

CALSTRS

Corporate Governance Overview

Financial Services Agency

September 23, 2016

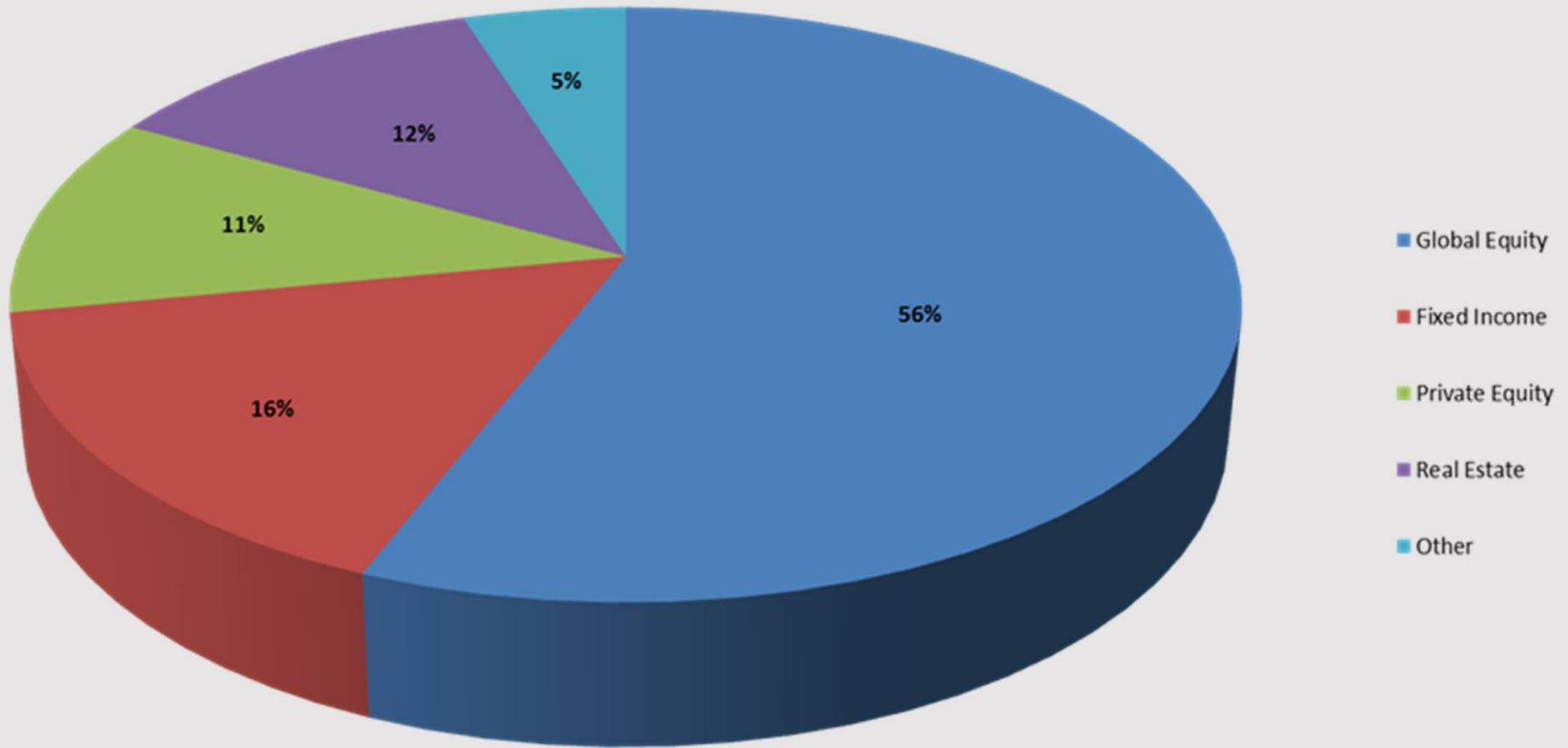


Brian Rice

Portfolio Manager

California State Teachers Retirement System

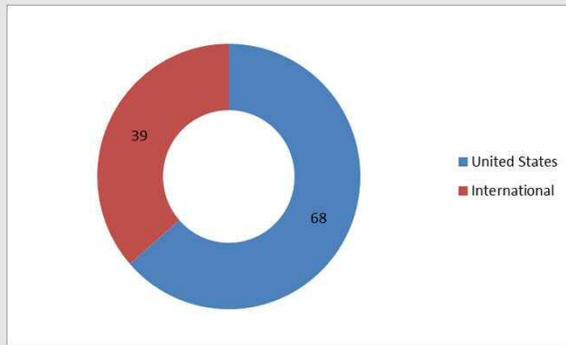
- Retirement system for California's public school teachers
- 895,000 plan participants
- \$190 billion in AUM
- Serving teachers for more than 100 years



