

The Value of CalSTRS Engagements

CalSTRS invests a multi-billion dollar fund in a unique and complex social-economic milieu and recognizes it can neither operate nor invest in a vacuum. As a significant investor with a very long-term investment horizon, engagement is a critical tool used by the CalSTRS Sustainable Investment and Stewardship Strategies team to influence changes in public policies and corporate practices that support long-term value creation.

CalSTRS engages, through meetings, letters, shareholder proposals, investor coalitions and proxy voting, to influence companies to adopt best practices in managing environmental, social and governance issues to create sustainable businesses. CalSTRS also engages policymakers to codify strong governance practices that improve the financial market landscape for long-term investors and their beneficiaries. CalSTRS' history of engagement activities has resulted in better relationships and outcomes across global industries.

Engagement Spotlight

Principles for a Responsible Civilian Firearms Industry

Since the launch of the [Principles for a Responsible Civilian Firearms Industry](#) in November 2018, CalSTRS and 13 other investor signatories (representing \$5 trillion in assets under management) have influenced multiple parts of the firearms industry value chain. These strategies include identifying retail best practices, understanding loopholes in the firearms secondary market and developing metrics and measurements to identify risk and increase safety.

In response to the misuse of firearms in several recent mass shooting events in Texas, Ohio and California, large retailers voluntarily made significant changes to their firearms policies. Reforms include limiting open carry in retail locations, shifting inventory away from military-style weapons and ammunition, and re-examining the education and training of retail employees and firearms purchasers.

Signatories of the Principles are engaging retailers to better understand the factors contributing to these business decisions and how to effectively expand best practices across the retail sector.

Additionally, signatories are analyzing the firearms industry supply chain to detect practices that compromise safety through theft, loss and malfeasance.

The table below outlines some current federal requirements and the corresponding best practices that signatories are advocating for within the industry:

Federal Requirements	Retail Best Practice Trends
18 years old to purchase a long gun	✓ 21 years old to purchase any firearm
Sale permitted w/o completed background check after 72 hours	✓ No sale without passing background check
Permits sales of military style rifles	✓ No sales of military style rifles

Signatories to the Principles for a Responsible Civilian Firearms Industry: California Public Employees Retirement System, California State Teachers Retirement System, Connecticut Retirement Plans and Trust Funds, Florida State Board of Administration, Maine Public Employees Retirement System, Maryland State Retirement and Pension System, Nuveen, the asset manager of TIAA, OIP Investment Trust, Oregon Public Employees Retirement Fund Pennsylvania Treasury, Rockefeller Asset Management, San Francisco Employees' Retirement System, State Street Global Advisors, Wespath Benefits & Investments.

Engagement Spotlight

Duke Energy: CalSTRS leads Climate Action 100+ Engagement

In September, [Duke Energy announced](#) an updated climate strategy that would reduce its carbon emissions by half, or more, from 2005 levels by 2030. Since 2005, the company has already cut emissions by 31 percent.

Furthermore, the company established a goal of achieving net-zero carbon emissions by 2050. To meet the reduction goals, Duke will transition from coal and invest in solar, nuclear and other carbon-free technologies, as well as natural gas, in electricity generation.



Goal: 50% carbon emissions reduction by 2030



Goal: Net-zero carbon emissions by 2050

Duke Energy is one of the focus companies of Climate Action 100+, an investor-led initiative focused on urging the world's largest corporate greenhouse emitters to act on climate change. CalSTRS is leading a group of global investors in engaging Duke Energy, to assess the risks associated with climate change and adjust its business strategy and operations accordingly.

As a global institutional investor with a focus on the long-term, CalSTRS recognizes that climate change presents a material and existential risk to society and the economy. We are committed to influencing public policies, engaging with the companies in our portfolio and investing to promote an orderly transition to a low-carbon economy that benefits all. Participation in Climate Action 100+ and our engagement with Duke Energy is one such example of this commitment.



