to be cast against the payment of fees to inside directors. Votes are generally to be cast against proposals granting retirement benefits and/or stock options, stock grants to outside directors, except in markets where local conventions suggest otherwise. However, proposals which seek to pay outside directors' fees in stock instead of cash will receive a positive vote. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
  7. Votes may be withheld for directors who may have an inherent conflict by virtue of receiving consulting fees from a corporation such as legal counsel and investment bankers who underwrite the corporation's securities. It is concluded that outside directors should remain independent in order to serve the best interest of all shareholders. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
  8. Generally, votes should be withheld for the entire slate of proposed directors when management is proposing a series of defensive measures, which serve to insulate incumbent management and hinder the ability of mergers or takeovers to proceed. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.

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9. Where director candidate(s) are employed by a company having a 20% or greater interest in the subject company, the director candidate(s) will be considered insiders. Should the majority of the director candidates be insiders or have conflicts of interest, votes may be withheld for the entire slate of candidates. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
10. Generally, shareholder proposals requesting the board of directors to establish a nominating committee for the selection of director candidates are to receive a favorable vote. CalSTRS believes that all important review committees such as nominating, audit and compensation should be entirely staffed by independent directors. Proposals and/or actions which seek to have such a structure established may be initiated or supported by CalSTRS. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.
11. Proposals which seek to limit the tenure of directors should receive a negative vote. Proposals which require directors to own a minimum amount of company stock in order to qualify as a director or to remain on the board should receive a negative vote. In the absence of adequate or definitive information, CalSTRS will cast its vote based on the surrounding circumstances and the judgement of the responsible party.

**C. CORPORATE GOVERNANCE**

1. Whenever possible, votes will be cast in favor of cumulative voting proposals as required for governmental pension funds under California law (Section 6900, Government Code).
2. Generally, information, legal requirements and investment analysis permitting, votes may be cast against proposals which would grant preemptive rights to shareholders and in favor of proposals which would eliminate such rights. In some markets, preemptive rights result in a loss of financing flexibility and are likely to deter companies from fulfilling one of their functions, which is to raise capital advantageously. However, in some markets it is believed that the removal of preemptive rights result in a loss of financing flexibility. Thus, the party responsible for executing the vote must exercise his or her best judgment on this matter.

**D. EXECUTIVE AND EMPLOYEE INCENTIVE COMPENSATION**

1. Stock options and incentive compensation plans must have the overriding purpose of motivating corporate personnel and should by design, encourage long-term behavior in opposition to short-term behavior. It is not in the interests of shareholders, employees or the companies to support unnecessarily high compensation costs, as this will result in making the companies uncompetitive with consumers and providers of capital. To

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insure that such plans are aligned with shareholders' interest, attention should be paid to corporate performance. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.

- CalSTRS believes that shareholders should have the right to review and decide on all equity based compensation plans and that, failing shareholder approval, such plans should not be implemented. CalSTRS believes that this standard should not only apply to companies whose shares are listed on exchanges, but to OTC companies as well. CalSTRS supports a more egalitarian distribution of incentive compensation among employees, but insists that the total compensation cost to shareholders be reasonable.
- When reviewing stock options and incentive compensation plans, the fund will pay careful attention to the net dilution that will be suffered by shareholders as a result of the plans' implementation. This dilution calculation will be based on the Capital Asset Pricing Model and will have as its components, the risk-free rate of return in evidence at the time the plan is being reviewed, the equity risk premium in evidence at the time the plans is being reviewed and the stock's beta. The CAPM return for the company would be the sum of the risk-free rate and the equity risk premium, multiplied by the beta, reduced by whatever the dividend yield is on the stock. When the options are exercised and the company gets to deduct the gain on exercise and the company's marginal tax rate is considered, the company's cash flow and profit should increase by some multiple of the gain and the tax rate.
- On exercise, once consideration has been received for the options shares, the company can use it to buy back additional shares. The net dilution will be the difference between the original grant and the shares that the company buys back. This model would account for risk; options in risky stocks are worth more and will cost shareholders more than options in less risky stocks; net dilution on higher beta stocks will be higher than the net dilution experienced on lower beta stocks. In-the-money options will produce higher net dilution than the same number of out-of-the-money options or indexed options.
- CalSTRS will favor the establishment of Non-Qualified Stock Option (NQSO)) over Incentive Stock Options, because NQSOs are more advantageous to shareholders in that the gains derived from them are deductible by the issuing corporation. CalSTRS intends to apply the broad based equity compensation standard to the companies that annually constitute the Russell 1000 Index. CalSTRS will not support any equity compensation plans where shareholders will suffer greater than 20% net dilution, or where greater than 5% of the total equity compensation granted is to the top 5 executive officers. When companies are presenting the performance metrics that will be used for these equity compensation plans, such measures should be easily identifiable and have validity for shareholders; at a minimum, growth in earnings per share, return on equity and

