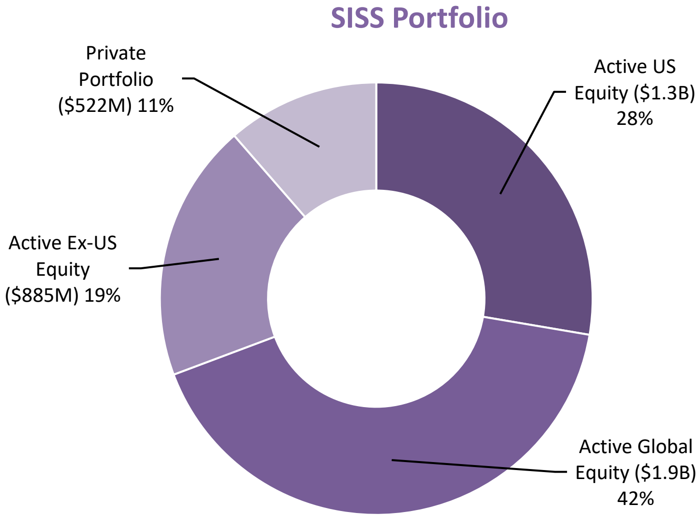
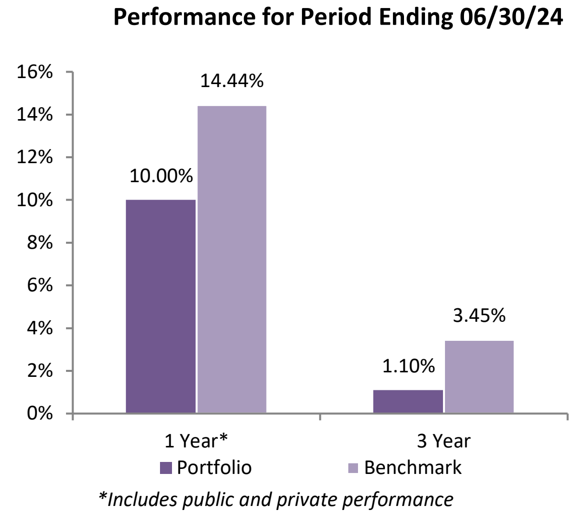
Investment Committee Semi-Annual Activity Report

as of June 30, 2024

2. Sustainable Investment & Stewardship Strategies

INVESTMENT: SISS Portfolio





INVESTMENT: SISS Portfolio Updates

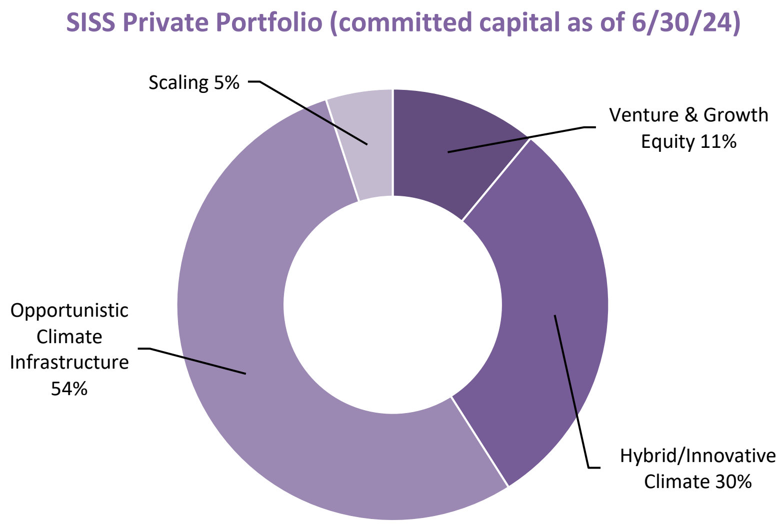
SISS Public Portfolio

The SISS Public Portfolio invests to opportunistically improve the risk and return characteristics of the Total Fund by explicitly integrating sustainability considerations as a value driver in investment strategy, with the ancillary benefits of improving the overall market through active engagement and promoting the integration of material sustainability-related factors.