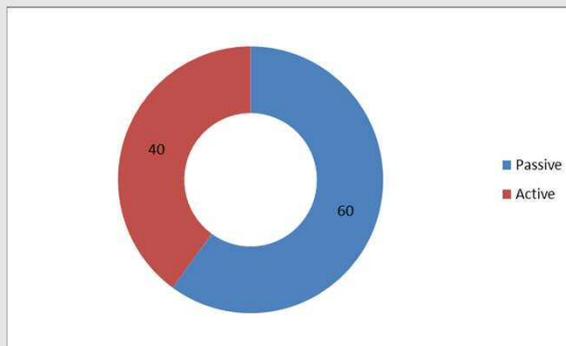
CalSTRS Asset Allocation

Asset Class	Percentage of Total Fund	Percent Internally Managed	Percent Externally managed
Fixed Income	16%	80%	20%
Private Equity	11%	0%	100%
Real Estate	12%	0%	100%
Other	5%	0%	100%

- Public Equity
- \$107 billion total
- (64%) \$68 billion U.S.; (36%) \$39 billion international



- (60%) \$64 billion passive; (40%) \$43 billion active



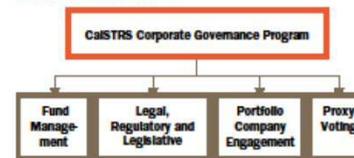
- Passive equity managed internally / Active equity managed externally

- Own over 7000 companies globally
 - 30 bps
 - Russell 3000 U.S.
 - MSCI ACWI ex U.S. International
 - Very long-term owners
- Own the market
 - Need to engage the market to be more long term
- Active funds
 - Engage managers on long-term focus and ESG integration into decision making
 - Expected to outperform market index
- Passive funds
 - Engage companies on a variety of ESG issues

- Asset class
- 12 staff members
- Responsible for:
 - Fund management
 - Engagement
 - Proxy voting

CalSTRS Corporate Governance at a Glance

Program Description



- Established in 1978 to protect assets through good governance and operational accountability. The Corporate Governance Program includes proxy voting, portfolio company engagements, filing of shareholder proposal initiatives and portfolio management.
- Program benchmark: Russell 3000 Index ex-Tobacco ex-Firearms (U.S. Equity), MSCI World Index/MSCI ACWI ex-U.S. Index ex-Tobacco ex-Firearms (Non-U.S. Equity).
- Ten Corporate Governance external managers, two Sustainability Managers and multiple side-by-side co-investments. Selection is biased toward firms with experienced and stable management teams with a strong track record of engaging boards and management to undertake changes to increase long-term shareholder value.

Activist Fund Managers

	Country-based	Inception Date	Committed Amount	Market Cap Focus
Blue Harbour Group	US	11/1/11	\$500 million	Small
Starboard Value	US	3/1/13	\$100 million	Small
Legion Partners	US	1/1/14	\$200 million	Small
Red Mountain	US	2/1/15	\$100 million	Small
Relational Investors	US	7/1/04	\$1.0 billion	Mid/Large
New Mountain	US	1/1/09	\$1.0 billion	Mid/Large
Trisen Partners	US	4/1/11	\$800 million	Mid/Large
Cartica Investors	Non-US	11/1/13	\$300 million	Small
Governance for Owners LLP	Non-US	6/1/08	\$350 million	Small/Mid
Knight Vinke	Non-US	3/1/10	\$162 million	Large

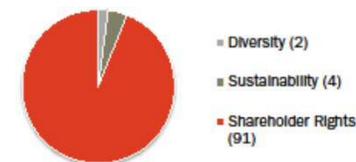
Corporate Governance Coalitions

- Council of Institutional Investors
- International Corporate Governance Network
- Asian Corporate Governance Association

Portfolio Engagement Efforts

CalSTRS withdrew or negotiated 82 shareholder rights, 4 sustainability and 1 diversity shareholder proposals after successfully engaging with the companies. Additionally, 9 shareholder rights proposals went to a vote, of which 8 passed. One diversity proposal also went to a vote but did not pass. The following chart shows CalSTRS success in 2014-15 by objectives.