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total return should be included as performance measures. Additionally, there should be threshold levels in any equity compensation plan and they should be clearly explained in the proxy statement and the plan document that is provided when such plans are presented for approval. This means there must be some level of performance for which employees will receive no reward. This consideration will hold whether the incentive is granted in restricted stock or options; performance metrics and long-term vesting provisions should be clearly stated, no matter the form of the incentive.

- Awards of equity compensation would only be generated on the portion of performance achieved above the threshold level. Executives and employees receive salaries and they ought to deliver some threshold level of performance before they receive any additional compensation, no matter its form. The broad based equity compensation plans will be allowed a greater net dilution rate of 20% rather than the 15% that is allowed for companies outside of the Russell 1000. However, net dilution rates will be reviewed with an eye towards the companies' past practices, as well as the current practices of comparable companies in the same industry or of the same approximate size.
  - Generally, CalSTRS intends to use the net dilution standard to permit higher net dilution in companies where the long-term performance metrics have been higher, on a relative basis, to comparable companies and lower net dilution in companies where the long-term performance metrics have been lower, on a relative basis, to comparable companies and to encourage minimum vesting periods of five years. CalSTRS will continue its practice of voting against granting discounted options greater than 85%.
2. Generally, proposals which only seek to enable corporations to comply with the tax code deductibility rules regarding executive pay are to receive a favorable vote. Exceptions may be made in the instance of mega grants, unclear links between performance, performance hurdles that seem too generous given past history, and no defined peer group by which to judge performance of the subject corporation. Tandem stock options, stock appreciation rights, purchased options may receive a negative vote. Generally, tandem options are a combination of stock options and another type of long-term incentive such as restricted stock or phantom stock. This vehicle can allow for cashless exercise, depending upon the executive choice of exercise or payment. CalSTRS is opposed to cashless exercise. Purchased options are usually purchased for a percentage of the grant value and are payable at the time of grant. The exercise price is set below the fair market value of the underlying stock. Indexed options will be supported by CalSTRS.
  3. Votes are generally to be cast against executive incentive stock option plans which would result in greater than 15% of the outstanding shares of the corporations represented by the Russell 2000 being reserved exclusively for the executive stock option plan, except in markets where local conventions suggest otherwise. This figure

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includes shares proposed for a new plan or amendment plus shares reserved under all existing plans, plus all shares under option but not yet exercised. Typically, no greater than 2 percent dilution per year for the life of the plan should be experienced by shareholders. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle. CalSTRS favors the use Non-Qualified Stock Options as they are more beneficial to the shareholders.

4. Votes are generally to be cast against executive incentive stock option plans which would sell shares to executives/employees at a price of less than 85% of market value at the time of grant, unless a lower value may be legally offered.
5. The Sarbanes-Oxley Act of 2002 has prohibited loans to executives of listed companies; however it is unclear whether the prohibition will be extended to OTC companies. Votes are generally to be cast against executive incentive stock option plans which would grant loans to such executives for the purpose of exercising stock options. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
6. Votes are generally to be cast against Restricted Stock Option Plans, outright stock grants or other arrangements to such as pyramiding, stock appreciation rights and cashless exercise. Votes are generally to be cast against proposals which would allow the board to replace or reprice underwater options without shareholder approval. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
7. Executives are defined as the five most highly compensated executive officers of a Company and its subsidiaries, and such other senior-level executive and management employees who are designated to receive executive incentive compensation, apart from that which is given to general employees. Exceptions may be made when pertinent information is unavailable or when legal requirements do not permit execution of this principle.
8. It is the responsibility of the companies to clearly, understandably, and adequately explain the plans and their effects with examples where necessary in order to fully define intent. However, where time permits, inquiry may be made about corporate proposals which are not clear. If the information available and/or obtained is not considered clear or adequate, votes cast will be based on the surrounding circumstances and the judgment of the responsible parties.
9. Corporate proposals to reduce stock option share prices for management should be given close scrutiny. If it appears the request arises out of a broad market decline affecting all companies, favorable consideration is possible. If the stock has underperformed the market and it is concluded the causes were management

