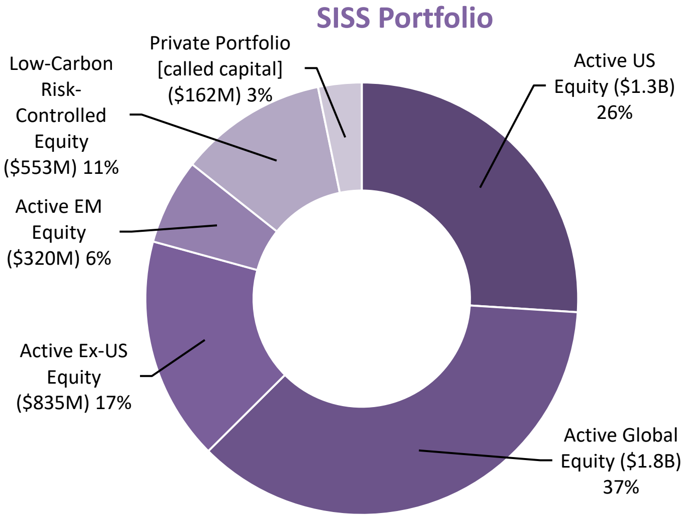
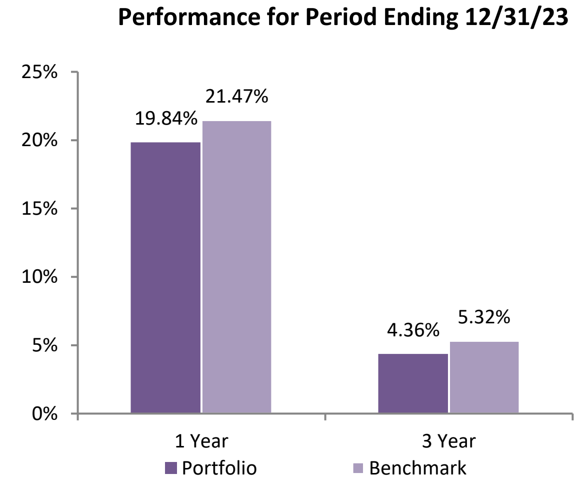
Investment Committee Semi-Annual Activity Report

as of December 31, 2023

2. Sustainable Investment & Stewardship Strategies

INVESTMENT: SISS Portfolio





INVESTMENT: SISS Portfolio Updates

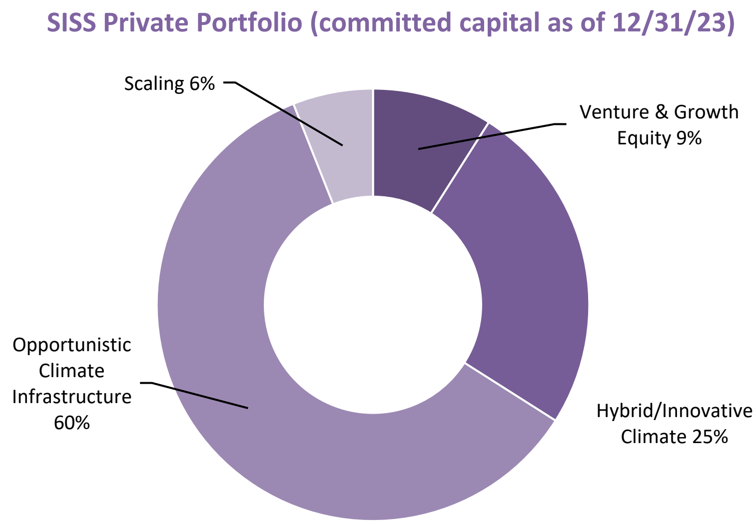
SISS Public Portfolio

The SISS Public Portfolio invests to opportunistically improve the risk and return characteristics of the Total Fund by explicitly integrating sustainability considerations as a value driver in investment strategy, with the ancillary benefits of improving the overall market through active engagement and promoting the integration of material sustainability-related factors.

Transfer of the Low-Carbon Index to the Global Equity portfolio was successfully completed effective July 2023. In the second half of 2023, staff continued efforts to align the portfolio with its recently updated objectives - to be a highly active sustainability-focused satellite portfolio within CalSTRS Total Public Equity allocation - this included redeeming approximately $800 million from low-conviction strategies. As a result, significant portfolio construction shifts are still underway.

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 advance 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 naturally fit in other asset classes.



Staff has identified three broad risk and return profiles of interest for the SISS Private Portfolio: (1) Opportunistic Climate Infrastructure investments; (2) Hybrid/Innovative Climate investments; and (3) Venture Capital and Growth Equity ("VC/GE") investments. As of 12/31/2023, the SISS Private Portfolio had committed over $1.92 billion across 14 investments in each of the three broad risk and return profiles. It is still too early to report performance characteristics.

