Attachment 3: 2023 Stewardship Framework and Goals

The breadth of stewardship activities and the tools investors use to influence change in the financial markets have expanded dramatically over the last several years. In order to be successful and achieve meaningful outcomes, **staff intends to focus our efforts for the greatest level of impact**.

Staff plans to utilize four main tactics to achieve our main Stewardship Priority goals.

1) **Escalating Proxy Votes:** At CalSTRS we treat proxy votes as plan assets and vote all proxies internally, both domestic and international, in alignment with our Corporate Governance Principles. We use our proxy votes as a lever to hold directors accountable and require companies to respond to risks and opportunities. In addition to company management ballot items, we often support shareholder submitted proposals that align with our goals and call on companies to better manage risk or improve public disclosure.

2) **Direct Company Engagement:** Direct company engagement can be an effective tool for targeting companies that are 'under-engaged' by the wider marketplace or in instances where CalSTRS has a specific outcome we are trying to achieve that is directly tied to our stewardship priorities.

3) **Collaborative Engagements:** Collaborative engagements allow CalSTRS to scale our influence as a global investor with other like-minded investors. Effective engagements resulting in substantive commitments from companies is time intensive and utilizing collaborative engagements provides for an effective use of resources.

4) **Policy Advocacy:** Like proxy voting, policy advocacy is applicable to wide-ranging aspects of CalSTRS' portfolio. We influence regulators and policy makers to support actions that provide for well-functioning and efficient markets that support long-term value creation.

One or more of these tactics is used in each of the Stewardship Priorities described below to achieve the overall goal.

Corporate and Market Accountability Goal: Advocate for mandated corporate disclosures of material climate risks and human capital management practices.

Policy Advocacy: Staff expects the upcoming year to require significant effort and resources to support stronger sustainability disclosures and market accountability through strengthened regulatory requirements and enforcement.

- CalSTRS will continue to support the SEC's rule-making on climate risk disclosure and looks forward to advancing a proposed rule on human capital management disclosure. We fully expect the SEC will face significant legal and regulatory challenges with the implementation of the climate risk disclosure rule, therefore it is imperative that CalSTRS remains diligent in its support of this important rule-making. It is vital the SEC can implement this rule to provide investors with consistent, comparable metrics in order for us to manage these long-term risks.

- CalSTRS will partner with the International Sustainability Standards Board (ISSB) to advance the shared goal to establish a global baseline for comprehensive sustainability disclosures. As a global investor, we want to support the ISSB to create complete and comparable disclosures across markets.

Collaborative Engagements: Staff will continue to leverage investor coalitions to further the goal of mandated sustainability disclosures, including relating to climate change and human capital management. CalSTRS will participate and provide leadership at the following organizations:

- Ceres advances leadership among investors, companies and capital market influences to drive solutions and take action on the world's most pressing sustainability issues.
- The Council of Institutional Investors (CII) is a leading advocate for effective corporate governance, strong shareholder rights, and sensible financial regulations that foster fair and vibrant markets for their members.
- The Principles for Responsible Investment (PRI) supports research to understand the investment implications of sustainability factors and supports an international network of investors to incorporate these factors into investment and ownership decisions.
- The Human Capital Management Coalition (HCMC) is a group of diverse asset owners that encourages companies and educates other market participants on how to improve human capital management and how it contributes to the creation on long-term shareholder value.

Board Effectiveness Goal: Expand board diversity beyond gender with a focus on improving overall corporate human capital management practices.

Escalating Proxy Votes: CalSTRS will continue to vote against boards that lack diversity. Diversity includes a mix of age, gender, sexual orientation and identification, cultural, racial, and ethnic composition. Over the past several years, CalSTRS has engaged hundreds of companies to improve diversity and while engagements were successful, we took a stronger stance in 2022 using our proxy votes to hold directors accountable for moving too slowly to advance diversity on their boards. Staff will continue to use this escalated vote strategy in 2023.

- CalSTRS will vote against all directors at companies if there are no women on the board.
- CalSTRS will vote against the nominating and governance committee members if there are not at least 30% women on the board.
- In the Russell 1000 index, CalSTRS will hold companies to a higher standard, looking for companies to disclose the skills and diversity characteristics of their board members.