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decisions, a negative conclusion would be probable. Such proposals will be considered on a case-by-case basis.

10. Generally, any attempt to create an unusually favorable compensation structure, including severance payments, guaranteed incentive payments in advance of joining a company, or the sale, merger or reorganization of a company should be opposed; however, such proposals will be considered on a case-by-case basis. Nonetheless, the overarching consideration will be the portfolio value of the transaction and opposition to the disputed compensation, severance and guaranteed incentive payments does not mandate opposition to the transaction, so long as the overall portfolio value would likely benefit from the transaction.

**E. EMPLOYEE COMPENSATION**

1. Generally, employee stock purchase plans, savings and investment plans, or thrift plans are to receive a positive vote, so long as exercise or purchase price is not less than 85% 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 uses of the plans. However, such proposals will be considered on a case-by-case basis.

Generally, ESOP 's which are funded by the debt of the corporation and/or which represent large percentages of the outstanding shares or cause substantial dilution to ownership and voting power are to be given a careful review. In the absence of any extraordinary or beneficial (to CalSTRS) circumstance, these plans should not be approved. Shareholder proposals which seek to have a vote on all such plans should receive a positive vote.

**F. MERGERS, ACQUISITIONS, AND TAKEOVERS**

1. CalSTRS wants all offers evaluated on its behalf, which are presented for any company in which it invests. To the extent that adequate information is available and legal requirements, and investment practices permit, defensive tactics should be opposed. Each proposal should be reviewed on its own merit, as nothing written here should be constructed as a substitute for the judgment of the responsible party. These defensive tactics may be, but are not limited to:
  - A. Golden parachutes.
  - B. Poison-pill preferred.
  - C. Lock-up options.

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- D. Super majority voting provisions, with the exceptions noted above in Section B (2).
- E. Fair price or minimum price provisions.
- F. Unequal voting rights based on length of ownership of stock.
- G. Requiring that shareholders only be allowed to act at meetings rather than by written consent.
- H. Requiring that all offers be approved by the company's management and/or Board of Directors before offers are submitted to shareholders.
- I. Requiring that only the Board be allowed to increase its size, or that a super majority of all outstanding shares is necessary to create a larger Board, and allowing the Board to fill vacancies on the Board in between meetings, without shareholder approval.
- J. Requiring that directors may only be removed for cause, usually on the basis of a supermajority vote, and that directors be allowed to fill vacancies for full terms rather than the remainder of unexpired terms.
- K. Providing for a set of designated "alternate" directors to be appointed to any mid-term vacancy.
- L. Requiring that the power to call a special meeting of the shareholders be vested in the board and/or the Chairman exclusively, or providing that such a meeting can only be called after a demand by a supermajority of stockholders, or increasing  
  
the number of shareholders necessary to constitute a quorum at an annual or special meeting.
- M. Adopting supermajority voting provisions for transactions between the target company and an "interested shareholder."
- N. Requiring that the percentage vote requirement be based on all outstanding shares entitled to vote and not on votes actually cast.
- O. Enacting redemption provisions where if any person owns a certain percentage of stock pursuant to a hostile tender offer, which is opposed by the management and/or Board of Directors, the other shareholders have the right to have their shares redeemed by the company at a specified price.