STEWARDSHIP: Proxy Voting

Staff continues to fulfill the Board's fiduciary duty to treat proxy votes as plan assets. During the period (which was not 'peak' proxy season), **staff voted proxies at 2,320 meetings**, consisting of 419 U.S. meetings and 1,901 international meetings.

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

- 2,101 director votes
- 342 auditor ratification votes
- 710 compensation plan related votes
- 63 mergers/acquisitions
- 58 shareholder proposals

STEWARDSHIP: Engagement Priorities and Highlights

Net Zero Transition

Recognizing CalSTRS mission to deliver financial benefits to its members, staff are focused on influencing high-emitting companies to identify near-term abatement opportunities that result in lower emissions and enhance profitability. CalSTRS expects companies to adopt best practices that support the accurate measurement, monitoring and mitigation of greenhouse gases, including cardon dioxide and methane.

Engagement Highlights:

- In November 2023, ExxonMobil announced its decision to join the United Nations Environment Program's Oil and Gas Methane Partnership 2.0. Earlier in the year, staff met with management from the oil and gas giant and identified participation in OGMP 2.0 as a best practice. OGMP 2.0 fosters accurate reporting of methane emissions and directly connects it to strategic mitigation actions. In addition to joining OGMP 2.0, Exxon has committed to eliminate routine flaring across upstream assets and reduce methane intensity across all operated assets 70-80% by 2030.
- In August 2023, staff responded to a request for comment from the Pipeline and Hazardous Materials Safety Administration (PHMSA) on a proposed rule to reduce greenhouse gas emissions from the oil and natural gas industry in the short-term. In its letter, CalSTRS supported PHMSA efforts to modernize decades-old pipeline leak detection rules and to adopt protective standards that will continue to improve pipeline safety while reducing harmful methane emissions. Additionally, CalSTRS emphasized that reducing leaks results in cost savings for natural gas suppliers and consumers and improves the efficiency and reliability of U.S. energy infrastructure. The new rule is expected to be finalized and implemented in the second half of 2024.

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

Engagement Highlights:

- The Asia Investor Group on Climate Change (AIGCC), a CA100+ sponsor network, hosted an in-person forum in Tokyo titled "Transformation of the Steel Sector in Asia." Attendees included CalSTRS, other global investors and steel companies from Japan, China, and South Korea. The meeting resulted in a set of recommendations from investors and companies aimed at increasing progress in decarbonizing the steel industry. 80% of the steel manufactured globally comes from Asian markets.
- ENEOS, a Japan Based oil and gas company met with CalSTRS and Sompo Asset Management to detail the company's plans to achieve carbon neutrality by 2050. The company discussed details of a carbon capture and sequestration operation planned in western Japan. The project is a collaboration between several business groups and has the backing of the Japanese government.
- Duke Energy, a Charlotte, NC based utility, is detailing how it is working to create a just transition in its move away from coal fired power. Led by CalSTRS, CA100+ investors met with Duke executives in November to better understand the company's coal retirement timeline. Duke Energy plans to retire 15,000 megawatts of coalfired power by 2035. The plan includes details of how the company works with its workforce, communities, customers, and economic development to ensure the transition to cleaner energy is a just transition.

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 engaging 52 companies to advocate for diversity and enhanced 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

Protecting the rights of shareholders at Masimo and beyond

In 2022, investor Politan Capital Management sought to nominate directors to the board of Masimo, a publicly held medical devices company. In response, Masimo adopted measures intended to block Politan's ability to nominate directors. Politan filed a lawsuit against Masimo over the measures adopted as they limited shareholders ability to elect independent representatives to the board. In 2023, CalSTRS joined Politan in its lawsuit against Masimo to remedy the poor corporate governance practices and erosion of shareholder rights at Masimo and deter setting a precedent that other companies may try to follow. The company ultimately rolled back the adopted measures.

Responsible Firearms

CalSTRS staff is meeting with all the major credit card companies to better understand how laws regarding merchant classification codes will affect their business. In 2023 there were laws established in several states (Texas, Florida, Idaho, North Dakota, West Virginia, Montana, and Mississippi) banning the use of the codes to identify standalone firearms retailers. California became the lone outlier in September 2023 with the signing of a law requiring the use of the code to identify retailers whose primary business is the sale of firearms. The credit card companies acknowledge the difficulties this presents from an operations perspective, but all are committed to following the laws in each state. None of the companies have decided the next steps for implementing the codes in states where there are no laws regarding merchant codes for firearms, but they do believe there will be additional legislation in other states regarding this issue.