



California State Teachers'
Retirement System
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February 5, 2016

Sush-Der Lee, Chairman
Michael Lin, President
Taiwan Stock Exchange
Corporate Governance Center
3F, 9-12F, No. 7, Sec. 5 Xinyi Rd.
Taipei, Taiwan 11049 Republic of China

Via Email: 1211@twse.com.tw

Financial Supervisory Commission
Taiwan Depository and Clearing Corp.
Securities Investment Trust and Consulting Association
Taiwan Financial Service Roundtable

Dear Mr. Lee, Mr. Lin and Jointly Filed Participants:

RE: Consultation document for “Stewardship Principles for Institutional Investors” – Taiwan Stock Exchange (TWSE)

I am writing on behalf of the California State Teachers’ Retirement System (CalSTRS) in response to the open consultation on *Stewardship Principles for Institutional Investors* that invest in companies listed on the TWSE. Thank you for the opportunity to provide an investor’s perspective on the TWSE’s consultation document. We agree with the importance of institutional investors fulfilling their stewardship responsibilities in order to assist investee companies to strengthen their corporate governance and enhance long-term value for TWSE’s clients and shareholders.

CalSTRS, established in 1913 for the benefit of California’s public school teachers is the largest educator only pension fund in the world. CalSTRS global portfolio is currently valued at approximately \$186 billion as of December 31, 2015. As a long-term investor of companies listed at the TWSE & Taipei Exchange (TPEX) and as a shareholder with approximately 416 million shares with a \$724 million market value as of January 29, 2016¹, we value the opportunity to strengthen corporate governance, stewardship principles and to respond to this consultation.

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.² CalSTRS believes an

¹ FactSet, screening of CalSTRS holdings at Exchange Level, January 29, 2016.

² California State Teachers’ Retirement System – CalSTRS at a Glance, December 31, 2015.
<http://www.calstrs.com/glance>

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.³

Importance and Application of Stewardship Code

CalSTRS agrees with the TWSE's definition of investor stewardship. We agree that stewardship responsibilities are more than exercise of shareholder rights and concur that there is an international trend toward defining and implementing a Stewardship Code to set out good practices for investors. CalSTRS is a proponent of the G20 and The Organisation for Economic Co-operation and Development (OECD) Principles of Corporate Governance, section III, which outlines that:

The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.⁴

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. CalSTRS acknowledges TWSE's goal to improve Taiwan's investors' participation in corporate governance and through an exchange Stewardship Code for institutional investors.

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

We also believe that the voting of proxies is not only a fiduciary duty but likewise 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.⁵

³ CalSTRS, "Our Fiduciary Responsibility Comes First", April 2, 2010. <http://www.calstrs.com/blog-entry/our-fiduciary-responsibility-comes-first>

⁴ G20/OECD Principles of Corporate Governance, OECD Report to G20 Finance Ministers and Central Bank Governors, September 2015. <http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf>

⁵ CalSTRS Corporate Governance Principles, April 3, 2015. http://www.calstrs.com/sites/main/files/file-attachments/corporate_governance_principles_1.pdf

Principle-Based and Comply or Explain

Correspondingly, we agree with the adoption of a principle-based structure and the proposed six principles. We value the basic principles and guidelines and acknowledge the overall alignment with many of the other Stewardship Codes adopted by other countries. However we believe the aim of the principles should include other investment asset classes. We recommend adding language such as, “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.” Additionally, the TWSE stewardship code may want to include another principle which addresses long-term perspective and integration of environmental, social and governance (ESG) factors.

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

Stewardship aims to promote the long term success of companies and increase the long-term sustainable risk adjusted rate of return to investors.⁶

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.⁷ We agree that engaging companies and collaborating with investors, that strict compliance may not necessarily assist in evolving principles as well as the use of dialogue and encourage the use 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 any Stewardship Code relies on participants understanding their role and application and in ensuring consistent application with some deviation based on specific capital markets guidance. Stewardship codes need to outline constructive coordination of key market participants which would include asset owners, asset managers, companies (as issuers of equity and debt), exchanges and regulators.

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

⁶ 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>

⁷ 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%20t1%20q3%20web.ashx>

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their investment management agreements with CalSTRS.⁸ We recommend that the Stewardship Code consider the inclusion of a similar assessment within investment management agreements.

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. CalSTRS currently follows many of the principles and guidance points in your recommended Stewardship Code. We also include these within our Corporate Governance Principles.⁹ 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.

To ensure consistency in your request, below we have provided our thoughts in the table recommended in the consultation.

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

Sincerely,



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

Cc: Brian Rice, Portfolio Manager, CalSTRS

⁸ 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

⁹ CalSTRS Corporate Governance Principles.

CalSTRS response to TWSE draft “Stewardship Principles for Institutional Investors”

| Name of institution | Type of institution | Name | Contact information |
|---|---|---|--|
| California State Teachers’ Retirement System | Pension Fund | Anne Sheehan, Director of Corporate Governance | ASheehan@calstrs.com 916-414-7410 |
| | | | |
| Which part of the Principles are you concerned with? Key Ideas | Opinion (Please provide your valuable opinion in the column below. Please insert additional columns if you wish to express multiple opinions.) | | |
| Importance and application of the Stewardship Code | <p>Agree with this reference and suggest stressing the importance of a solid corporate governance framework and the importance to the investment chain</p> <p>The corporate governance framework should provide sound incentives throughout the investment chain and provide for stock markets to function in a way that contributes to good corporate governance.</p> <p>Stewardship aims to promote the long term success of companies and increase the long-term sustainable risk adjusted rate of return to investors.</p> | | |
| Need for global Stewardship Codes | <p>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.</p> | | |
| Agree with Comply or Explain –Need to include other asset investment classes | <p>Correspondingly, we agree with the adoption of a principle-based structure and the proposed six principles. We value the basic principles and guidelines and see it overall alignment with many of the other Stewardship Codes adopted by other countries. However we believe the aim of the principles should include other investment asset classes and should provide, “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.”</p> | | |

| <p>Which part of the Principles are you concerned with?</p> <p>Key Ideas</p> | <p>Opinion (Please provide your valuable opinion in the column below. Please insert additional columns if you wish to express multiple opinions.)</p> |
|--|--|
| <p>Success of any Stewardship Code relies on participants understanding their role and application and in ensuring consistent application with some deviation based on specific capital markets guidance</p> | <p>Stewardship codes need to outline constructive coordination of key market participants which would include asset owners, asset managers, companies (as issuers of equity and debt), exchanges and regulators.</p> |
| <p>Inclusive of Investment Management Agreements - Consideration of Risk Factors</p> | <p>We ask that our investment managers adhere and consider these 21 risk factors (environmental social and governance issues) in their investment and capital allocation decisions and as part of their investment management agreements with CalSTRS.¹⁰ We recommend that the Stewardship Code consider the inclusion of a similar assessment within investment management agreements.</p> |
| <p>Encourage adoption of Stewardship Code by all investors</p> | <p>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.</p> |

¹⁰ 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