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- P. Requiring the Board and/or senior management to consider social, economic and "other factors" when evaluating a bid for the company, rather than basing its decision solely on the price being offered.
  - Q. Granting a director who is the Chairman or Chief Executive Officer a second or tie-breaking vote.
  - R. Reincorporating in other states solely for the purpose of seeking protection against tender offers and takeovers.
  - S. Issuance of new common and preferred shares and placing the issues in so called "friendly" hands, sympathetic to management.
  - T. Assuming large amounts of debt which will impair the capital position of the corporation, in order to repurchase the corporation's stock and avoid a tender offer.
2. Each proposal will be evaluated on its merits, but if it is determined that the sole aim of the proposal is to entrench management, and wrest authority and control from shareholders, a vote is to be cast against such proposals. However, this guideline is no substitute for the judgment of the responsible party.
  3. CalSTRS also opposes so-called "Omnibus Resolutions, where management offers one item which is beneficial to shareholders, such as anti-greenmail, and attaches a "rider" or other items such as the ones described above, which are not in the best interests of shareholders. In this situation, a vote will be cast against the entire proposal. A letter (where appropriate) to management may be written by the designated party indicating displeasure with this "lumping" and requesting that the issues be separated.
  4. Generally, votes are to be cast against proposals which adopt or give the Board of Directors discretionary power to adopt measures designed to deter takeover attempts or other attempts to obtain control of the corporation by making such attempts extremely financially unattractive or impossible, unless such action has received the prior approval of the shareholders of that company. However, such actions will be reviewed on a case-by-case basis, and legal requirements and circumstances will dictate CalSTRS vote on this matter.
  5. Reincorporation proposals will be examined on a case-by-case basis.

**G. CORPORATE FINANCING PROPOSALS**

1. Authorization of increased shares shall generally be limited to that amount which may be necessary for financing within the next twelve months unless the corporation sets forth other compelling reasons. It is deemed advisable to exercise some control over authorized stock and issuance thereof to allow shareholders input on acquisitions which

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could change the fundamental characteristics of the company held. Support will generally be given for authorization of up to 15% in excess of the current outstanding stock. However, such actions will be reviewed on a case-by-case basis, and legal requirements and circumstances will influence CalSTRS' vote on this matter.

2. In general, all shareholder proposals on financial matters are to be given due consideration by CalSTRS and/or its advisers. It is incumbent on the companies to respond adequately to these proposals. An inadequate or casual response may affect the responsible party's deliberations and weigh in favor of voting for the shareholder proposal.

Notwithstanding any other provision of the law, every state agency owning common stock shall, when returning proxies to a corporation, vote each proxy that is returned to the corporation. Nothing in this section shall prohibit a state agency owning common stock from abstaining on a corporate or shareholder proposal and notifying the corporation in writing of the state agency's desire to abstain on a corporate or shareholder proposal.

As used in this section "state agency" includes the state, the University of California, and any office, department, bureau, board, commission, agency, or pension or retirement system thereof.

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Approved by Board: June 11, 1982

Amended by Investment Committee: June 7, 1985

Amended by Investment Committee: July 19, 1985

Amended by Subcommittee on Financial Proxies: August 5, 1988

Amended by Investment Committee: October 7, 1988

Ratified by Teachers' Retirement Board: October 22, 1988

Amended by Subcommittee on Corporate Governance: March 11, 1992

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Ratified by Teachers' Retirement Board: April 2, 1992

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Ratified by Teachers' Retirement Board: October 6, 1995

Amended by Investment Committee: November 5, 1997

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Amended by Subcommittee on Corporate Governance: April 3, 2002

Approved by Investment Committee: April 3, 2002

Ratified by Teachers' Retirement Board: April 4, 2002

Amended by Subcommittee on Corporate Governance: July 10, 2002

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Ratified by Teachers' Retirement Board: July 11, 2002.

Amended by the Subcommittee on Corporate Governance: July 9, 2003

Approved by the Investment Committee: July 9, 2003

Ratified by the Teachers' Retirement Board: July 10, 2003

Adopted by the Investment Committee: September 7, 2005

Ratified by the Teachers' Retirement Board: September 7, 2005

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Attachment B

**STATE TEACHERS' RETIREMENT SYSTEM  
STATEMENT OF INVESTMENT RESPONSIBILITY**

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**I. Philosophy**

The Teachers' Retirement Board finds that:

It is the fiduciary responsibility of the Board of the State Teachers' Retirement System to discharge its responsibility in the interest of the participants and beneficiaries and for the primary purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administrating the System; the investment policy of the System should reflect and reinforce this purpose.

