



Recommendation 2 – Net Zero Decision Making Process: Staff’s recommendation to broaden CalSTRS’ current prudent investment decision making processes to incorporate decisions on emissions reductions and impacts of climate on the CalSTRS portfolio, and to institute an annual review process, in our opinion, allows CalSTRS to implement its Net Zero Strategy and remain flexible through annual reviews to accommodate adjustments, if needed, in what is a rapidly changing environment.

Staff’s inclusion of an effort to develop methods to track the transition is, from our perspective, both generally new globally among asset owners, and has the potential to be highly valuable to CalSTRS and to any asset owner that is focused on real economy reductions in carbon emissions, not just reductions investment portfolio GHG emissions in the implementation of a net zero strategy.

Recommendation 3 – Reduce Emissions in Public Equity by Adopting a 20% Target Allocation to the MSCI ACWI Low Carbon Index: Staff’s recommendation of a 20% Target Allocation to the MSCI ACWI Low Carbon Index represents a material step forward in reducing CalSTRS emissions, while supporting CalSTRS’ companion elements in its Net Zero Pledge of using CalSTRS’ influence to accelerate the integration of net zero considerations across global financial markets to promote an orderly and just transition, and to increase CalSTRS exposure to low-carbon investments, without undermining CalSTRS’ overall investment strategy approach. We believe the explicit integration of the low carbon target allocation with Climate Scenarios into the CalSTRS ALM is a critical component to being able to analyze and assess the potential impacts of such shifts.

Recommendation 4 – Integrate Climate Scenarios into the CalSTRS Asset-Liability Management Study: We concur with Staff that this field of analysis is new, rapidly changing, requires significant assumptions, and can be helpful in gaining overall portfolio insights into future risk-return dynamics and liability-related risks. We expect that today’s climate scenarios will continue to evolve. The staff’s selection of the NGFS (Network for Greening the Financial System) top-down scenario analyses, which includes physical and transition climate risks, represents a leading practice in a rapidly changing environment of climate investment analytic tools.

Conclusion

In our opinion, Staff’s recommendations for moving forward with CalSTRS implementation of its Net Zero Pledge represent consistent and material next steps in CalSTRS Net Zero Strategy planning and implementation.

We support the clear articulation of the difficulties and uncertainties that are present today in implementing a net zero pledge and concur with Staff’s recommendations, including that implementation should require annual reviews to allow CalSTRS to evolve best practices as the market changes.

If you have questions, please feel free to contact us at (760) 795-3450.

SB/SPM/AE/jls