

Attachment 1: 2023 Stewardship Highlights

CalSTRS regularly reports stewardship highlights through our quarterly “[Engagements in Action](#)” report. The list below, while not fully exhaustive, identifies some of the key highlights of 2023 relating to CalSTRS existing Stewardship Priorities.

Given the timing of the January Investment Committee, highlights are only provided through the third quarter. Links to the specific Engagements in Action reports are provided for more detail and the fourth quarter Engagements in Action will be available on the CalSTRS website in early January.

Corporate and Market Accountability: Encourage regulators, standard-setters and policy makers to promote sustainable markets.

- **Global sustainability reporting standards arrive:** In June, the International Sustainability Standards Board (ISSB) [announced its first two disclosure standards](#) for capital markets worldwide, which will come into effect at the start of 2024. 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. Prior to the founding of the ISSB, CalSTRS [strongly advocated](#) for the establishment of global sustainability standards to inform investment decision-making and has been a member of the initiative’s Investor Advisory Group since its formation.

The ISSB itself is built upon years of sustainability-related standard setting development and progress. For example, the ISSB integrates the reporting schemes of the [Task Force on Climate-Related Financial Disclosures \(TCFD\)](#) and the [Sustainability Accounting Standards Board \(SASB\)](#). TCFD provides a framework for company reporting on governance, risk management, and measurement and disclosure of climate risks. SASB developed disclosure standards on material and industry-specific sustainability risks and encourages companies to report based on these standards. CalSTRS was integral in helping to develop both reporting frameworks. ([Engagements in Action, 2023, Second Quarter](#))

- **New SEC rules ensure appropriate use of share buybacks:** In May, the Securities and Exchange Commission (SEC) strengthened disclosure rules for public companies that utilize share buybacks. Sometimes these buybacks can be used for reasons not in the best interests of shareholders. The newly enhanced disclosure rules provide better insight into the amount and timing of share buybacks and help reveal a company’s rationale for conducting the buybacks. CalSTRS believes better disclosure will deter companies from using buybacks for reasons that may negatively impact shareholders like CalSTRS. ([Engagements in Action, 2023, Second Quarter](#))

Board Effectiveness: Influence good governance with effective boards overseeing long-term strategies.

- **California investor coalition continues to produce strong results on board diversity:** 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’s efforts resulted in 29 companies appointing thirty-five diverse directors and twenty-two companies agreeing to include a skills matrix in their proxies. ([Engagements in Action, 2023, Third Quarter](#))
- **CalSTRS escalated proxy votes against directors at companies that have moved too slowly to increase the diversity of their boards:** CalSTRS voted against certain directors at 3,401 companies that either lacked board diversity or failed to disclose key information about the diversity characteristics of their board. ([Engagements in Action, 2023, Third Quarter](#))

Net Zero Transition: Focus on supportive public policies and influencing companies on the path to a net zero economy.

- **Curbing methane, a potent source of emissions:** In 2023, CalSTRS engaged the Environmental Protection Agency (EPA) in support of rules proposed by the regulator to reduce methane emissions from fossil fuel operations. Proper management and measurement of methane is a priority for CalSTRS as addressing methane emissions is one of the fastest, most cost-effective means of reducing emissions. CalSTRS further contacted 46 oil and gas companies with assets subject to the regulations, urging them to also submit clear, specific and constructive comments to the EPA. ([Engagements in Action, 2023, First Quarter](#))
- **ExxonMobil making progress on long-term strategy:** In 2021, CalSTRS successfully teamed with activist investor Engine No.1 to help replace three new directors on the ExxonMobil board. Since the election of new directors, the Company has reported progress in four areas: 1) Increased its targets for emissions reduction goals, 2) Expanded its corporate-wide methane intensity reduction target, 3) Increased and expanded its corporate-wide flaring intensity reduction target, and 4) Increased investments in low-carbon solutions. ([Engagements in Action, 2023, First Quarter](#))
- **Climate Action 100+ launches second phase, CalSTRS expands leadership:** Phase 2 builds on the success of the initiative’s first five years, which included hitting a major milestone: 75% of Climate Action 100+ focus companies have committed to a net zero emissions strategy. Phase 2 will last through 2030 and shift the initiative’s focus from corporate climate-related disclosure to the implementation of climate transition plans. Going into Phase 2, CalSTRS has agreed to lead engagements at two more companies,

Mitsubishi Heavy Industries and PBF Energy, in addition to the eight companies we already lead. ([Engagements in Action, 2023, Second Quarter](#))

- **CalSTRS escalated proxy votes against directors failing to appropriately address climate risk:** CalSTRS voted against the boards of directors at a record 2,035 global companies because they did not provide necessary climate risk disclosures. Disclosure is important for investors to appropriately assess the financial risk climate change poses to a company's long-term profitability. ([Engagements in Action, 2023, Third Quarter](#))

Responsible Civilian Firearms: Address gun safety issues and aim to reduce investment risk.

- **New ATF rule to address the most lethal firearms:** CalSTRS engaged the Federal Bureau of Alcohol, Tobacco, Firearms and Explosives (ATF) in support of proposed regulations for additional safeguards for short-barreled rifles and modified pistols, which tend to be more accurate and lethal. In January 2023, the ATF issued new regulations, requiring additional oversight to own, sell or purchase these types of weapons. ([Engagements in Action, 2023, First Quarter](#))