Public retirement systems operate in a unique and complex social-economic milieu, providing for substantial disclosure of their operations and investment activity and placing them in a position where they should be above that of the private sector in social responsibility activities.

The System's responsibility extends to its participants and beneficiaries and to the general public. In addition to its fiduciary responsibilities to its members, the Board has the social and ethical obligation to require that corporations in which securities are held meet a high standard of conduct in their operations.

The act of investment in the securities of a corporation predominantly reflects a judgment that the ownership will produce a rate of return which will make it an attractive investment. While not outwardly signifying approval of all of a company's policies and products, it is possible however that such investment may be interpreted as an indication of the shareholders approval or support of all of a company's policies and products.

The System is a large investor and as such, is in a position to exert influence on the corporations in which it has invested.

**II. Principles**

Consistent with these findings, the System establishes the following principles to govern the development of a responsible investment policy:

**A. Preservation of Principal and Maximization of Income**

The preservation of principal and maximization of income will clearly be the primary and underlying criteria for the selection and retention of securities.

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**B. Non-Economic Factors**

Non-economic factors will supplement profit factors in making investment decisions. Non-economic factors are defined as those considerations not directly related to the maximization of income and the preservation of principal. The consideration of non-economic factors is for the purpose of ensuring that the Retirement System, either through its action or inaction, does not promote, condone or facilitate social injury.

**C. Social Injuries Defined**

Social injury will be said to exist when the activities of a corporation serve to undermine basic human rights or dignities. Basic human rights and dignities include, but are not limited to:

**1. Equal Employment**

Equal employment opportunity, including: fair and equitable recruitment and hiring, equal wages and benefits for equal and comparable worth, fair and equitable promotional and training opportunities, and the right to organize and join representative trade unions and associations if a majority of the employees so elect.

**2. Housing**

Equal access to safe and decent housing.

**3. Basic Services**

Equal access to basic services including medical care, transportation, recreation and education.

**D. Corporate Practices**

Social injury may also be said to exist when the Board, having followed the procedure set forth in Section IV.C.2, perceives that it is the prevailing belief of the members of the Retirement System that the practices of a corporation result in undesirable side effects for others, and that the side effects are grave in nature. Side effects which may be deemed grave in nature shall include, but not be limited to:

**1. Environmental**

Practices which are known to endanger the environment, subject to current federal, state and local law, including:

a) Unsafe nuclear waste disposal;

b) Ineffective or inadequate pollution control; or

c) Improper use of chemicals and contaminants; or

d) Any practice which directly or indirectly endangers human health or the environment.

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2. Suppression of Human Rights

Practices which result in the suppression of human rights including:

- a) The sale of weapons and technology to governments known to engage in the systematic suppression of human rights; and
- b) The sale or purchase of goods from countries known to employ forced labor.
- c) The rendering of services that are used in a manner that denies or suppresses human rights in violation of international law or the Geneva Conventions where the company has failed to take reasonable steps to ensure that the services would not be used in that manner.

3. Human Health

Practices which endanger human health including:

- a) Sale and distribution of known contaminated products;
- b) Sale and distribution of therapeutically ineffective or dangerous drugs; and
- c) Purchasing goods from or selling goods to companies known to disregard worker safety.
- d) A company should not be held responsible for the infliction of social injury merely by virtue of its agreements or relationships with other (independent) entities engaged in socially injurious activities.

E. STRS Involvement

The extent of the responsibility of the System to engage in activity for the prevention, reduction, and elimination of social injury should be determined by:

- The number of shares held in the corporation;
- The gravity of the social injury.

In support of the aforementioned principles, the System sets forth the following guidelines for social responsibility in investments.

III. Selecting New Investments

In selecting new investments for the System, the Board adopts the following guidelines for both domestic and international investments.

- A. Investments shall not be selected or rejected based solely on social responsibilities.

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- B. Social factors shall be taken into consideration to the extent that such factors bear on the financial advisability of the investment; e.g., not investing in a corporation whose conduct has had a demonstrated negative effect on the corporation's financial viability.
- C. Generally, social criteria, to the extent available, should be considered after all financial criteria have been satisfied.

