

Attachment 2: 2022 Stewardship Highlights

CalSTRS regularly reports stewardship highlights through our quarterly “[Engagements in Action](#)” report. The list below, while not fully exhaustive, identifies some of the key highlights of 2022. Links to the specific Engagement in Action reports are provided for more detail.

Corporate and Market Accountability: Encourage regulators, standard-setters and policy makers to promote sustainable markets.

- **Securities and Exchange Commission released draft climate-related disclosure rules:** In March, the SEC released a proposed rule-making requiring public companies to report on climate related disclosures. CalSTRS has long supported this rule-making and during the open comment period, [CalSTRS provided additional recommendations](#) to the SEC. ([Engagements in Action, 2022, Second Quarter](#))
- **The International Sustainability Standards Board (ISSB) makes meaningful steps towards establishing sustainability-focused disclosure standards:** The ISSB released exposure drafts earlier this year, as the first step towards establishing a global baseline of sustainability-related financial disclosures and climate-related disclosures. CalSTRS strongly supports the ISSB and [provided comments](#) to the exposure drafts. ([Engagements in Action, 2022, Third Quarter](#))
- **Securities and Exchange Commission mandates use of universal proxy cards:** In September, a new SEC rule went into effect that mandates the use of universal proxy cards. This allows investors to mix and match directors nominated from both company management and other investors. CalSTRS has long supported the adoption of universal proxy cards, providing support since 2018. ([Engagements in Action, 2022, Third Quarter](#))
- **Pay for performance rules bolstered:** In August, the SEC adopted rules requiring companies to report pay for performance data publicly and consistently. This is one of the final rules coming out of the 2010 Dodd-Frank Act and [CalSTRS communicated our support](#) most recently in March 2022. ([Engagements in Action, 2022, Third Quarter](#))

Board Effectiveness: Influence good governance with effective boards overseeing long-term strategies.

- **California Investors for Effective Board Diversity continues to produce strong results:** The coalition consisting of CalSTRS and three other California institutional investors saw success in pushing companies to better disclose diversity information in proxy statements. ([Engagements in Action, 2022, Third Quarter](#))
- **Eight CalSTRS-supported shareholder proposals asking for a racial/civil rights audit received majority shareholder support:** CalSTRS believes it is important for

companies to proactively identify and mitigate risks associated with racism and/or discrimination that could be identified through a robust independent audit of the company's policies, practices, products and services and their effect on employees, customers, and suppliers. It is rare for a new shareholder proposal, such as racial equity audits, to pass by majority support. Proposals often have to gain momentum and educate the market before being supported by shareholders. Passage of these proposals demonstrated a recognition by the market that these are important risks to manage. Some companies are in the process of conducting these audits and will publish results next year.

- **Three CalSTRS-supported proposals asking to remove concealment clauses receive majority support:** Concealment clauses can be used in employment or post-employment agreements and are defined as mandatory arbitration, non-disclosure, and non-disparagement agreements in the context of sexual harassment and discrimination. The use of these types of agreements may expose companies to significant regulatory, legal, reputational, and human capital management-related risks. One of these proposals passed at Apple Inc., which subsequently announced that it will not enforce any concealment clauses. This sets a new standard for technology companies and other industries whereby the use of these types of concealment clauses can be used to proliferate unlawful acts.
- **CalSTRS escalated proxy votes against directors at companies that have moved too slowly to increase the diversity of their boards:** CalSTRS voted against all directors at companies globally that had no women on their boards. In the Russell 1000 index we held companies to an even higher standard, voting against the board's nominating committee if the company does not have at least 30% women board members or provide disclosure of the skills and diversity of their board members. In years past CalSTRS only voted against directors for lack of diversity after unsuccessful engagements, but now see the 30% threshold as a standard consistent with the Thirty Percent Coalition and with our fellow investors. While engagement does help to increase diversity, we can apply our against votes to wider set of companies and set the expectation of at least 30% diversity.
- **The Human Capital Management Coalition (HCMC) supports rulemaking petition with the Securities and Exchange Commission to require companies to disclose investment in their workers:** While this rulemaking is separate from the work on workforce cost disclosure, it is aligned with the HCMC mission to elevate human capital management as a critical component in company performance.

Net Zero Transition: Focus on supportive public policies and influencing companies on the path to a net zero economy.

- **CalSTRS influences two major utility companies to set more ambitious climate goals:** Duke Energy and Dominion Energy, two of the nation's largest utilities, agreed to

set 2050 net zero emission reduction targets, up and down the supply chain, for scope 1, 2 and certain scope 3 emissions. Duke Energy and Dominion Energy are two of the first major utility companies, in the United States to set emission targets which include all three scopes. ([Engagements in Action, 2022, First Quarter](#))

- **Climate Action 100+ delivers progress in first five year phase, turns focus towards next steps:** Since launching in 2018, the world’s largest investor-led collaborative initiative on climate change has broadly met its original goals for its first phase of engagement with [166 carbon-intensive companies](#) ([Engagements in Action, 2022, Third Quarter](#)):
 - 148 companies now have oversight of the management of climate-change risks at the board level.
 - 110 companies made a net zero commitment, while 134 companies set greenhouse gas emission targets.
 - 110 companies now report emissions in line with the Task Force on Climate-Related Financial Disclosures.
- **CalSTRS escalated proxy votes against directors:** CalSTRS voted against all directors at 29 global portfolio companies for not disclosing minimum metrics around climate risk, which includes scope 1 and 2 emissions and a report aligned with the Task Force on Climate-Related Financial Disclosures (TCFD). These metrics are necessary in order for investors to appropriately manage climate risk, therefore we are using our vote against directors to hold boards and directors accountable for not providing these key data points. ([Engagements in Action, 2022, Second Quarter](#))
- **Record number of shareholder proposals:** Nearly 100 CalSTRS-supported shareholder proposals received more than 50% shareholder support. Majority support of these proposals sends a strong signal to management that these issues are important to the broader market and specifically their investors. We voted in favor of shareholder proposals that made measurable gains towards companies achieving their net zero goals, such as setting appropriate science-driven targets to reduce emissions. ([Engagements in Action, 2022, Second Quarter](#))
- **Climate lobbying disclosures reduce concerns over misalignment:** Dominion Energy and Southern Company issued reports demonstrating how the utility companies’ political lobbying activities support net zero goals. The reports provide investors with a better understanding of the companies’ climate lobbying policies and the level of board oversight of those activities. Lobbying activities by high carbon emitters can be a barrier

to ambitious climate policy. It is important that lobbying activities by companies are aligned with supporting the overall goal to transition to a net zero economy.

Responsible Civilian Firearms: Address gun safety issues and aim to reduce investment risk.

- **Multiyear engagement leads to federal action to regulate ‘ghost guns’:** As the lead of the Principles for a Responsible Civilian Firearms Industry, CalSTRS engaged with regulators to implement new regulation to combat the proliferation of ghost guns in the United States. ([Engagements in Action, 2022, Second Quarter](#))
- **CalSTRS supports efforts to establish merchant code for firearms retailers:** Through engagement with credit card companies, CalSTRS pushed for the adoption of a credit card merchant classification code for firearm retailers. This allows financial institutions to identify purchases at firearm retailers. ([Engagements in Action, 2022, Third Quarter](#))