Collaborative Engagements: CalSTRS participates and often leads collaborative organizations to improve board composition, governance, and specifically diversity, most notably through the California Investors for Effective Board Diversity, which includes CalSTRS, the California Public Employees Retirement System, Los Angeles County Employee Retirement Association, and the San Francisco Employees Retirement. CalSTRS is an active participant which allows us to leverage the power and resources of like-minded investors. The group has identified 60 companies for engagement and is asking the following:

- Enhance Nominating and Governance Charters describing their commitment to identifying and nominating diverse directors.
- Include diverse candidates in every board search otherwise known as "the Rooney Rule".
- Attest in governing documents that director searches will consider suitable nominees from beyond the executive suite.
- Disclose the diverse attributes of each of the company's board members in the annual proxy, to the degree that the attributes are self-identified by board members.

Policy Advocacy: The Human Capital Management Coalition (HCMC) is a critical partner for CalSTRS, which seeks to improve the management of human capital and worker rights through engagement with market participants and advocacy for universal, principle-based disclosures.

Net Zero Transition Goal: Establish baselines for assessing portfolio companies' progress and alignment towards a net zero emissions economy and escalate tactics with the highest emitting companies that fail to provide credible transition plans.

The CalSTRS Net Zero Pledge is built on three strategies: 1) Managing and reducing portfolio emissions, 2) Using our influence to accelerate the global shift to a net zero emissions economy, and 3) increasing investments in low-carbon solutions. Our public markets investments represent the majority of the assets in the CalSTRS investment portfolio. The decision to move 20% of public equity to the MSCI ACWI Low Carbon Index will significantly reduce portfolio emissions, but we can use our influence to accelerate the global shift through continued efforts to engage portfolio companies and encourage regulators and policy makers to implement standards that will help advance the global markets.

Escalating Proxy Votes: In 2022, CalSTRS voted against the directors at some of the largest global companies that did not disclose minimum metrics around climate risk.

- CalSTRS will expand our vote strategy to the 5,500 largest companies around the world and vote against all directors if the companies do not disclose scope 1 emissions, scope 2 emissions and produce a Task Force on Climate-Related Financial Disclosures (TCFD)-aligned report.
- CalSTRS will hold high-emitting companies (Climate Action 100+ focus companies) to a higher standard. We will vote against all directors if the companies have not set medium-term reduction targets or a net zero by 2050 reduction target for scope 1 and scope 2 emissions.
- CalSTRS will support shareholder proposals that we believe better align a company's strategy with a net zero economy. We consider each shareholder-sponsored proposals on its own merits and support those proposals that call on companies to better manage risk or improve public disclosure on climate risk and/or environmental impact.

Direct Company Engagement: As stated above, the majority of CalSTRS investment portfolio is in public markets, where we believe we have the greatest direct impact to reduce portfolio emissions. Based on preliminary research, staff has determined that 250 companies account for 75% of emissions in the CalSTRS public portfolios. Within the 250 companies, we have identified 45 companies (7% of CalSTRS portfolio emissions) that are not part of Climate Action 100+ engagement initiative and therefore are currently 'under-engaged'.

- CalSTRS will engage these companies to encourage them to enhance their climate risk disclosure, provide medium-term emissions reduction targets, and establish a net zero by 2050 emissions reduction target for scope 1 and 2 emissions.

Collaborative Engagements: To achieve CalSTRS overall net zero portfolio emissions reduction goals, companies in our portfolio – particularly the highest emitting companies – to accelerate their own emissions reduction efforts. CalSTRS continues to believe that Climate Action 100+ is an effective collaborative engagement initiative to help achieve aggressive emission reductions at the world's highest emitting companies.

- CalSTRS will continue its partnership and leadership within Climate Action 100+ to implement phase 2 of the initiative which includes an enhanced version of the Climate Action Benchmark, which is used by investors to gauge companies progress towards meeting their net zero commitments.

Responsible Civilian Firearms Goal: Gain greater understanding of how data, outreach and education can reduce the misuse of firearms.

Collaborative Engagements: Merchant classification codes (MCCs) are four-digit codes used by financial institutions to classify merchants by the nature of their businesses. Banks and credit services providers currently monitor financial transactions and are required by law to report suspicious activity. Firearm safety advocates believe the new merchant codes could work similarly, particularly to prevent mass casualty events.

- CalSTRS will continue to lead the Principles for a Responsible Civilian Firearms Industry in collaborating with likeminded investors to engage financial institutions to understand the potential for MCCs to assist in reducing the misuse of firearms.

Policy Advocacy/ Collaborative Engagements: Record firearms sales in 2020 and 2021 has created a need for outreach and education to promote firearm training basics including safe handling and home storage. Industry leaders in the firearms value chain are also developing responsible advertising policies and partnerships to educate the community on how to help spot suicide risk and know what steps can be taken to save lives.

- CalSTRS will partner with other investors to engage firearm manufactures to identify best practices that lead to responsible firearms ownership.