Over 370 investor signatories



Representing \$35 trillion assets



Engaging 161 global companies

Engagement Priorities (Jul 1, 2019 – Sep 30, 2019 Updates)

➤ Events

- ✓ Staff and CalSTRS board members attended and spoke at the **Council of Institutional Investors (CII) Fall Conference**, **Principles for Responsible Investment (PRI) in Person 2019**, and **Climate Week** in New York City. Attending these events helps us build relationships that improve our collaboration with other industry participants and keeps us informed of global best practices in sustainable investing.

➤ Transition to a Low-Carbon Economy

- ✓ CalSTRS joined 200 investors, representing \$6.5 trillion in assets, in calling on 47 of the largest U.S. publicly-traded corporations to [align their climate lobbying](#) with the goals of the Paris Agreement, warning that lobbying activities that are inconsistent with meeting climate goals are an investment risk.
- ✓ Ahead of the United Nations Climate Action Summit, CalSTRS was one of 515 institutions, managing \$35 trillion in assets, that delivered the [Global Investor Statement to Governments on Climate Change](#). The statement calls on governments to: phase out thermal coal power worldwide, put a meaningful price on carbon pollution, end government subsidies for fossil fuels and update and strengthen nationally-determined contributions to meet the emissions reduction goal of the Paris Agreement no later than 2020. The U.N. Secretary General mentioned the importance of hearing investor voices in his comments to the General Assembly.

Engagement Priorities (continued from previous page)

➤ Human Capital Management & Diversity

- ✓ California Senate Bill (SB) 826, a bill signed in 2018 requiring California-headquartered companies to appoint women to their board, accelerated our engagement efforts on **board diversity**. Of the 91 companies we engaged over a one-year period, 65 companies appointed 77 women directors. Twelve of these companies added 2 or more female directors. Of the 77 appointments, 10 were minority females and 7 were from non-traditional backgrounds, such as academia, the non-profit sector or other public service.
- ✓ At the recommendation of the [Investor Advisory Committee to the Securities and Exchange Commission](#); the SEC put out for comment [proposed rulemaking to Regulation S-K](#) which includes **better disclosure requirements on human capital management** objectives.

➤ Opioids Crisis

- ✓ A number of **settlements** were announced ahead of multi-district, federal opioid-related litigation. This includes settlements from Insys Therapeutics and Purdue Pharma, the first two drug makers driven to bankruptcy as a result of litigation over the nation's opioid crisis.
- ✓ The **Investors for Opioid Accountability** coalition continues to engage with companies regarding shareholder resolutions filed in the 2019 proxy season. One resolution, requesting the implementation of a misconduct clawback policy, won majority support at **Mylan**. Reports are due imminently to the coalition from Teva, Rite Aid, Mylan, AmerisourceBergen and Mallinckrodt on how boards are overseeing opioid-related risks.
- ✓ **Mallinckrodt** recently released its 2018 Political Transparency Report, as requested by CalSTRS through a shareholder proposal. Our proposal was subsequently withdrawn after settlement with the company. The company committed to publish the report annually, which will allow investors to determine how the company's political contributions may be affecting legislation, including opioid-related legislation.

➤ Financial Markets and Regulation

- ✓ CalSTRS submitted a [letter](#) to the SEC Division of Corporation Finance on **Rule 14a-8 No-action requests** relating to shareholder proposals, which are an important tool to ensure that shareholder proposals are not wrongfully left off company proxy statements.
- ✓ CalSTRS signed on to a Council of Institutional Investors [letter](#) to SEC Commissioners expressing deep concern on the proposed **Proxy Advisor Regulations**, which will undermine investor protection and efficiency in the corporate governance voting process.
- ✓ Ahead of The We Company's (parent company to **WeWork**) initial public offering (IPO), CalSTRS wrote to the company asking it to reform various poor governance practices that could negatively impact the performance of the company. The company has since recommended significant positive governance revisions and has postponed its IPO.

