Investment Committee Semi-Annual Activity Report

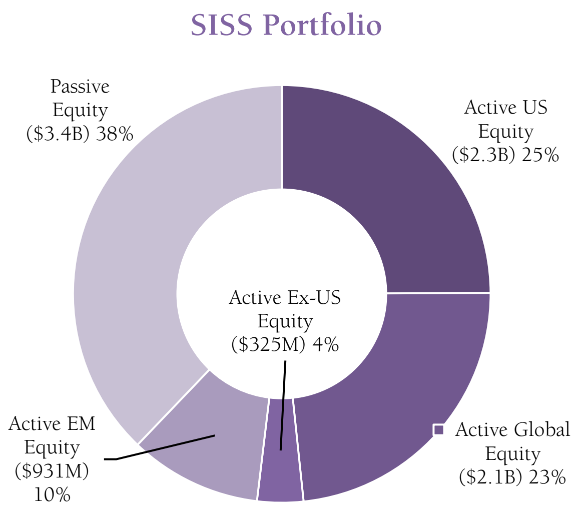
as of December 31, 2020

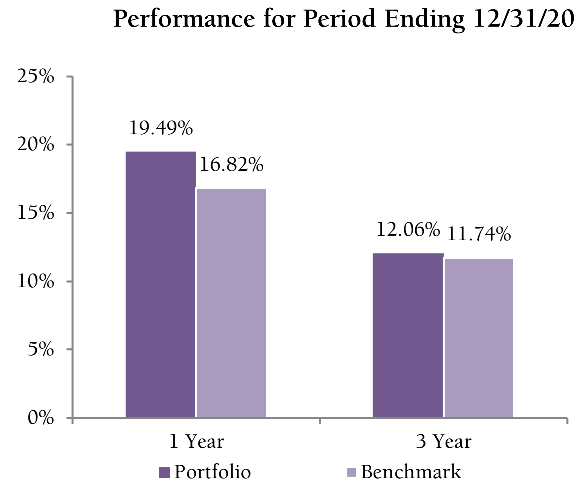
2. Sustainable Investment & Stewardship Strategies

CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

INVESTMENT: SISS Portfolio





INVESTMENT: SISS Portfolio Updates

SISS staff has been conducting a comprehensive review and rationalization of the SISS portfolio and will continue to monitor and right-size the portfolio on a risk-adjusted basis going forward.

STEWARDSHIP: Proxy Voting

Staff continues to fulfill the Board's fiduciary duty to treat proxy votes as plan assets. During the period, **staff voted proxies at 2,343 meetings**, consisting of 445 U.S. meetings and 1,898 international meetings.

In the U.S., staff voted on a variety of issues, including:

- 2,311 director votes
- 369 auditor ratification votes
- 520 compensation plan votes
- 37 mergers/acquisitions
- 76 shareholder proposals

STEWARDSHIP: Engagement Highlights

Low-Carbon Transition

CalSTRS is actively involved in the **Climate Action 100+,** a collaborative engagement effort of more than 540 global investors — currently representing $52 trillion assets under management (AUM) — 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 engagements with eight companies**; four US-based, and four Japan-based.
- In July 2020, Dominion Energy and Duke Energy, both CalSTRS-led engagements, announced **the cancellation of the Atlantic Coast Pipeline** due to ongoing delays and increasing cost uncertainty, partly driven by the regulatory and physical risks associated with climate change.
- In October 2020, Duke Energy, one of the U.S.-based CalSTRS-led engagements, announced its plan to **reduce methane emissions in its natural gas business to net-zero by 2030**. The company also plans to

double renewable portfolio output to 16 gigawatts by 2025, and to 40 gigawatts for regulated utilities by 2050.

Board Effectiveness: Human Capital Management & Diversity

As the COVID-19 global pandemic continues, staff and nine other like-minded institutional investors formed a collaborative initiative called **Pandemic Resilient – 50 (PR - 50)**. The group of investors represents approximately $3 trillion in assets under management. This multiyear engagement initiative will focus on board oversight of business continuity, employee health and well-being, and financial alignment as a means of promoting sustainable business practices and driving long-term value creation.

At the end of October, the PR – 50 sent letters to 50 global companies to understand the impact of those most affected by the pandemic. The selection criteria included companies:

- Company employees were acutely affected by the pandemic,
- High potential for reputational risk.
- Inadequate disclosures on policy and practices resulting from COVID-19.
- Immediately impacted by the pandemic reducing demand for goods or services.

The group has engaged 18 of the 50 companies, scheduling other meetings into 2021. In early 1st quarter 2021, the PR-50 group will be reviewing lessons learned, reassessing its engagement plan and actions to be taken during the upcoming proxy season.