Success in 2014-2015 by Objectives



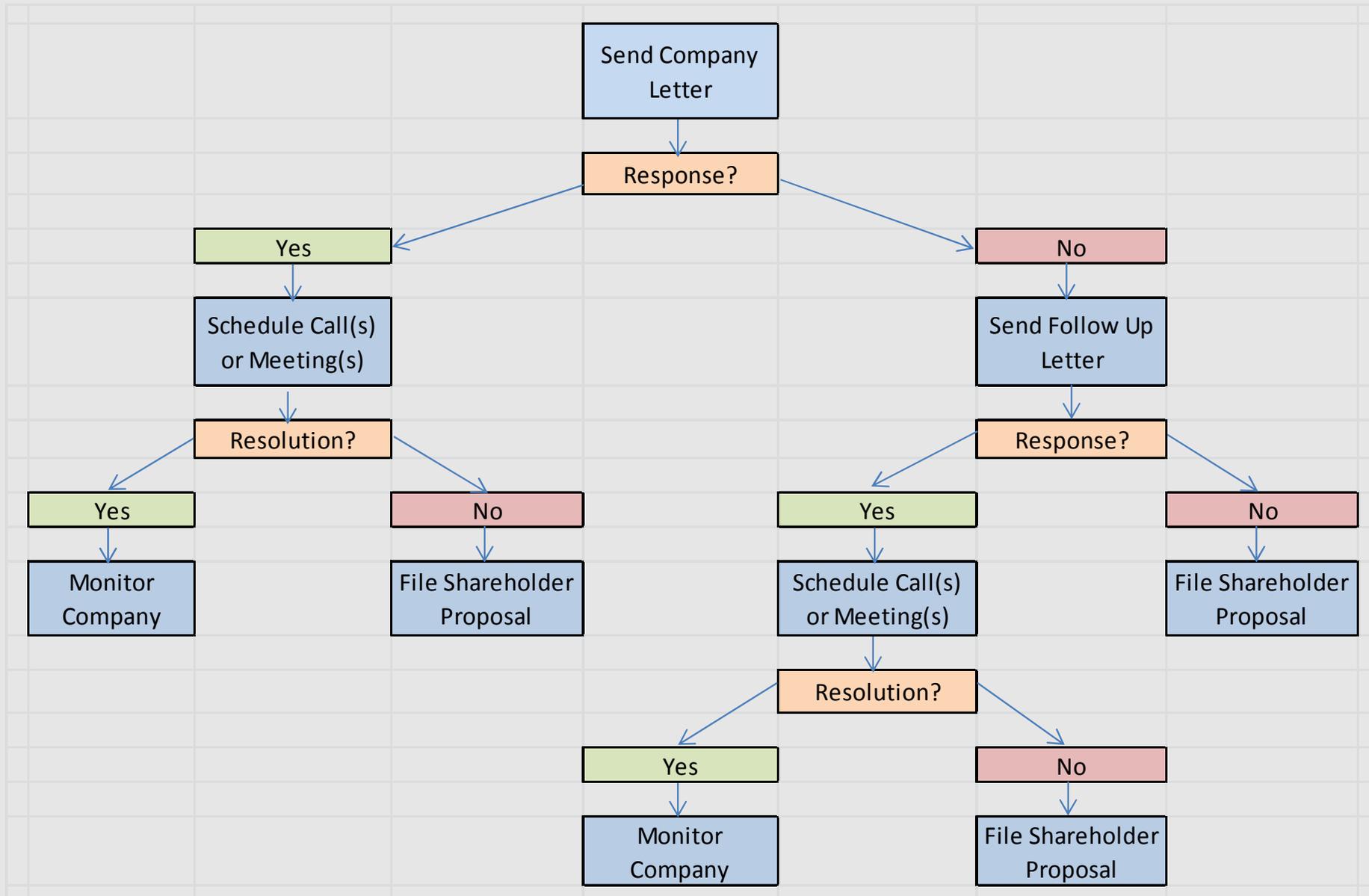
Sustainability Risk Management

Corporate Governance also directs the CalSTRS sustainability risk management program. This initiative seeks to identify environmental and social risks that could affect the value of CalSTRS portfolio holdings and then to develop and implement action plans to mitigate these risks.

