

## The Value of CalSTRS Engagements

CalSTRS invests a multi-billion dollar fund in a unique and complex social-economic milieu and recognizes we can neither operate nor invest in a vacuum. As a significant investor with a long-term investment horizon, engagement is a critical tool used by the CalSTRS Sustainable Investment and Stewardship Strategies team to influence changes in public policies and corporate practices that support long-term value creation.

CalSTRS engages, through meetings, letters, shareholder proposals, investor coalitions and proxy voting, to influence companies to adopt best practices in managing environmental, social and governance issues to create sustainable businesses. We also engage policymakers to codify strong governance practices that improve the financial market landscape for long-term investors and their beneficiaries. Our history of engagement activities has resulted in better relationships and outcomes across global industries.

### Engagement spotlight

#### CalSTRS responds to SEC proposals that challenge shareholder rights

CalSTRS owns stock in over 9,000 companies in our \$250 billion portfolio. As a responsible shareholder, we vote by proxy at each company's annual shareholder meeting. Through proxy voting, we weigh in on a variety of issues that impact long-term value creation, including the board of directors, auditors, executive and director compensation, and governance structures. Voting proxies is part of our fiduciary responsibility to the fund—we manage the execution of our votes with the same diligence and care as any other plan asset. CalSTRS Investment staff uses the Teachers' Retirement Board-approved [Corporate Governance Principles](#) to help ensure votes are cast consistently and in our beneficiaries' best interest.

In order to make informed and accurate voting decisions, CalSTRS voluntarily contracts with proxy advisory firms to obtain cost-effective, independent research and the most up-to-date technology needed to prioritize and execute votes.

In November 2019, the Securities and Exchange Commission [voted to propose new regulations](#) on proxy advisors, including requiring proxy advisors to gain approval from the companies they analyze before they release the reports to their clients. These regulations compromise the independence of the proxy advisors and hamper CalSTRS' ability to vote proxies in a timely fashion. We are responding to the SEC's proposed rule through a formal public comment process that will strongly urge the SEC not to burden investors with

unnecessary regulations and would stifle the foundation of shareholder rights—the proxy vote.

CalSTRS owns over  
**9,000**  
companies



and voted over  
**89,000**  
proxies  
in 2019.

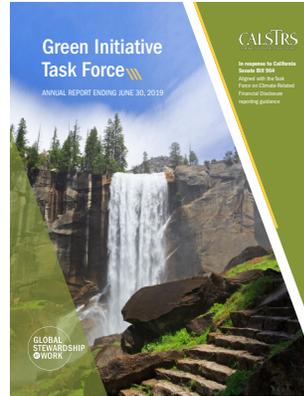
#### CalSTRS publishes Green Initiative Task Force report

CalSTRS released our 13th *Green Initiative Task Force* report on December 31, 2019, which responds to [California's Senate Bill 964 \(Allen\)](#) and aligns with the recommendations of the Task Force on Climate-Related Financial Disclosures. CalSTRS is one of the first global pension funds to align our reporting to the TCFD and feature CalSTRS' governance, strategy, risk management, and metrics and targets pertaining to climate-related financial risks.

CalSTRS recognizes that the low-carbon transition impacts the performance of our investment portfolio across all companies, sectors, regions and asset

classes. The latest report outlines how we integrate climate-related risks into our investment management process and provides details about our significant corporate and public policy engagement activities, including their alignment to California’s climate policy goals.

The report provides details on CalSTRS’ leadership role in Climate Action 100+, in which we are leading global engagement with eight companies and are already witnessing the significant, positive results of these collaborative investor activities.



CalSTRS’ 13th annual Green Initiative Task Force report is the first to align with TCFD recommendations.

## Industry events

In order to showcase CalSTRS’ leadership, build relationships that improve our collaboration with other industry participants, and ensure we are informed of global best practices in sustainable investing, Investment staff attended and spoke at these events:

- Sustainability Accounting Standards Board Annual Symposium
- Responsible Investor Conference New York
- International Corporate Governance Network Conference
- Task Force on Climate-Related Financial Disclosures Summit
- United Nations Sustainable Investing Conference



**United Nations**



**responsible investor**



**ICGN**  
International Corporate Governance Network

## CalSTRS’ stewardship priorities updates

### Corporate and market accountability

The Investors for Opioid Accountability coalition released its [Two-Year Progress Report](#) summarizing their successful engagement with companies in the opioid supply chain. The report details steps companies have taken to improve their governance related to addressing the opioids crisis, including heightened board oversight of the risks. With the end of this corporate engagement phase and the implementation of our updated stewardship priorities, staff will be sunsetting this engagement activity.

### Board effectiveness

#### Diversity

To mitigate risk and create opportunities for improved performance, staff continues to engage companies to improve board effectiveness and diversity. In 2019, we collaborated with several partners with the following results.

Partnerships	Engagement letters sent	Number of companies appointing a woman to their board	Number of women appointed to a company’s board
<b>Thirty Percent Coalition</b>	157	52	61
<b>California Initiative</b>	91	65	77
<b>Cross-Border Coalition of 6</b>	37	14	16
<b>Subtotal</b>	285	131	154

## Human capital management

The SEC is currently evaluating proposed rules within [Regulation S-K](#) to improve required disclosures and overall metrics on human capital management. CalSTRS responded with a [comment letter](#) emphasizing the importance to investors of robust metrics that quantify and demonstrate how companies use and value their most important asset, their human capital.

## Low-carbon transition

As part of Climate Action 100+, CalSTRS has partnered with four Japanese asset managers to lead the engagement of four Japanese companies: Nippon Steel Corporation (steel manufacturing), JXTG Holdings (petroleum and metals conglomerate), Toray Industries (chemical and textiles), and Daikin Industries (air conditioning manufacturing).

CalSTRS staff traveled to Japan to meet with management and board members at each of the four companies to discuss each company's sustainability strategy and efforts to improve climate-related financial risk disclosures. Staff also met with representatives from the Keidanren (Japan Business Federation) and Japanese regulators, including the Financial Services Agency and the Ministry of Economy, Trade and Industry, to promote better climate-related disclosures by Japanese companies. While CalSTRS engagement is ongoing, early successes include all four companies preparing to enhance their disclosure on climate-related risks by using the TCFD guidance.



*CalSTRS staff participated in a Nippon Steel site tour and explored the joint Japan Iron and Steel Federation COURSE50 project that will lead to significant reductions in carbon emissions.*

## Responsible civilian firearms principles

In November 2019, the Harvard Business Review [released a podcast](#) discussing a case study by Harvard Business School professor Vikram Gandhi examining CalSTRS' activities around the Principles for a Responsible Civilian Firearms Industry. The study examines how we use our influence, along with the 13 other signatories to the principles, to engage the firearms industry on creating positive change. In 2019, Walmart and Dick's Sporting Goods have made changes to their retail firearms sales policies. The study's author notes that the voluntary changes are a reaction to growing concern about gun violence, including by investors, a possible indicator of larger changes in the future.

