

January 14, 2016

George Dallas, Policy Director
International Corporate Governance Network
Saffron House
6-10 Kirby Street
London EC1N 8TS UK

Via Email: George.Dallas@icgn.org

Dear George:

RE: International Corporate Governance Network (ICGN) Global Stewardship Code – Member Consultation

I am writing to provide the California State Teachers' Retirement System's (CalSTRS) comments on the member consultation regarding the ICGN Global Stewardship Code (Stewardship Code). We are pleased with the ICGN taking the initiative to develop a Stewardship Code. As a long-term investor we also are very aware of the importance of the Stewardship Code and the needs to not only have principles at the local market level but also the need for a global reference.

CalSTRS, established in 1913 for the benefit of California's public school teachers more than 100 years ago, is the largest educator only pension fund in the world. CalSTRS global portfolio is currently valued at approximately \$188B as of November 30, 2015. CalSTRS mission is to secure the financial future and sustain the trust of California's educators. We serve the investment and retirement interests of more than 879,000 plan participants.¹ CalSTRS believes an essential part of managing the portfolio is an attention to good corporate governance and overall stewardship of the fund. The CalSTRS Board (Board) has a fiduciary responsibility to act in the best interest of our members and beneficiaries. The primary responsibility of our Board is to ensure our members' retirement is secure.²

Importance and Application of Stewardship Code

CalSTRS agrees with the importance of this initiative to develop a global stewardship code built upon ICGN's existing policy framework. We also support the three applications in the development of a global stewardship code. This includes:

1. An international "passport" by institutional investors in sharing their stewardship policies when investing in markets without stewardship codes or investing in multiple markets with different codes.
2. A point of reference in defining stewardship, what it entails and how to implement.

¹ California State Teachers' Retirement System Current Investment Portfolio as of November 30, 2015. <http://www.calstrs.com/current-investment-portfolio> and at a Glance <http://www.calstrs.com/glance>

² CalSTRS, "Our Fiduciary Responsibility Comes First", April 2, 2010. <http://www.calstrs.com/blog-entry/our-fiduciary-responsibility-comes-first>

3. A guide to jurisdictions seeking to establish their own stewardship code and to be used as an overarching model of stewardship.

We also see the need for the World Federation of Exchanges (WFE) to promote at its members' level the relevance of stewardship responsibilities of its investors. We agree that leveraging effective governance of institutional investors will eventually enhance values of beneficiaries, investee companies and investors themselves. The ICGN through other collaborative bodies should consider engaging the WFE as an advocate to global stewardship codes.

CalSTRS Stewardship Code for Engagement

CalSTRS believes that stewardship includes investors' ability to significantly influence the behavior of companies and Boards, ensuring values and business practices align with the best interests of shareholders of the company. CalSTRS Corporate Governance Principles outlines our "Stewardship Code for Engagement." These include:

- A. Publicly Disclosing the CalSTRS Principles and Proxy Votes
- B. Monitoring Portfolio Companies
- C. Escalating Engagement Activities
- D. Working Collectively with Other Investors

Also, we believe that the voting of proxies is not only a fiduciary duty but also the execution of proxies is an important shareholder right. CalSTRS manages this significant right of proxy voting like any other plan asset, ensuring our vote is exercised consistently in the best interest of our beneficiaries as outlined in our Corporate Governance Principles.³

Seven Core Principles – Fiduciary Duty

Correspondingly, we agree with the ICGN's Seven Core Principles, the foundation of the Stewardship Code and its overall alignment with the seven principles in the Financial Reporting Council's UK Stewardship Code. We value the basic concepts and appreciate the thoroughness of the Stewardship Code and its guidance on the application to key market participants, specifically equity shareowners, but also fixed income, private equity and real assets investors. We recommend the inclusion of language in Principle 3, Monitoring investee companies, bullet 4, to state:

While many investors monitor companies in terms of their equity holdings, monitoring companies may also be important for other asset classes in addition to equity holders, bondholders and other creditors.

Principle 5: Engaging companies and collaborating with other investors, bullet 3 should include not only engagement with independent directors but with all Board members.

CalSTRS views stewardship as a critical element of fiduciary duty. The letter of the ICGN Accounting and Auditing Practices Committee to the IASB succinctly captured the importance of stewardship.

³ CalSTRS Corporate Governance Principles, April 3, 2015. http://www.calstrs.com/sites/main/files/file-attachments/corporate_governance_principles_1.pdf

Stewardship aims to promote the long term success of companies and increase the long-term sustainable risk adjusted rate of return to investors.⁴

We concur that institutional investors in their fiduciary duty are the agents or stewards to effect change on behalf of beneficiaries. We acknowledge that both institutional investors and their beneficiaries have an inherent interest in ensuring that investee companies are successful and sustainable over time, recognizing the broader systemic implications in terms of promoting healthy capital markets and economic development.

Comply or Explain

Although in the United States, Comply or Explain is not necessarily a model measurement, CalSTRS agrees with the Institute of Chartered Accountants in England and Wales (ICAEW) on the advantages over the alternative to straight compliance. We agree that Comply or Explain provisions may promote innovation because they can accommodate new ideas.⁵ We believe to move the needle through Principle 5, “Engaging companies and collaborating with investors,” that strict compliance may not necessarily assist in evolving principles as well as the use of dialogue and encouragement of Comply or Explain policies.

