

The Value of CalSTRS Engagements

CalSTRS invests a multibillion-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.

- Due to the timing of the COVID-19 pandemic, engagement activities related to the pandemic will be reported in the next issue of The Value of CalSTRS Engagements.

Engagement spotlights

Dominion Energy sets net zero emissions goal

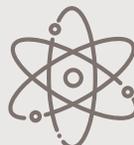
In February 2020, Dominion Energy significantly expanded its greenhouse gas emissions-reduction goals through a new [commitment to achieve net zero emissions](#) by 2050 in all 18 U.S. states where it conducts business. Dominion Energy is one of the focus companies of Climate Action 100+. CalSTRS is leading a group of global investors in engaging Dominion Energy to assess the risks associated with climate change and adjust its business strategy and operations accordingly.



Dominion Energy will reach its goal by expanding solar and wind generation, extending the life of its zero-carbon nuclear power plants, replacing coal and cutting carbon emissions with low-carbon natural gas, investing in renewable natural gas, and reducing and capturing methane emissions. The company recognizes that achieving net zero emissions will require both low-carbon transition policies and long-term investments in new and emerging technologies.



Investing in battery storage technology to make renewables more reliable.



Developing advanced zero-carbon nuclear technology to power major cities.



Promoting public policies to support investments in new and emerging technologies.



Exploring carbon capture initiatives

Source: [dominionenergy.com](https://www.dominionenergy.com)

BlackRock takes major steps toward a low-carbon future

BlackRock, a significant partner of CalSTRS and the world's largest asset manager, with more than \$6 trillion in assets under management, announced meaningful changes to how it's addressing the low-carbon transition in its investment and engagement activities, including joining the investor-led collective Climate Action 100+. BlackRock released its [annual letter to CEOs](#) from Chief Executive Officer Larry Fink and [a letter](#) from the firm's executive committee to its clients explaining how it's integrating climate change into investment strategies. BlackRock's global head of sustainable investment provided an overview of these actions during CalSTRS' March 2020 Teachers' Retirement Board meeting.

CalSTRS continues to actively engage both corporations and investment partners to examine their strategies and approaches to climate risk in order to improve long-term sustainability.



Blackrock, with over \$6 trillion assets under management, joins Climate Action 100+

Industry events

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

- **Council of Institutional Investors Spring Summit:** Corporate governance best practices
- **Pension Bridge ESG Summit:** Current environmental, social and governance trends and best practices
- **Broadridge Steering Committee:** Oversight into proxy voting processes and accuracy
- **Sustainable Accounting Standards Board, board meeting:** Material sustainability disclosure
- **The Climate Salon:** Low-carbon related investment opportunities
- **SHARE Investor Summit:** Canadian sustainable investment dialogue
- **Directors Forum Annual Conference:** Directors, investors and corporate management discuss key governance issues

Stewardship priorities updates

Corporate and market accountability

CalSTRS advocates for shareholder rights

Last quarter, [we highlighted](#) two proposed rule makings by the Securities and Exchange Commission that would significantly diminish the rights of shareholders and investors' ability to hold corporations accountable. We submitted a [comment letter](#) articulating how we use the services of proxy advisors and how the proposals threaten our ability to exercise our rights as shareholders and hold corporations accountable.

Board effectiveness: Human capital management

Proxy season preview

As we approach proxy season, staff is preparing to vote all proxies with diligence and care in alignment with our [Corporate Governance Principles](#). We anticipate there will be additional scrutiny on executive compensation, human capital management and shareholder proposals related to ESG disclosures, all of which are important value drivers for the CalSTRS Investment Portfolio.



CalSTRS publishes latest diversity report

In December 2019, we published our [Diversity in the Management of Investments: 2019 Annual Progress Report](#). The report outlines our efforts related to diversity and inclusion internally with our own staff, externally with the investment managers we do business with and at the portfolio companies in which we invest.

Low-carbon transition

In the first quarter of the year, staff witnessed an unprecedented number of corporate commitments and action plans to address climate change. Amazon, BP and Microsoft are three companies we have engaged that announced significant shifts in business strategy related to climate change, including net-zero emissions commitments.



Amazon

- 100% net zero carbon by 2040
- 100% renewable energy by 2030
- 50% shipments net zero carbon by 2030
- 100,000 newly ordered electric delivery vehicles

BP

- Net zero across BP's operations on an absolute basis by 2050 or sooner
- Net zero on carbon in BP's oil and gas production on an absolute basis by 2050 or sooner
- 50% cut in the carbon intensity of BP products by 2050 or sooner
- Install methane measurement at all BP major oil and gas processing sites by 2023 and reduce methane intensity of operations by 50%
- Increase the proportion of investment into non-oil and gas businesses over time



Microsoft

- Carbon negative by 2030
- Remove company's historical carbon emissions by 2050
- \$1 billion climate innovation fund

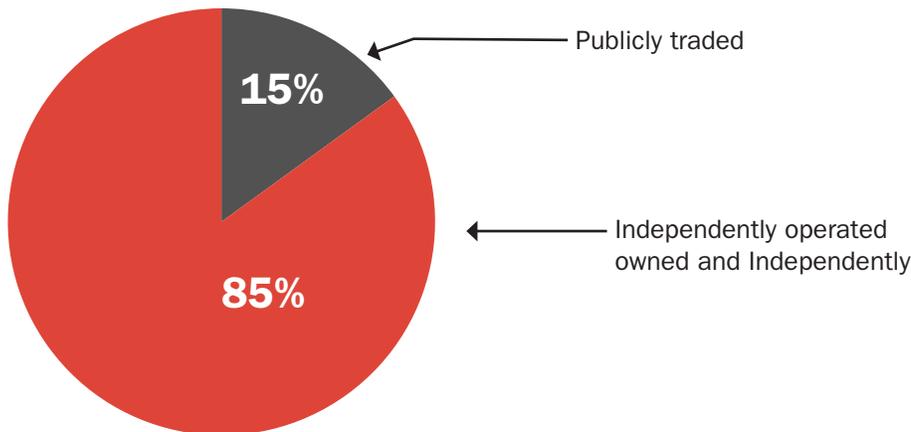


Responsible firearms

CalSTRS has passive interests in two publicly traded pawn brokers with thousands of locations across 25 U.S. states and internationally. During onsite visits and an engagement with one of those companies, First Cash Inc., staff learned that pawn transactions are highly regulated at the state and local levels, including firearms transactions. Requirements to buy or reclaim a pawned firearm are similar to some of the nation's leading retailers and include a background check and minimum age of 21. This engagement is designed to improve safety and our understanding of risk in areas where the fund is associated with the civilian firearms industry. Staff is following up with retail guidelines designed to enhance safety and training for employees who conduct firearm transactions and asking the company to clearly post its firearms transaction policy.

CalSTRS joined with other investors to develop the [Principles for a Responsible Civilian Firearms Industry](#) in order to advance a responsible civilian firearms industry in the U.S.

Pawn store ownership in the U.S.



In 2020, there are approximately 10,000 pawn stores in the U.S.
Source: National Pawnbrokers Association