**IV. Exercise of Shareholder Rights**

**A. Proxy Voting**

- 1. The System has a duty to cast its votes on all proxy issues related to companies in which it holds securities or to abstain with written notification to the company involved on any proxies it returns. In cases of abstention, where an important social responsibility issue is raised, the System should provide an explanation of its action.
- 2. The System should vote its shares in favor of resolutions which, if implemented, would prevent, reduce, or eliminate social injury as defined above. The System should oppose resolutions which cause or facilitate social injury.
- 3. If a resolution places a company at a substantial disadvantage with respect to its direct competitors who are equally guilty of inflicting social injury, the System should ascertain whether the company in question has made reasonable effort to induce voluntary industry-wide compliance. If it is determined that this course of action has been pursued, the System should abstain. In the event that a corporation has not initiated such activity, the explanation accompanying abstention should include an exhortation for compliance.
- 4. The State Teachers' Retirement System, as a major corporate shareholder, will actively vote its proxies to elect corporate board members who share the interests and philosophy of the System.
- 5. The System should routinely monitor corporate practices for compliance with the Board's criteria, i.e., monitor corporate compliance with the Sullivan principles.

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**B. Other Shareholder Rights**

1. For the purpose of insuring that a company may be made aware of any policies, procedures, or products of which the Board does not approve, and for the purpose of prevention, reduction or elimination of social injury, the Board may initiate action to supplement the responsible voting of proxies including but not limited to: (a) correspondence with the company, (b) meet and confer sessions with management or other stockholders, (c) entering into agreements with management or other stockholders, such as making provisions for reporting and other monitoring activities, and (d) the initiation, when determined necessary, of shareholder proposals.

**C. Procedure**

1. Responsibility for the implementation of social responsibility guidelines is delegated to the Board's Investment Committee. Ultimate authority and responsibility rests with the Board.
2. To assist the Board in determining whether social injury exists, the Board should:
  - a. Upon request, permit the presentation of relevant testimony by members of the System and members of the general public during Board meetings;
  - b. Establish contact with appropriate regulatory agencies, such as Equal Employment Opportunity Commission, Environmental Protection Agency, Occupational Safety and Health Agency, Nuclear Regulatory Commission, Securities Exchange Commission, and others which are covered by laws of the United States Government or the State of California;
  - c. Contact qualified persons representing parties affected by the corporate practice in question.

**V. Sanctions**

- A. When the remedies provided in B (above) indicate that there is little or no possibility of obtaining from a company a commitment to pursue activities designed to correct practices or policies involving grave social injury, the Board should consider either making no new investments or divestment if consistent with sound investment practice. Factors contributing to such a determination include, but are not limited to:

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1. Repeated refusal by management and a majority of stockholders to support shareholder proposals which the Board feels are necessary to insure socially responsible behavior;
  2. Failure of management to comply with Board requests for the disclosure of economic or non-economic information important to making investment decisions, in particular, information pertaining to company practices and policies which might result in social injury.
- B. A company committing social injury should not be subject to consideration for divestment if it is determined that the company is engaged in socially beneficial activity, where the resulting benefits are held to be greater than the injury. However, it is not the intention of this paragraph to imply a condonation of the social injury, nor does it preclude the exercise of shareholder rights in an effort to reduce such injury.

ADOPTED BY THE TEACHERS' RETIREMENT BOARD JUNE 16, 1978

REVISED BY THE TEACHERS' RETIREMENT BOARD SEPTEMBER 24, 1982

REVISED BY THE TEACHERS' RETIREMENT BOARD APRIL 27, 1984

REVISED BY THE TEACHERS' RETIREMENT BOARD APRIL 21, 1989

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REVISED BY THE INVESTMENT COMMITTEE NOVEMBER 5, 1997

ADOPTED BY THE TEACHERS' RETIREMENT BOARD NOVEMBER 6, 1997

REVISED BY THE SUBCOMMITTEE ON CORPORATE GOVERNANCE NOVEMBER 3, 2004

ADOPTED BY THE INVESTMENT COMMITTEE NOVEMBER 3, 2004

REVISED BY THE INVESTMENT COMMITTEE APRIL 7, 2005

ADOPTED BY THE INVESTMENT COMMITTEE APRIL 7, 2005