Specific Considerations – Requirements for Key Market Participants

CalSTRS supports the Stewardship Code outlining the constructive coordination of key market participants and roles to support the successful application. Partially, the success of the Stewardship Code relies on participants understanding their role and application and in ensuring consistent application with some deviation based on specific capital markets guidance. This section is thorough and provides the appropriate level of guidance.

Investment Management Agreements

We applaud the ICGN in the inclusion of incorporating stewardship practices into investment management agreements. CalSTRS, as an asset owner and manager currently considers the “CalSTRS 21 Risk Factors” in the consideration of environmental, social and governance issues (ESG). We ask that our investment managers adhere and consider these 21 risk factors in their investment and capital allocation decisions and as part of their investment management agreements with CalSTRS.⁶ We recommend that the Stewardship Code consider the inclusion of a similar assessment within investment management agreements.

CalSTRS especially appreciates the guidance contained within the Appendix of the document and look to also review our investment management agreements, as well as work towards harmonizing the concepts of stewardship within our agreements. CalSTRS recognizes the significant role that investment managers play in furthering stewardship as a component of institutional investment.

⁴ ICGN Accounting and Auditing Practices Committee, Comment letter to the IASB Consultation on the Conceptual Framework, section on stewardship, 13 November 2015. <https://www.icgn.org/iasb-consultation-re-conceptual-framework-financial-reporting-2015>

⁵ ICAEW, “When is Comply or Explain the Right Approach, What We Think, A Dialogue in Corporate Governance, New Challenges Initiative”
<http://www.icaew.com/~media/corporate/files/technical/corporate%20governance/dialogue%20in%20corporate%20governance/icaew%20tl%20q3%20web.ashx>

⁶ CalSTRS Investment Policy for Mitigating Environmental, Social and Governance Risks (ESG), adopted 2008.
http://www.calstrs.com/sites/main/files/file-attachments/calstrs_21_risk_factors.pdf

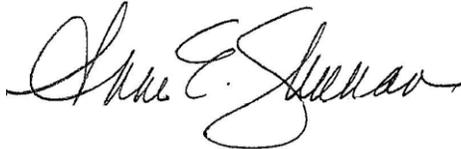
Next Steps

CalSTRS is very receptive to the adoption and publication of the Stewardship Code. We recognize that many institutional investors responding to this consultation may be motivated to reassess and benchmark their own principles and policies. CalSTRS periodically reviews its Principles and commitment to its overall stewardship. Many of the guidance points for asset owners and asset managers, CalSTRS currently follows and also includes within our Corporate Governance Principles.⁷ The Stewardship Code may encourage a more robust commitment to continuously refresh and update the evolution of defining good stewardship. Like other emerging factors in governance, change and productive stewardship is essential and necessary in safeguarding shareowner rights.

We look forward to reading other member responses and suggest posting responses for members to view. CalSTRS thanks ICGN for the opportunity to provide our comments and perspective. Below we have responded to the specific questions outlined in the member consultation.

If you have any questions, please do not hesitate to contact me at 916-414-7410, ASheehan@calstrs.com, or Mary Hartman Morris at 916-414-7412, MaMorris@calstrs.com.

Sincerely,



Anne Sheehan,
Director of Corporate Governance
California State Teachers' Retirement System

Cc: Aeisha Mastagni, Portfolio Manager, CalSTRS
Kerrie Waring, Executive Director, ICGN
Marlice Johnson, Membership Co-ordinator, ICGN

⁷ CalSTRS Corporate Governance Principles.

Questions – ICGN Global Stewardship Code

1. Do you agree or disagree with the stated purposes of ICGN Global Stewardship Code? Are there other applications you might envisage?

Yes, as outlined in our comment letter, we support the stated purposes. We recommend the ICGN engage and discuss the need for a Stewardship Code at the World Federation of Exchange level.

2. Do you believe the draft ICGN Global Stewardship Code is appropriately positioned to complement stewardship codes that are in place in other jurisdictions or to serve as a guide for the development of stewardship codes?

Yes, with the representation by ICGN members, and the guidance of existing stewardship codes we fully support the ICGN developing and adopting a global code to not only complement existing codes but also in the development and acceptance of codes globally.

3. Do you agree with the seven principles of the Code? Is there a principle that should be excluded – or another principle that should be included?

Yes we agree with the seven principles. As stated in the body of our letter, CalSTRS recommends the inclusion of language in Principle 3, Monitoring investee companies, bullet 4 to include other asset classes in addition to equity holders, bondholders and other creditors. We also recommend a change to Principle 5: Engaging companies and collaborating with other investors, bullet 3, to include not only engagement with independent directors but with all Board members.

4. Are there aspects of the guidance points that you do not agree with or are there further guidance points to consider?

No, we agree with the guidance and do not have any additional further guidance points.

5. Are there aspects of the roles of asset owners, asset managers and companies that you do not agree with or are there further guidance points to consider?

No, there are not aspects of the outlined roles that we disagree with or feel the need for additional expansion.