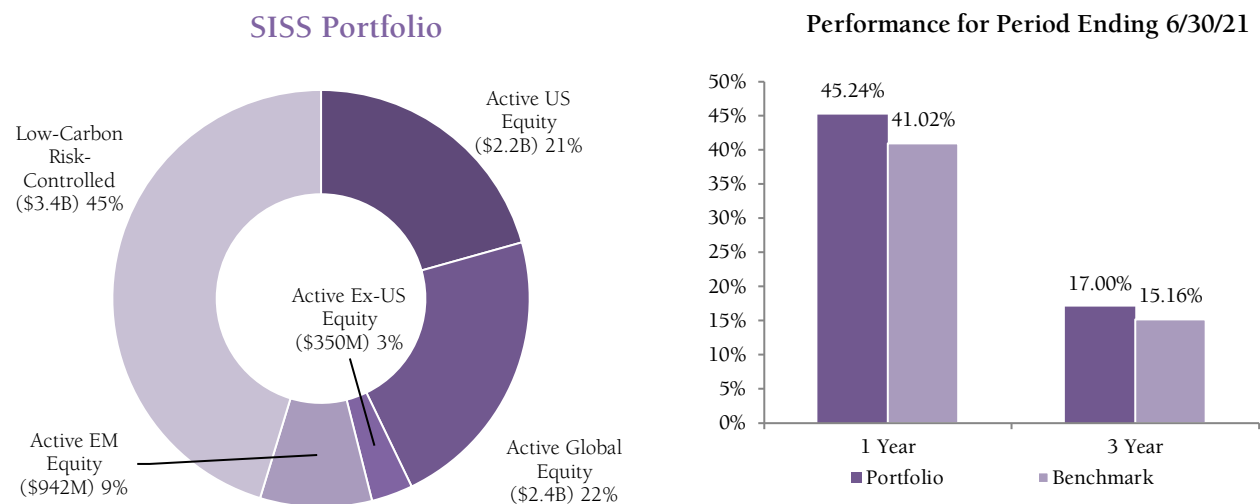

Investment Committee Semi-Annual Activity Report

| 2. Sustainable Investment &
Stewardship Strategies



INVESTMENT: SISS Portfolio



INVESTMENT: SISS Portfolio Updates

During the first half of 2021, staff funded one new Low-Carbon Risk-Controlled strategy and modified the existing Low-Carbon Index to better manage geographic exposures. Low-Carbon Risk-Controlled strategies intend to minimize carbon exposure within a defined tracking error range. The new investment deployed \$1 billion into two new Low-Carbon Transition Readiness Exchange Traded Funds (ETFs) managed by BlackRock. Staff modified the existing internally-managed Low-Carbon Index to create U.S. and ex-U.S. Developed strategies, as well as complete funding of a Low-Carbon Index Emerging Markets strategy.

The Investment Committee approved the establishment of the SISS Private Portfolio in March 2021. The private portfolio will leverage existing CalSTRS partnerships across Private Equity, Inflation Sensitive, Real Estate and Innovative Strategies. Additionally, the portfolio allows for the development of new investment partnerships that are additive to the total fund. SISS staff has since begun setting up the processes and due diligence required for initial SISS Private Portfolio investments.

STEWARDSHIP: Proxy Voting

Staff continues to fulfill the Board’s fiduciary duty to treat proxy votes as plan assets. During the period, which included ‘peak proxy voting season’, **staff voted proxies at 7,696 meetings**, consisting of 2,620 U.S. meetings and 5,076 international meetings.

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

- 39,952 director votes
- 4,803 auditor ratification votes
- 10,136 compensation plan related votes
- 540 mergers/acquisitions
- 811 shareholder proposals

STEWARDSHIP: Engagement Priorities and Highlights

Low-Carbon Transition

CalSTRS embarked on an effort to expand its stewardship efforts around the low-carbon transition by supporting Engine No. 1's activist campaign calling for changes on the board at ExxonMobil. At the company's annual general meeting, in May 2021, a majority of shareholders voted to elect three of the four dissident directors put forward by Engine No. 1. The vote gained attention across the globe as it is the first time in history that shareholders have voted to elect directors not proposed by ExxonMobil management. The renewed Board provides an opportunity to create meaningful change in how the company addresses its financial underperformance and better prepares for the low-carbon transition.

The high-profile campaign was among the many accomplishments in CalSTRS efforts to reduce financial risk associated with climate change and create greater environmental resilience. Additional highlights included the following:

- In May 2021, 62% of voting shareholders supported a CalSTRS shareholder proposal asking Phillips 66, a CalSTRS Climate Action 100+ focus company based in Texas, to address concerns regarding corporate lobbying activities that are inconsistent with the Paris Agreement on climate change. It is significant that a large majority of its shareholders supported the proposal as it sends a strong message to the company about the need for change.
- In April 2021, Toray Industries, a CalSTRS Climate Action 100+ focus company based in Japan, announced the establishment of a new Sustainability Committee. The committee's goal is to strengthen and accelerate Toray's "Green Innovation Businesses." Toray's Sustainability Vision includes a carbon-neutral society by 2050 in which resources are managed in a sustainable manner and clean water and air ensure human health.