- Specific areas of focus include air emissions, water use and disposal, land use, mineral extraction, safety practices and labor policies.
- CalSTRS works collaboratively with other investors, government representatives and regulatory officials.
- CalSTRS supports organizations, such as the CDP, the PRI and CERES, that facilitate investor communication and action on the various sustainability issues on which CalSTRS is focused.
- Corporate Governance manages the Public Equity sustainable manager portfolio. The goals of this portfolio are financial and sustainable outperformance. Currently there are two managers in the portfolio.

Revised 8-2015

- (1) Identify issue presenting risk
- (2) Determine which sectors exposed to risk
- (3) Select companies not disclosing attention to risk



- Environmental (E)
 - Energy Efficiency, Methane Emissions, Water Use
- Social (S)
 - Diversity, Human Rights, Worker Health & Safety
- Governance (G)
 - Majority Vote Standard, Proxy Access, Executive Compensation



Signatory of:





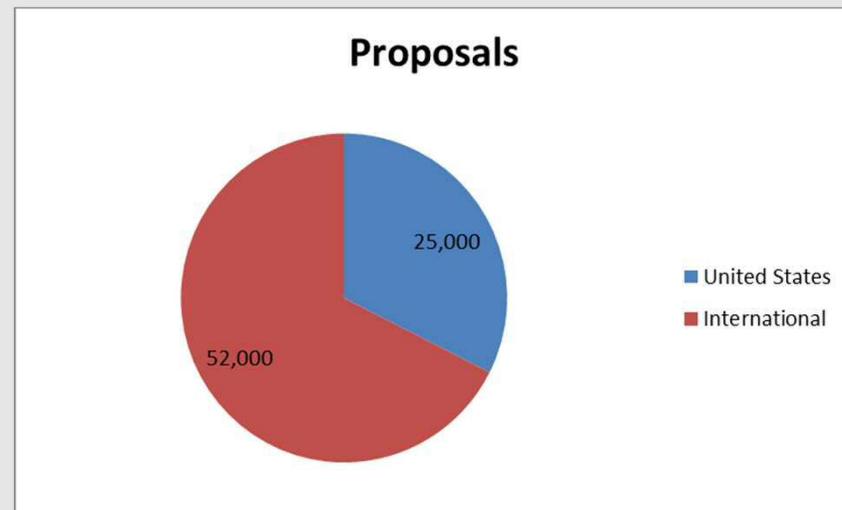
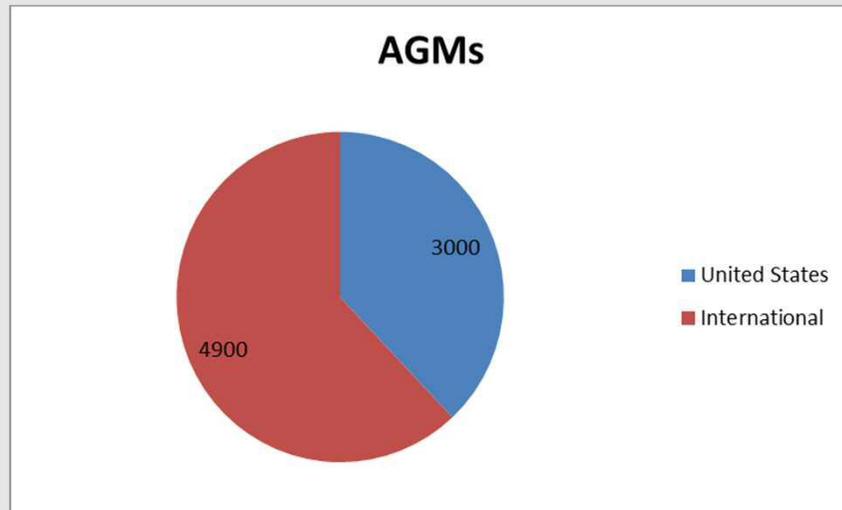
- Most CalSTRS engagement through membership in Asian Corporate Governance Association (ACGA)
 - Engagement issues: independent directors, capital efficiency, auditor system
- CalSTRS part of collaborative engagement effort on independent directors
- Other issues of concern to CalSTRS:
 - Concentration of AGMs
 - Timing of proxy information

