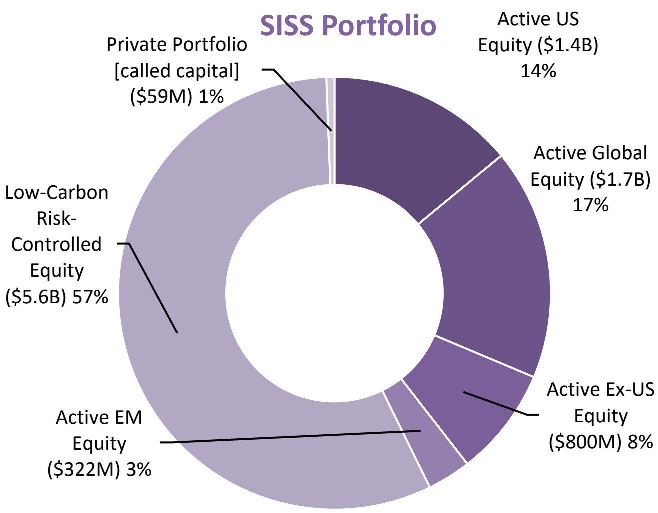
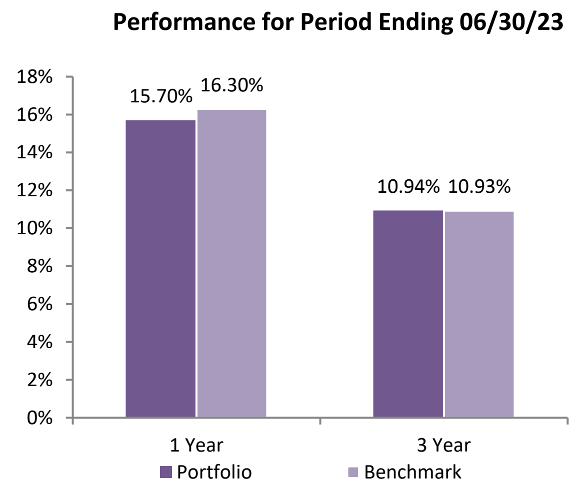
Investment Committee Semi-Annual Activity Report

as of June 30, 2023

2. Sustainable Investment & Stewardship Strategies

INVESTMENT: SISS Portfolio





INVESTMENT: SISS Portfolio Updates

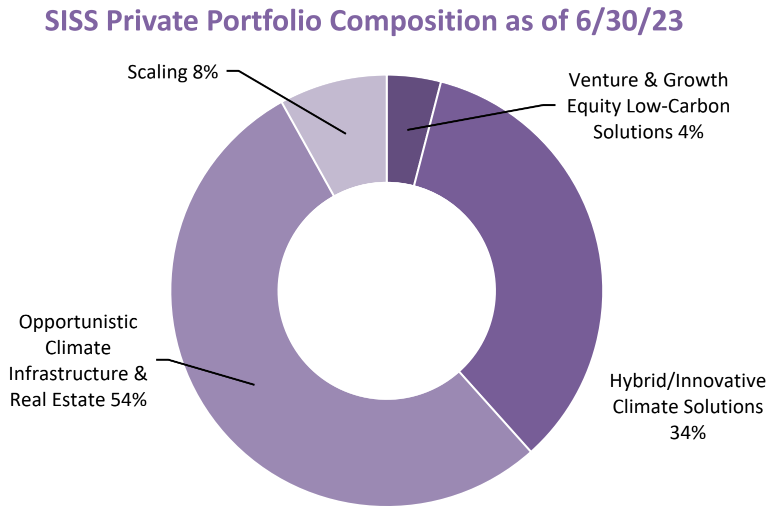
SISS Public Portfolio

The SISS Public Portfolio invests to enhance investment returns to the Total Fund (Fund) with the ancillary benefits of improving the overall market through active engagement and integration of environmental, social, and governance considerations into portfolio construction.

Staff continued to redeem capital from low conviction strategies. Redemptions were not redeployed due to the transfer of the Low-Carbon Index to the Global Equity portfolio which was completed effective July 1st, 2023.

SISS Private Portfolio

The SISS Private Portfolio is a systematic platform 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 “Scaling” portfolio component and a “New Opportunities” portfolio component. The Scaling portfolio leverages existing CalSTRS partnerships with other asset classes to further the goals of the collaborative model and increase sustainability-focused co-investment and joint venture opportunities. The New Opportunities portfolio allows SISS to explore new CalSTRS sustainability-focused partnerships that take advantage of unique alpha opportunities and that may not fit ‘neatly’ in other asset classes.



During 2021 and 2022, SISS conducted a comprehensive mapping of the private markets low-carbon solutions landscape. This research effort included meetings with nearly 200 organizations in addition to a commissioned research report that analyzed low-carbon solution companies on a year-by-year basis from 2004 – 2020. Staff identified three broad risk and return profiles of interest for the SISS Private Portfolio: (1) Opportunistic Climate Infrastructure investments targeting 10 to 15% IRRs; (2) Hybrid/Innovative Climate investments targeting 15 to 20% IRRs; and (3) Venture Capital and Growth Equity ("VC/GE") investments targeting +20% IRRs. As of 06/30/2023, the SISS Private Portfolio deployed over $1.3 billion with inaugural investments in each of the three broad risk and return profiles.

