

The Value of CalSTRS Engagements

Corporate engagement is a critical component used by the CalSTRS Sustainable Investment and Stewardship Strategies team to influence change that supports long-term value creation. Every fiscal year, SISS staff, under direction from the Teachers' Retirement Board, determines the key issues on which to engage portfolio companies. Each issue must be consistent with the [CalSTRS Corporate Governance Program and Portfolio Policy](#), and the [Investment Policy for Mitigating Environmental, Social and Governance Risks](#).

CalSTRS engagements seek to influence companies to adopt best practices in managing environmental, social and governance issues, creating sustainable businesses. Similarly, CalSTRS engages policymakers to advocate for strong governance practices that improve the investing landscape for shareholders and our beneficiaries. All of CalSTRS' corporate engagement activities begin with private contact with the company.

CalSTRS emphasis on engagement instead of divestment is strategically important to the Teachers' Retirement Fund. An engagement-led strategy provides a two-fold benefit. First, we uphold our shareholder rights through proxy voting—we vote more than 8,000 domestic and global proxies every year. Second, we build relationships with companies and associated industries. These relationships open the door to discuss a myriad of issues that may impact the fund's long-term value. The board considers divestment a last resort; all avenues of engagement are exhausted and a thorough, detailed financial analysis is conducted before it makes a divestment decision. No matter the size of the divestment, the negative impact to the fund is doubled—we lose our voice and investment dollars.

To date—June 4, 2000 to December 31, 2018—, the estimated loss to CalSTRS related to divestment is approximately \$6 billion. This loss represents investment restrictions imposed by state and federal government sanctions and divestments authorized by the board. In 2000, tobacco was the first restricted investment to affect the fund. The most recent divestment—from private prison companies Core Civic and GEO Group—was authorized by the board in November 2018. The estimated impact on the fund as a result of this latest divestment will be reported in a subsequent edition of this fact sheet.

Current Engagement Highlights:

Diversity & Human Capital Management

CalSTRS collaborates with three like-minded investor groups, the [Thirty Percent Coalition](#), the California Initiative and the Coalition of 6 (a group of global institutional investors), to engage directors—particularly board nominating committees—on the issue of board diversity. These engagements concentrate on companies—in both the S&P 500 and Russell 3000—with either no women or only one woman on their board. Since this collaborative work began in 2016, we have initiated 797 engagement letters (which includes follow-up letters) and have achieved tangible results: 221 women were appointed to the boards of 208 companies. Engagement continues with companies that have either not appointed women or not made any commitments to improving their board diversity.

We also engage companies through the [Human Capital Management \(HCM\) Coalition](#) to elevate and emphasize human capital management as a critical component of a company's economic performance. Through our engagement we seek to encourage better disclosure of how companies manage the demographics, composition, knowledge, motivation, skills and experience of their workforce: a company's most valuable asset. In fiscal year 2018-19, CalSTRS will lead engagements at two of the 34 companies prioritized by the HCM Coalition.

Low Carbon Transition

Task Force on Climate-related Financial Disclosure

In 2017, CalSTRS committed to engage at least 100 companies (20 per year for five years) to encourage them to provide better disclosure regarding climate risk in line with the recommendations of the Task Force on Climate-related Financial Disclosure. To date, CalSTRS has engaged more than a quarter of the 100 companies. Our engagement has helped drive adoption. As of January 2019, nearly 500 companies have committed to support TCFD recommendations.

TCFD developed voluntary, consistent climate-related financial risk disclosures for use by companies in providing information to investors. TCFD helps firms understand what financial markets want from disclosure in order to measure and respond to climate change risks and encourages firms to align their disclosures with investors' needs.

Low Carbon Transition**[Climate Action 100+](#)**

CalSTRS is actively involved in this collaborative engagement effort of more than 300 global investors— currently representing \$33 trillion— focused on the largest global emitters of carbon dioxide. The five-year effort centers around actions the companies are taking or plan to take to manage and mitigate climate change risk. CalSTRS is leading the engagement with eight companies; four U.S.-based, and four Japan-based. Additionally, CalSTRS is a supporting investor at five additional companies. Engagement meetings with all companies are ongoing.

Environmental, Social, Governance Disclosure

CalSTRS is a member of the [Sustainability Accounting Standards Board's Investor Advisory Group](#), a group of more than 30 investors currently representing \$26 trillion. SASB Investor Advisory Group members share a common goal: seeking consistent, comparable, and reliable disclosure of material, decision-useful sustainability-related information from the companies in which they invest. Members believe material ESG factors can influence long-term risks and returns of companies. The current lack of consistent and comparable ESG-related disclosure places a growing burden on corporations and presents challenges to investors in the evaluation and pricing of ESG-related risks and opportunities. CalSTRS is taking a leading role in engaging companies to disclose material and decision-useful ESG information to investors to improve the quality and comparability of sustainability-related information.

Financial Markets - Regulatory

CalSTRS has a vested interest in safeguarding shareholder protections within the rules and regulations of the U.S. and global securities markets. Thus, we respond to proposed legislation and regulations that may affect these rights. Fiscal year-to-date, we have submitted letters to: domestic and global stock exchanges regarding listing standards on multi-class shares; the SEC on refining the proxy voting process; and, the Committee on Financial Services regarding H.R. 625—Promoting Transparent Standards for Corporate Insiders Act. These submissions are publicly available on [CalSTRS website](#).

Firearms

CalSTRS is currently looking to hire an engagement specialist to lead our work with industry and stakeholder groups on firearms issues, based upon the [Principles for a Responsible Civilian Firearms Industry](#). The five principles provide a framework for institutional investors seeking to improve engagement with public and private companies globally that manufacture, distribute, sell or regulate products within the civilian firearms industry to address gun safety issues and reduce investment risk.

Opioids

CalSTRS is actively involved with [Investors for Opioid Accountability \(IOA\)](#), a diverse coalition of institutional investors with 54 members representing \$3.5 trillion in assets under management. The IOA was established in July 2017 to engage with opioid manufacturers, distributors, treatment manufacturers, and retail pharmacies on opioid business risks that have implications for long-term shareholders, communities and the economy. Since 2017, the coalition has filed 33 shareholder resolutions and reached a settlement on 29 of these proposals, three of which were filed by CalSTRS. The coalition is currently in active discussions with 10 companies on shareholder resolutions that have or will be voted on by shareholders for the 2019 proxy season.

Private Prisons

At the July 2018 Investment Committee meeting, CalSTRS Chief Investment Officer invoked the Fund's [Divestment Policy](#) under the ESG Risk Factor: Respect for Human Rights of CalSTRS Investment Policy for Mitigating ESG Risks, as it applied to our public investments in private prison companies. At the November 2018 meeting, the Investment Committee, voted to divest of CalSTRS holdings in two U.S.-based private prison companies. Staff has removed the companies from the CalSTRS Custom Indexes, implemented the restrictions on buying securities of the companies, and completed liquidation of the securities on December 21, 2018.

Country-Related Activities**Iran**

In May 2018, the U.S. withdrew from the Iran nuclear deal (formerly known as the Joint Comprehensive Plan of Action), and later reinstated sanctions on Iran, while granting limited waivers for eight countries. The U.S. withdrawal and reinstatement of sanctions has created market uncertainty as companies and countries respond to U.S. policy. CalSTRS engages companies we have identified as having ties to restricted countries to ensure that we comply with our internal controls to prevent sanction violations and to file an accurate annual report with the Legislature detailing our activities.

