



California State Teachers'  
Retirement System  
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May 6, 2017

VIA email: [stewardship2017-2@fsa.go.jp](mailto:stewardship2017-2@fsa.go.jp)

Yasumasa Tahara, Director  
Toshinori Yashiki, Deputy Director  
Motoyuki Yufu, Deputy Director  
Planning and Coordination Bureau,  
Corporate Accounting and Disclosure Division  
Financial Services Agency (FSA)  
The Central Common Government Offices No. 7  
3-2-1 Kasumigaseki, Chiyoda-ku, Tokyo, 100-8967 Japan

Re: Request for Comment – **Principles for Responsible Institutional Investors – Japan Stewardship Code** -- To promote sustainable growth of companies through investment and dialogue

Dear Messrs. Tahara, Yashiki and Yufu:

I am writing on behalf of the California State Teachers' Retirement System (CalSTRS) in response to the request for public comments on the revised draft of Japan's Stewardship Code, Principles for Responsible Institutional Investors. CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately \$202.8 billion as of March 31, 2017.<sup>1</sup> We serve the investment and retirement interests of more than 914,454 plan participants and their beneficiaries.<sup>2</sup> CalSTRS believes an essential part of managing the portfolio is promoting good corporate governance and stewardship at companies held in our investment portfolio.<sup>3</sup>

Thank you for the opportunity to respond to the revised Stewardship Code. We are active shareholders and invest in more than 8,000 global equity securities valued at over \$118 billion. CalSTRS is a significant shareholder as our ownership in Japan represents CalSTRS second-largest equity market. As a long-term steward of capital, we are keenly interested in how corporate governance and stewardship is approached in Japan. Our Corporate

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<sup>1</sup> CalSTRS Current Investment Portfolio for the period ending March 31, 2017. <http://www.calstrs.com/current-investment-portfolio>

<sup>2</sup> CalSTRS at a Glance, Fact Sheet: <http://www.calstrs.com/sites/main/files/file-attachments/calstrsataglance.pdf>

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

Governance principles specifically outline CalSTRS Stewardship Code for Engagement which not only guides our proxy voting activities but also establishes a framework for what we consider good corporate governance.<sup>4</sup>

We appreciate the ongoing efforts of the FSA, the Council of Experts and the Tokyo Stock Exchange to improve dialogue between Japanese companies and their investors. We fully support the robust statement on the first priority to move corporate governance reform from “superficial” to “substantive” as stated in the 2016 Japan Revitalization Strategy, as a top priority of Abenomics<sup>5</sup>:

“To this end it is effective to raise the effectiveness of pressures from institutional investors on listed companies.”

We highlight this same sentiment in Section C of our Stewardship Engagement Code that discusses when it is appropriate to escalate engagement activities. As a predominantly passive investor, we consider our investments long-term, patient capital. Since our investment strategy is heavily weighted towards passive investments, we do not have the flexibility to simply sell an investment because of governance concerns. Rather as fiduciaries we actively monitor and engage the investments in our portfolio for financial, strategic, governance, sustainability risks, and other risks.

As both an asset owner and asset manager, we support the importance of constructive dialogue with portfolio companies and recognize the need to disclose our stewardship responsibilities and policies on enhancing the corporate value of investee (portfolio) companies. We agree as outlined in Aims of the Code, # 7 that “effective and appropriate stewardship activities by institutional investors ultimately aim at the enhancement of the medium- to long-term investment return for the clients and beneficiaries.”

Correspondingly, with this in mind, we support reevaluating current legal requirements which prevent Japanese asset owners – pension funds -- from direct engagement with Japanese investee companies. We understand this will take time and be part of the governance evolutionary process in Japan.