STEWARDSHIP: Proxy Voting

Staff continues to fulfill the Board's fiduciary duty to treat proxy votes as plan assets. During the period (which included 'proxy season'), **staff voted proxies at 7,910 meetings**, consisting of 2,578 U.S. meetings and 5,332 international meetings.

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

- 16,272 director votes
- 2,468 auditor ratification votes
- 4,260 compensation plan related votes
- 56 mergers/acquisitions
- 604 shareholder proposals

During the 2023 proxy season, CalSTRS stepped up its efforts to hold companies around the globe accountable for failing to address climate change risks: CalSTRS voted against the board of directors at 2,035 because the companies did not disclose minimum climate risk disclosures.

STEWARDSHIP: Engagement Priorities and Highlights

Net Zero Transition

Through analysis of available emissions data, staff has identified a group of high emitting companies for priority direct engagements. The focus of these engagements is to better understand the companies' business models, current low-carbon solutions being employed, and identify barriers to emissions reductions. Through this dialogue CalSTRS staff is encouraging companies to adopt best practices that support the accurate measurement, monitoring and mitigation of greenhouse gases. Additionally, staff have identified and engaged companies to support public policy aimed at reducing emissions and creating opportunities in the low carbon transition.

Engagement Highlights:

- In January 2023, CalSTRS staff sent letters to 46 oil and gas companies urging them to submit clear, specific, and constructive comments to support the U.S. Environmental Protection Agency on its Proposed Standards for Oil and Natural Gas Methane Emissions.
- Throughout the second half of FY2022-23 CalSTRS staff engaged multiple oil and gas companies urging those companies to join the Oil and Gas Methane Partnership 2.0. OGMP 2.0 is a United Nations Environment Program's reporting framework that fosters accurate reporting of methane emissions and directly connects it to strategic mitigation actions. Reducing methane pollution from the oil and gas industry is a cost-effective and pragmatic way to slow climate change while mitigating transition risks to oil and gas investments.

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

Engagement Highlights:

On June 8, Climate Action 100+ officially launched Phase 2 which builds on the demonstrable success of the initiative's first five years. The new phase shifts focus from corporate climate-related disclosure to the implementation of corporate climate transition plans, to create long-term shareholder value. Additionally, for Phase 2 CalSTRS added Mitsubishi Heavy Industries to its list of Climate Action 100+ focus companies. CalSTRS staff will co-lead the engagement with Nikko Asset Management. In April of 2023 Duke Energy released its 2022 Impact Report which highlights the company's transition to NetZero by 2050. The report indicates that Duke Energy is well-positioned to exceed its Scope 1 2030 goal of a 50% reduction. In 2022, the company established a second interim target of an 80% reduction by 2040. The company also expanded its net-zero by 2050 goal to include Scope 2 and certain Scope 3 emissions, becoming one of the first in the industry to tie more than 95% of emissions to a net-zero commitment.

Board Effectiveness: Human Capital Management & Diversity

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 MSCI USA Investable Market Index (IMI) companies to Russell 3000 companies, that are lacking board diversity. The California group is currently identifying companies to advocate for diversity and disclosures, inclusive of gender, racial, ethnic diversity and LGBTQ+ identity. The California group collaborates with the targeted companies to provide guidance on corporate governance policies addressing diversity in board refreshment and recruitment practices.

Corporate and Market Accountability

Global sustainability reporting standards arrive

In June 2023, the International Sustainability Standards Board (ISSB) announced its first two disclosure standards for capital markets worldwide. These standards are requirements that will bring needed consistency to sustainability reporting by companies. The standards are intended to serve as a global baseline that will allow investors to better assess company sustainability risks and opportunities and make more informed decisions, as these risks and opportunities can have a material impact on a company's financial performance.

The ISSB was established in 2021 by the International Financial Reporting Standards Foundation and its creation was announced at the United Nations Climate Change Conference, better known as COP26. Even before ISSB was founded, CalSTRS has strongly advocated for the establishment of global sustainability standards to inform investment decision-making.

The ISSB standards go into effect in January 2024, with the first company reports available for investors in 2025. Meanwhile, CalSTRS will continue to support the ISSB by playing an active leadership role in the Investor Advisory Group and by encouraging companies to adopt the new reporting standards.

Responsible Firearms

Major credit card networks are the focus of CalSTRS firearms engagements. In March 2023, after agreeing to an implementation schedule for a new merchant classification code for standalone firearms retailers, credit card networks Visa, MasterCard, American Express and Discover, independently, announced they were pausing the new directions. The announcements pointed to legislation in several states to prohibit the use of the codes for firearms retailers as the reason for the pause. CalSTRS staff continues to engage management at the companies about the delays but has not receive any commitments for implementation. The companies say the merchant code changes must be made industry wide and cannot be implemented independently. The next opportunity to implement the new codes is in October 2023.