<u>California Multi-Prong approach to Diversity</u>

CalSTRS continues to engage portfolio companies to promote greater diversity on corporate boards. We focus on board composition: the skill sets of directors and how members are nominated and evaluated. We believe a multifaceted and concerted effort, with like-minded investors, increases our ability to improve long-term returns resulting from greater diversity.

One of these partnerships, the California Board Diversity Initiative, successfully engaged California headquartered companies in the Russell 3000 index to appoint and improve board gender diversity. This partnership over the last 5 years was assisted with the legislation SB 826, which requires companies headquartered in California to have at least one female director by 2019 with an additional one or two more female directors depending on the size of the board by Dec 31,2021. At the end of the 2020 proxy season, there were five remaining California companies lacking board gender diversity. After follow-up, three of the companies appointed at least one woman, with one appointing two woman to their boards by Dec 31, 2020.

This group engagement currently consists of the California Public Employees Retirement System (CalPERS), the Los Angeles County Employees Retirement Association, (LACERA), new to the group - the San Francisco Employees Retirement System (SFERS) and CalSTRS with approximately $761 billion in assets under management.

Corporate and Market Accountability

CalSTRS uses its influence as a significant global investor to encourage regulators, standard-setters and policy makers to promote sustainable markets worldwide. In the first half of the fiscal year, CalSTRS sent letters to:

- (July 21, 2020) to the Federal Reserve Chairman and Board of Governors regarding specific actions on climate risk.
- (July 30, 2020) to the Department of Labor highlighting our concerns on the proposed regulations on how retirement funds use ESG funds.
- (Aug. 21, 2020) to the Chairman of the SEC on the Modernization of Regulations S-K to emphasize the need to adopt rules-based and principles-based (hybrid) regulations as it relates to ESG disclosures, specifically human capital management disclosures.
- (Sept. 1, 2020) to the European Supervisory Authorities joint consultation on ESG Disclosures and our concern with “greenwashing” of disclosures.
- (Sept 5, 2020) sign-on letter to the Ontario Capital Markets Modernization Task Force on regulatory structures and improving issuers’ ESG performance.
- (Sept. 28, 2020) to the Financial Conduct Authority in the UK to enhance climate-related disclosures.
- (Oct. 5, 2020) to the Department of Labor regarding CalSTRS fiduciary duties regarding proxy voting and the protection of shareholder rights.
- (Dec. 22, 2020) to the International Financial Reporting Standards Foundation on the merits of establishing a global Sustainability Standards Board and developing global sustainability standards to meet investors’ needs.

Responsible Firearms

CalSTRS staff closely followed the record surge in firearms sales during 2020, including discussions with the nation’s largest firearms retailers.

In 2020, U.C. Davis researchers say, record sales of firearms in the United States were driven by fear-based purchases during a year dominated by the COVID-19 pandemic and social unrest. Data indicates a rise of first-time gun owners, who make up approximately 40% of the 23 million purchases nationwide. Safe storage is a noted concern as researchers noted during the pandemic many homes store at least one firearm loaded and not locked up, including homes with children or teens.

CalSTRS directly engaged four companies in second half of the year to better understand the training employees receive to demonstrate safety practices at the point of sale, particularly for first-time purchasers. All retailers indicated that associates who sell firearms receive extensive training which requires the ability to demonstrate knowledge of firearm safety prior to working with customers. Additionally, retailers say every firearms purchase includes a firearm lock, associates display how to use the lock and review home storage safety with customers. Employees also receive training to recognize irregularities at the point sale and can reject a purchase if they feel a customer is not acting in good faith.

Retailers concern about civil unrest prompted additional assessments of store security, particularly firearms on display. At points in June and October 2020, Walmart removed firearms and ammunition from displays in stores nationwide. During closed hours all of the companies say firearms are either removed from displays or locked in place.

Divestment Costs (Total Fund)

CalSTRS has divested from several public equity companies, beginning in 2006, when certain companies were divested due to geopolitical risk concerns. Since 2006 CalSTRS has also divested from tobacco companies (June 2009), firearms companies (April 2013), thermal coal companies (U.S. companies, February 2016 and Non-U.S. companies, June 2017), and U.S. private prison companies (November 2018).

The following table estimates the cumulative performance impacts to identified portions of the CalSTRS investment portfolio due to company divestment.

Performance Differences Attributable to Divestment			
	Quarter	6-Month	Cumulative
U.S. Equity	0.02%	0.06%	0.00%
Non-U.S. Equity	0.09%	0.06%	-8.52%
Fixed Income	-0.01%	-0.01%	-0.10%
Total Fund	0.03%	0.03%	-2.66%