- Role of Japanese owners:
 - Asset owners with passive strategies should engage with portfolio companies to be better
 - Long term nature of passive ownership = more risk exposure
 - Asset owners with active managers should engage these managers regarding engagement with companies
 - Better assurance manager is managing risk & opportunity
- Role of Japanese managers:
 - Need to choose outperforming companies
 - Engagement helps to understand company
 - Engagement helps to direct & improve company
 - Manager can bring different perspective to company

- **All** CalSTRS proxies voted by staff
 - Includes internal & external; passive & active
 - All proxy votes disclosed on CalSTRS website

<http://www.calstrs.com/proxy-voting-0>

- 2015: 7900 AGMs & 77,000 proposals



- Voted using Glass Lewis platform
 - Votes follow CalSTRS proxy voting guidelines

ISSUE	CaISTRs PROXY VOTING GUIDELINES
Directors	CaISTRs generally votes in support of a director unless the proxy statement shows circumstances contrary to CaISTRs' policy. Some circumstances that warrant a withhold vote for a director include: a potential conflict of interest due to other directorships or employment, providing legal or investment banking advice, poor board meeting attendance (less than 75 percent) or a lack of board independence.
Auditors	CaISTRs will vote to ratify the independent auditors recommended by management unless the auditor provides services that run contrary to those in the CaISTRs policy. Examples of those services include consulting, investment banking support and excessive non-audit fees (greater than 30 percent of the total fees billed).
Compensation Plans	Companies provide a variety of compensation plans, such as stock option plans, restricted stock plans or employee stock purchase plans for executives, employees and non-employee directors. Many of these compensation plans provide for the issuance of long-term incentives to attract, reward and retain key employees. CaISTRs evaluates these compensation plans based on their design and other factors, such as the performance metrics, burn rate and dilution potential.
Say on Pay	CaISTRs refers to the Corporate Governance Principles when voting the Advisory Vote on Executive Compensation, more commonly known as say-on-pay. The say-on-pay vote provides shareholders the opportunity to ratify the compensation of the named executives in the proxy. CaISTRs generally supports the say-on-pay vote if the company provides a clear alignment between performance and pay in the plan and the total executive compensation is a reasonable amount.
Mergers & Acquisitions	When CaISTRs votes for a merger or acquisition, it is done on a case-by-case basis utilizing a total portfolio view. Some considerations are given to the strategic rationale behind the transaction, the sales process, the change in control amount, the price premium or lack of it, the market reaction and the impact on the corporate governance of the surviving entity.
Other Issues	CaISTRs votes corporate actions or corporate governance issues, such as those related to spin-offs, incorporation, stock issuance, stock splits and charter and bylaw amendments, on a case-by-case basis. Similarly, CaISTRs votes on a variety of shareholder proposals, such as sustainability, political contributions and social issues on a case-by-case basis utilizing the Corporate Governance Principles.

Top Issues by Volume	For	Against	Total
Election of Directors	11,855	5,606	17,460
Ratification of Auditor	2,551	232	2,783
Advisory Vote on Executive Compensation	1,806	350	2,156
Equity Compensation Plan	1,053	201	1,254
Merger/Acquisition	158	5	163
Increase in Authorized Common Stock	19	87	106
Total	17,442	6,481	23,922

- Asset owner vote proxies
 - Your responsibility to beneficiaries to vote in their best interests
- Manager votes based on client wishes
 - Provide voting guidelines to manager & request periodic vote reports
- Require manager to disclose vote & reason for vote
 - Transparency can help eliminate conflicts

- Japan is large part of CalSTRS investment portfolio
 - 2nd largest equity market
 - \$6 billion
- Pleased with changes in Japanese corporate governance
 - Stewardship Code
 - Corporate Governance Code
 - Increased director independence
 - Improving ROEs
- Encourage efforts to continue
 - Would like to work with Japanese companies, regulators, exchanges
 - Share best practices



CalSTRS.com