In the first half of 2024, staff continued extensive efforts to restructure the portfolio with its recently updated objectives to be a highly active sustainability-focused satellite portfolio within CalSTRS Total Public Equity allocation. Over the past 12 months, these efforts have included redeeming approximately $2.5 billion from low-conviction strategies and redeploying $600 million across two new sustainability-focused strategies. The portfolio significantly underperformed during this period of transition and portfolio shifts. Staff expects further, more modest, portfolio changes over the next 6 to 12 months to fully implement the new active equity allocation framework and allow it to stabilize.

SISS Private Portfolio

The SISS Private Portfolio is invested to serve as a source of long-term capital appreciation and opportunistically increase CalSTRS exposure to low-carbon solutions that are additive to the Total Fund and demonstrate positive contributions to a more sustainable global economy. The SISS Private Portfolio is structured to advance its goals through a "New Opportunities" portfolio component and a "Scaling" portfolio component. The New Opportunities portfolio enables SISS to explore new CalSTRS sustainability-focused partnerships that take advantage of unique alpha opportunities and that may not naturally fit in other asset classes. The Scaling portfolio leverages existing CalSTRS partnerships with other asset classes to advance the goals of the Collaborative Model and increase sustainability-focused co-investment and joint venture opportunities.



The SISS Private Portfolio invests in climate solutions across three broad risk and return profiles: (1) Opportunistic Climate Infrastructure investments; (2) Hybrid/Innovative Climate investments; and (3) Venture Capital and Growth Equity ("VC/GE") investments. As of 6/30/2024, the SISS Private Portfolio had committed over $2.12 billion across 22 investments in each of the three broad risk and return profiles. It is still too early to report performance characteristics.

STEWARDSHIP: Proxy Voting

Staff continues to fulfill the Board's fiduciary duty to treat proxy votes as plan assets. During the period of peak proxy voting season, **staff voted proxies at 8,434 meetings**, consisting of 2,568 U.S. meetings and 5,866 international meetings.

In the U.S., staff voted on a variety of issues, in alignment with the CalSTRS Corporate Governance Principles, including:

- 16,359 director votes
- 2,450 auditor ratification votes
- 2,162 executive compensation plans
- 59 mergers/acquisitions
- 609 shareholder proposals

STEWARDSHIP: Engagement Priorities and Highlights

Net Zero Transition

Recognizing CalSTRS mission to deliver financial benefits to its members, staff are focused on influencing high-emitting companies to identify near-term abatement opportunities that result in lower emissions and enhance profitability. CalSTRS expects companies to adopt best practices that support the accurate measurement, monitoring and mitigation of greenhouse gases, including cardon dioxide and methane.

Rule Making at the Securities and Exchange Commission

In March, the Securities and Exchange Commission (SEC) voted to adopt a new climate-related disclosure rule—a landmark breakthrough in climate-related disclosure in the United States. The rule is a crucial step toward more reliable, consistent, and comparable information to assess the risk and opportunities to our portfolio companies.

The final rule comes nearly two years after the SEC first published a proposed rule. The rule garnered unprecedented interest, with the SEC receiving a record setting 24,000 comment letters. CalSTRS sent comment letters to encourage the drafting of a rule and to support the draft rule when it was published. In the final rule, the SEC referenced CalSTRS nearly 70 times. The rule includes requirements for companies to report greenhouse gas emissions directly from operations (scope 1) and those generated from energy purchased (scope 2). The rule also requires companies to acquire assurance of their emission disclosures.

Shortly after the rule was issued, the US Court of Appeals for the Fifth Circuit granted an administrative stay of the climate-related disclosure rule, temporarily halting the implementation of the final rule. We will continue to monitor progress of the rule as it moves through the legal process and continue to engage companies on better disclosure practices.