Global Coalitions and Initiatives (For Reference)

CalSTRS often partners with our pension fund peers and other like-minded institutional investors to enhance our influence around issues that may pose risks or otherwise impact the performance of our portfolio. Below are some of the global coalitions and initiatives in which CalSTRS participates:

Activity	Description
<p>Task Force on Climate-Related Financial Disclosure (TCFD)</p> 	<p>In 2017, CalSTRS committed to engage at least 100 companies (20 per year for five years) to encourage them to provide better disclosure regarding climate risk in line with the recommendations of the Task Force on Climate-related Financial Disclosure. TCFD developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors.</p>
<p>Climate Action 100+ (CA 100)</p> 	<p>CalSTRS is actively involved in the Climate Action 100+, a collaborative engagement effort of more than 370 global investors — currently representing more than \$35 trillion assets under management — focused on the largest global emitters of carbon dioxide. The five-year effort centers around actions the companies are taking, or plan to take, to manage and mitigate climate change risk.</p>
<p>Thirty Percent Coalition</p> 	<p>CalSTRS collaborates with the Thirty Percent Coalition, the California Initiative (UCOP, LACERA, and CalPERS) and the Coalition of 6 global investors (LGIM, APG, OPERS, PGGM, RPMI) specifically to engage boards of companies with either no women or only one woman on their board.</p>
<p>Human Capital Management (HCM) Coalition</p> 	<p>CalSTRS is an active participant in the Human Capital Management Coalition, whose goal is to elevate and emphasize human capital management as a critical component of a company's economic performance. Engagement encourages better disclosure of how companies manage the demographics, composition, knowledge, motivation, skills and experience of a company's most valuable asset: their workforce.</p>
<p>Principles for a Responsible Civilian Firearms Industry</p>	<p>CalSTRS leads a coalition supporting five principles that provide a framework for institutional investors seeking to improve engagement with global public and private companies that manufacture, distribute, sell or regulate products within the civilian firearms industry to address gun safety issues and reduce investment risk.</p>
<p>Investors for Opioid Accountability</p> 	<p>CalSTRS is an active participant in Investors for Opioid Accountability, a diverse coalition of institutional investors with 54 members representing \$3.5 trillion in assets. The IOA was established to engage with opioid manufacturers, distributors, treatment manufacturers, and retail pharmacies on opioid business risks that have implications for long-term shareholders, communities and the broader economy.</p>
<p>Sustainability Accounting Standards Board</p> 	<p>CalSTRS is a member of the Sustainability Accounting Standards Board's (SASB) Investor Advisory Group (IAG), a group of 44 global investors currently representing \$32 trillion in assets. Members share a common goal: seeking consistent, comparable, and reliable disclosure of material, decision-useful sustainability-related information from the companies in which they invest to better evaluate and price ESG-related risks and opportunities.</p>

CalSTRS Reports (For Reference)

CalSTRS regularly publishes reports to outline our efforts around engagements and issues of interest. Some of the reports include:

Report	Description
CalSTRS Engagement Plan	Each fiscal year, the CalSTRS Sustainable Investment and Stewardship Strategies staff, with input from the Teachers' Retirement Board, determines key engagement issues. The issues are chosen due to their link to long-term value creation.
Green Initiative Task Force Annual Report	The Green Initiative Task Force, known as the "Green Team," was established in 2007 to identify, analyze and propose environmentally-focused investment opportunities and risk-control strategies. The focus team considers risks and opportunities related to issues such as carbon emissions, land use, water sourcing, mineral extraction and waste disposal.
Diversity in the Management of Investments	Diversity in the management of investments is interwoven throughout the CalSTRS Investment Branch business goals and is consistent with our objective to invest in strategies that enhance returns at a prudent level of risk.
Low-Carbon Factsheet	A summary of CalSTRS history and next steps as we participate in the transition to a low-carbon economy.