In particular, we support the additional language on the interaction of stewardship activities between asset owners and asset managers in Principle 1, which requires institutional investors to have a clear policy on how they fulfill their stewardship responsibilities and publicly disclose it. This is in direct alignment (Section B.3 & B.4) with the Investor Stewardship Group which recently came together to establish a framework of basic standards of investment stewardship and corporate governance for U.S. institutional investor and

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<sup>4</sup> CalSTRS Corporate Governance Principles, Updated July 14, 2016.  
[http://www.calstrs.com/sites/main/files/file-attachments/corporate\\_governance\\_principles\\_1.pdf](http://www.calstrs.com/sites/main/files/file-attachments/corporate_governance_principles_1.pdf)

<sup>5</sup>The Council of Experts on the Stewardship Code, January 25, 2017.  
<http://www.fsa.go.jp/en/refer/councils/stewardship/20170125-1.pdf>

boardroom conduct for U.S. listed companies. The founding members are a group of 16 U.S. and international institutional investors that in aggregate invest over \$17 trillion in the U.S. equity markets.<sup>6</sup>

Additionally, CalSTRS supports PRI's recently released report, *Fiduciary Duty in the 21<sup>st</sup> Century – Japan Roadmap*, calling on the FSA to increase oversight of the Stewardship Code to further increase disclosure on proxy voting and ESG policies.<sup>7</sup> We suggest expansion of Principle 3 to include language which requires institutional investors to consider material ESG issues in their investment and decision-making processes with an orientation towards the sustainable growth of the companies. The recommendations cover five categories: stewardship and engagement, corporate governance, ESG disclosure for pension schemes, corporate disclosure and the signature role of GPIF in Japan's investment chain.

We also support the additional language in Principle 4, but feel further clarifying language to be more inclusive of active asset managers and institutional investors with limited resources for engagement would be beneficial in Guidance 4-2 and 4-4. We suggest:

- 4-2. Active asset manager's more concentrated positions and focus on a subset of the market allows them to justify the dedication of resources to extensively research and develop deeper relationships with their portfolio companies. This approach is complimentary to the approach of passive funds who are more concerned about long-term risks such as governance structures and regulation.
- 4-4. An institutional investor's engagement program will depend on that organization's goals and resources, as well as factors such as position size, company size and location, engagement agenda, and likelihood of company responsiveness. As such, adding language that further encourages organizations with limited resources or experience to carry out their own engagement programs to collaborate with other institutions and organizations to pool resources and familiarize themselves with global best practices may lead to increased adoption of the Code as well as increased company responsiveness to these engagements.

However, CalSTRS wants to emphasize that, even with limited resources, collaborative engagement is an important cornerstone of stewardship and good governance and those active asset managers' engagements are complementary to asset owners' engagements. We understand that some active managers are able to increase their breadth and depth of engagement with their specific sector knowledge and bandwidth.

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<sup>6</sup> Investor Stewardship Group- Framework for U.S. Stewardship and Governance Goes into Effect January 1, 2018. <https://www.isgframework.org/stewardship-principles/>

<sup>7</sup> Fiduciary Duty in the 21<sup>st</sup> Century – Japan Roadmap: <https://www.unpri.org/page/pri-publishes-japan-roadmap-new-report-makes-recommendations-on-esg-considerations-for-the-japanese-market>

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CalSTRS recognizes voting of proxies is a fiduciary duty and believes that the execution of proxies is an important shareholder right. CalSTRS exercises this right in a consistent fashion that is in the best interests of our beneficiaries. Similar to Principle 5 in the Japan's Stewardship Code that states policy on voting should not be comprised only of a mechanical checklist, we do not believe that our voting guidelines should be a substitute for analysis and judgment. We believe our votes should be exercised as circumstances dictate. It is the intent of CalSTRS to always exercise our voting authority in accordance with our financial interests. We also reinforce the need to enhance the visibility of consistency in line with stewardship policies and support the additional language in Principle 5.3 requiring disclosure of voting records for each investee company on an individual agenda item basis.

Lastly, CalSTRS encourages the FSA to monitor the global stewardship efforts going forward.<sup>8</sup> CalSTRS believes these activities will help inform and accelerate the adoption of Corporate Governance best practices in Japan and globally.

Thank you for the opportunity to comment on the revised draft of the Stewardship Code. If you would like to discuss this letter further, please feel free to contact Douglas Chen at 916-414-7429, [DChen@CalSTRS.com](mailto:DChen@CalSTRS.com).

Sincerely,



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

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<sup>8</sup> Global Stewardship Codes Network <https://www.icgn.org/global-stewardship-codes-network>