Engagement Highlights through Climate Action 100+

CalSTRS, through Climate Action 100+, is a lead investor for ten focus companies (Daikin Industries, ENEOS, Mitsubishi Heavy Industries, Nippon Steel, Toray Industries, Dominion Energy, Duke Energy, Phillips 66, PBF Energy, and Southern Company).

- **Phillips 66** began producing approximately 30,000 barrels per day of renewable fuels at the Rodeo Renewable Energy Complex. The facility, located in Rodeo California, is on track to achieve full conversion by the end of the second quarter 2024 and to produce Sustainable Aviation Fuel by the third quarter of 2024. The company states the transition of the refinery included engagement with its employees, unions, and the community and activities that focused on redeployment, skills training, and community renewal. The company also references Just Transition and the International Labor Organization's (ILO) guiding principles as part of the process.
- **Dominion Energy** completed the first monopile foundation for the 2.6-gigawatt Coastal Virginia Offshore Wind (CVOW), the largest offshore wind farm under construction in the United States, approximately 29 miles off the Virginia Beach coast. Once complete in late 2026, CVOW will consist of 176 turbines that will generate enough clean, renewable energy to power up to 660,000 homes.
- **Southern Company** agreed to include enhanced disclosure in its 2024 proxy statement to demonstrate the linkage between GHG emissions reductions and its fleet transition that involves retirement of coal and gas steam generation and the addition of zero-carbon generation such as solar, wind and nuclear. The disclosure will include a graph showing a direct comparison between the Company's actual fleet transition megawatts and the Company's actual Scope 1 GHG emissions reductions from 2007 through 2023.

In recent months, Climate Action 100+ as seen the departure of some asset managers, many pursuing their own independent climate stewardship activities. We remain steadfast in our commitment to Climate Action 100+ and believe that collaborative engagement is a powerful tool to advance sustainable business practices.

Corporate and Market Accountability

Human Capital Management Coalition continues engagement with the SEC

The Human Capital Management Coalition, of which CalSTRS is a member, sent the SEC a letter in May urging the regulator to adopt rules related to human capital management disclosures. Specifically, the letter requests the SEC adopt rules that incorporate recommendations made by the SEC's Investor Advisory Committee. Pursuit of better and standardized disclosure over corporate management of human capital risks and opportunities is a long-standing priority of CalSTRS.

Engaging Weis Markets for better governance

Weis Markets is a U.S. mid-Atlantic food retailer with more than 200 store locations. CalSTRS has engaged this company for several years due to its lack of board diversity and lack of gender, ethnically or racially diverse directors. The board also lacks a nominating committee, a basic corporate governance best practice, and is highly unresponsive to shareholders.

This year, in an escalation to our engagement efforts, we filed an exempt solicitation with the SEC. After our exempt solicitation, prominent proxy advisory firms Glass Lewis and ISS noted many of the same concerns we identified and recommended their clients, other investors, also vote against board members.

In the final vote, all directors were re-elected due to significant company insider ownership. However, support from non-insiders was low, with some board members receiving less than 40%. We believe this result will send a strong message to the company about investor dissatisfaction and will bolster our engagement with the company to improve its board composition and governance practices.

Federal Trade Commission issues noncompete agreement rule

In April, the Federal Trade Commission announced a final rule that would ban the use of noncompete agreements nationwide. CalSTRS had previously written to the commission expressing support for the creation of such a rule. Our letter outlined many concerns with the use of noncompete agreements as they can potentially stifle innovation and depress wages by limiting the ability of workers to freely move from one firm to another. Efficiently functioning labor markets lead to a thriving and competitive economy, which is beneficial to us and other long-term investors. Banning noncompete agreements also reduces reputational and legal risks for companies, as these types of agreements were already enforced in a highly inconsistent manner across different jurisdictions.