CALSTRS

Attachment 1: 2024 Stewardship Highlights

CalSTRS regularly reports stewardship highlights through our quarterly Engagements in Action on our website. The list below, while not fully exhaustive, identifies some of the key highlights of 2024.

Corporate and Market Accountability: Influence regulators, standard setters and policymakers to promote sustainable markets.

- **CalSTRS advocates for global sustainability disclosure standards:** We have responded to consultations issued by regulators in China, Korea, Japan, Chile, Switzerland Hong Kong and Mexico that are considering integrating the International Sustainability Standards Board's (ISSB) disclosure standards into their regulatory frameworks. As part of these consultations, CalSTRS advocates for the adoption of ISSB S1 (general sustainability-related disclosures) and S2 (climate-related disclosures) which make corporate reporting more efficient. Through our advocacy efforts, we have engaged countries representing 25% of global GDP and 37% of global emissions, to mandate S1 and S2 disclosures. The Taskforce on Climate-Related Financial Disclosure framework has been fully incorporated into the ISSB standards.

- **California investor coalition continues progress on board diversity and expands focus:** The coalition, consisting of CalSTRS and three other California institutional investors, saw success in increasing board diversity and encouraging companies to better disclose diversity information in proxy statements. The California group engaged 52 companies, leading to the appointment of 19 directors of diverse backgrounds. In the fiscal year 2024–25 engagement season, for the first time, the group will expand its focus internationally, engaging 41 global companies, 15 of which are non-US companies.

- **Securities and Exchange Commission adopts landmark climate rule**: 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 would make corporate reporting more reliable, consistent and comparable to assess the risk and opportunities to our portfolio companies, so we can help ensure a secure retirement for California's public educators. Disclosure is essential for investors to make informed decisions about current and potential investments.

  We 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 ultimate fate of this rule is uncertain, as it currently faces legal challenges, and we expect the SEC's new leadership to withdraw support for adoption of the rule. We will closely monitor the progress of the rule and remain committed to supporting corporate climate-related disclosures as a way of mitigating risk.

- **Continued proxy voting focus on climate risk:** CalSTRS focused on climate risk disclosure during the 2024 proxy season, voting against the boards of directors at a record 2,258 companies. This is up from the previous record of 2,035 companies in 2023. Many of these companies failed to provide minimum levels of climate risk disclosure or set greenhouse gas emissions reductions targets.

Net Zero Transition: Engage the highest greenhouse gas emitting companies to reduce emissions in the global economy.

- **Progress on reducing methane emissions:** Focusing on methane emissions is one of the most economically viable and immediate means to slow climate change. Methane is 80 times more potent than carbon dioxide, and we continue to call on eligible companies to join the Oil and Gas Methane Partnership 2.0 (OGMP 2.0), a United Nations-led framework committed to the measurement, reporting and mitigation of methane emissions. As a result of CalSTRS-led engagements, 10 companies have joined the OGMP 2.0, including ExxonMobil, Chevron, Harbour Energy, OMV A.G. and Vital Energy. Additionally, several companies we have engaged within the exploration and production industry became members through mergers with companies which were already part of the OGMP 2.0.

- **CalSTRS reaffirms work of Climate Action 100+:** In May, we led the release of an investor statement highlighting the importance of Climate Action 100+ and the value of collaborative engagements as a risk mitigating tool for investors. The statement was signed by 47 institutional investors, who, with CalSTRS, collectively represent $4.6 trillion in assets under management. Climate Action 100+ focuses on engaging the world's largest corporate greenhouse gas emitters to take necessary action on climate change to promote sustainable and resilient business practices.

  Climate Action 100+ has seen significant progress at focus companies:

  - 77% of companies now commit to net zero by 2050 or sooner across emissions for direct operations.
  - 93% of companies have board committee oversight of climate risks and opportunities.
  - 90% of companies explicitly commit to aligning their disclosures with the Task Force on Climate-Related Financial Disclosure framework, which has been fully incorporated into the ISSB disclosure standards.

Virtually all companies—and thus investors—are affected by climate risk and the transition to a net zero emissions economy. Managing climate-related risk therefore requires action by a coalition of the world's governments, businesses, investors and communities.

- **CalSTRS joins Nature Action 100:** After formally enlisting in September, staff have joined four company engagements as part of Nature Action 100. This global investor-led engagement initiative aims to support greater corporate ambition and action on reversing nature and biodiversity loss to mitigate financial risk. NA100 currently has more than 200 investor participants representing over $30 trillion in assets.

Workforce and Communities: Influence portfolio companies to be good stewards in the communities they operate in and ensure a healthy and engaged workforce.

- **Improving safety in the mining sector:** The Investor Mining and Tailings Safety Initiative was launched in 2019 following the Brumadinho dam disaster that resulted in the death of 272 people. We expressed support for the initiative's plan to create an industrywide response to the problem of tailings (the remaining waste product after an ore has been processed for natural resources) storage facilities by developing a set of global industry standards for disclosure on facilities, engineering and governance. This resulted in the creation of the Global Industry Standard on Tailings Management (GISTM). In December 2020, the initiative contacted more than 300 mining companies and requested they support and confirm their timeline of adoption of the GISTM.

  In January, 77 companies, which represent a significant portion of the mining industry, committed to implement the GISTM following engagement by the group. Building on this effort, we committed to support the Global Investor Commission on Mining 2030. The initiative plans to replicate the multistakeholder roundtable model that inspired the tailings initiative to address other mining-related issues. Mining 2030 will include deep sea mining, indigenous rights, automation, impact on land, climate change, critical minerals and child labor.

- **Creating dialogue with corporate laggards and leaders on DEI:** We are engaging companies that have recently announced intentions to roll back their previous public commitments related to diversity, equity and inclusion. Many of these reversals have come after companies were targeted through political pressure. The goal of our outreach is simple: to have an open dialogue to better understand why companies have made this decision and to reiterate our conviction that **robust DEI programs and disclosures can be a positive indicator of an inclusive workplace culture to attract and retain staff, drive productivity, and reduce reputational risk**. Also, we seek to engage companies we believe are exhibiting best practices in diversity, equity and inclusion, to reaffirm our support for their efforts.

Cross-Cutting Engagements

- **Impact of Artificial Intelligence (AI)**: Staff has been researching how our portfolio companies are addressing the impacts and opportunities of AI. We are engaging companies across sectors to discuss how boards are assessing risks and implementing appropriate oversight and controls. We also engage with utilities and hyperscalers to determine the potential impact of increased energy demand from AI data centers required to support wide-scale adoption of this technology. As demand increases the net zero transition could be delayed since renewable energy sources are not expected to be deployed as rapidly as current projections require. Finally, staff is engaging with companies on how they are preparing their workforce for a broader adoption of AI.