Board Effectiveness: Human Capital Management & Diversity

Pandemic Resilient 50

The Pandemic Resilient 50 (PR-50) initiative which was established with nine other like-minded institutional investors with approximately \$4 trillion in assets under management, leveraged this period of disruption to collectively learn from companies about their experience and lessons learned during the pandemic. This initiative focused on the impact of COVID-19 on:

1. Board accountability - holding boards accountable for addressing contingency planning, reputation risks and adoption of good governance best practices during the Pandemic.
2. Human capital – adoption of solid business practices such as paid sick leave, fair and living wages, role of the board on their oversight and implementation of best practices such as research that show companies outperform based on diversity and human capital.
3. Financial alignment - through capital allocation decisions including executive compensation, capital expenditures, dividends, share repurchases, mergers and acquisition, pay-down of debt and whether a company accepted any financial relief- assistance.

At the end of June 2021, the PR-50 investor group had engaged 40 of the 50 targeted companies and will reach out to the remaining ten in the third quarter of 2021. The PR-50 group engagements were productive

often with multiple directors on the calls providing a better understanding of the oversight role of the board and highlighting the immediate changes that were necessary enterprise-wide to respond to the health crisis. The group is in the process of reviewing lessons learned and key takeaways from each company.

California Investors for Effective Board Diversity

Building on the success of the California Board Diversity Initiative – initiated in 2015 and focused on increasing the board diversity of California companies – the same California-based investors (LACERA, CalPERS, CalSTRS and SFERS) expanded their focus from California headquartered companies to the S&P 500, with continued advocacy of diversity inclusive of gender, racial, ethnic diversity and LGBTQ+ identity. The California group sent 74 letters which resulted in 41 companies appointing 11 women, 19 women of color, and 30 men of color to corporate boards.

Thirty Percent Coalition

CalSTRS is a member of the Thirty Percent Coalition (“Coalition”) and co-chairs the Institutional Investors Committee. The Coalition represents more than \$7 trillion in assets under management. During 2020-2021, the Coalition contacted more than 250 companies as part of its “Adopt a Company” campaign. The Coalition engaged companies to request that diversity, inclusive of gender, race, and ethnicity be considered as a priority in board composition. Investors asked companies to commit to including both women and people of color in applicant pools (known as the “Rooney Rule”) and to reflect this commitment in the company’s governance documents. The Coalition’s 2020/21 “Adopt a Company” campaign achieved strong results: 127 companies appointed women to their boards, of which:

- 65 companies with all-male boards appointed a woman, most for the first time.
- 62 companies appointed a second woman.

Corporate and Market Accountability

CalSTRS wrote to the Securities and Exchange Commission (SEC) in response to the Commission’s inquiry on whether it should have a role in climate risk disclosure. In a [comment letter](#), CalSTRS encouraged the SEC to mandate universal and industry-specific climate disclosures. Specifically, staff asked the SEC to require registered companies of all sizes, in all industries, to disclose greenhouse gas emissions annually. Staff also asked the SEC to mandate Taskforce on Climate-Related Financial Disclosures (TCFD)-aligned disclosures describing a company’s governance, strategy and risk assessment for managing the low carbon transition. Finally, staff asked the SEC to require companies disclose the broad set of material sustainability information investors need, including climate and human capital. For comparability and quality, staff asked the SEC to recognize the Sustainable Accounting Standards Board (SASB) Standards to guide corporate reports.

Responsible Firearms

CalSTRS led a coalition of investors supporting the Principles for a Responsible Civilian Firearms Industry by engaging the nation’s largest firearms retailers in the establishment of baseline best practices for the sale of firearms in the U.S. The stewardship strategy focuses on collaboration and transparency to stress the importance of putting safety at the forefront of every firearms purchase. In January 2021, a group of retailers met with investors and agreed on best practices in the areas of background checks, transportation and storage of firearms, employee training, and customer education.

Additionally, CalSTRS staff are turning a focus to the growing problem of “ghost guns” which have become a disturbing trend discovered at crime scenes throughout the U.S. According to data from the Bureau of Alcohol, Tobacco, Firearms and Explosives, nearly 24,000 ghost guns have been recovered by law enforcement agencies in the past five years. The self-assembled firearms are built from kits or individual parts purchased at small retailers, online or at gun shows, and do not have an identifying serial number. Staff is directly engaging with credit card companies, which facilitate many firearms transactions, to discuss the safety and risk concerns, particularly regarding transactions occurring online.

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 | 0.01% | -0.04% | -0.18% |
| Non-U.S. Equity | -0.20% | -0.41% | -10.06% |
| Fixed Income | 0.00% | 0.00% | -0.09% |
| Total Fund | -0.04% | -0.09% | -2.13% |