

CALSTRS

# Corporate Governance Overview

Financial Services Agency

April 9, 2018

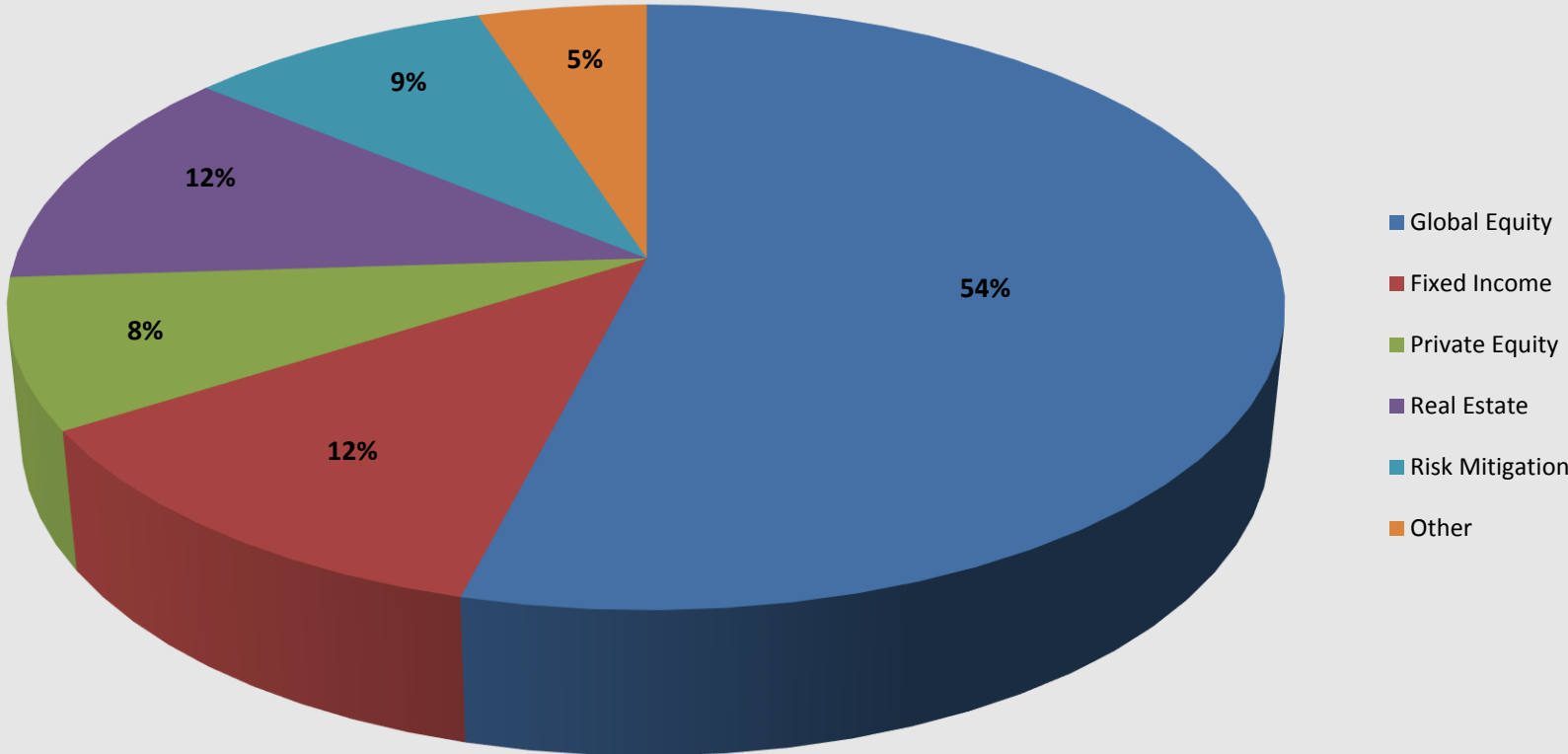


Brian Rice

Portfolio Manager

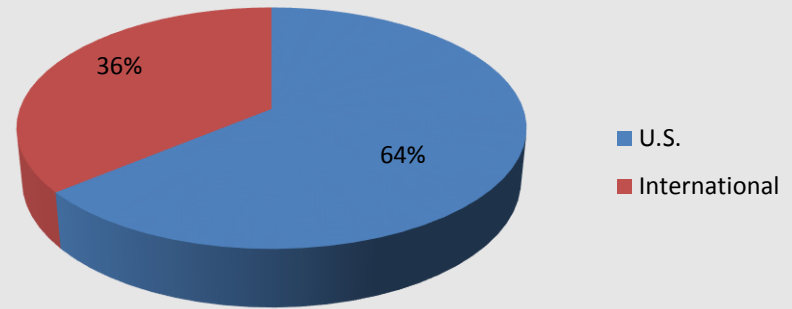
California State Teachers Retirement System

- Retirement system for California's public school teachers
- 900,000+ plan participants
- \$225 billion in AUM
- Serving teachers for more than 100 years

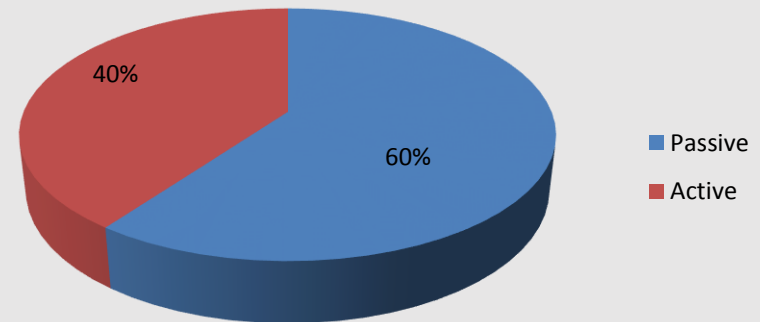


- \$120 billion in Public Equity investment...

- 64% (\$77B) U.S.
- 36% (\$43B) International



- 60% (\$72B) Passive
- 40% (\$48B) Active
- Passive managed internally
- Active managed externally



- Own over 8000 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

- Most CalSTRS engagement through membership in Asian Corporate Governance Association (ACGA)
  - Engagement issues: independent directors, board committee structure, corporate disclosure
- CalSTRS part of collaborative engagement on independent directors
  - Global investor effort



- Enhancing financial & narrative information:
  - Additional disclosure around business strategy helpful
  - Identify (specific) risks and mitigation strategies
  - Focus on materiality
  - Avoid “boilerplate” language
- Providing corporate governance information:
  - Provide rationale behind cross shareholdings
    - Cost/benefit analysis would be helpful
    - Ownership threshold to disclose
  - Executive compensation KPIs
    - Alignment with long term value
    - What behavior is being incentivized?
    - Is it really at risk?

- Other issues:
  - Provide proxy materials & corporate reports in advance of AGMs
  - English translation of proxy materials & corporate reports
    - Allow for more participation & lower risk perspective
  - Concentration of AGMs
    - Difficult to analyze proxy material
      - Rely on proxy advisory services
  - Rationale behind cash balances
    - Intended uses of cash...R&D...M&A?



- Japan is large part of CalSTRS investment portfolio
  - 2nd largest equity market
  - \$9.75 billion
- Pleased with changes in Japanese corporate governance
  - Stewardship Code
  - Corporate Governance Code
  - Increased director independence
  - Improving ROEs
- Encourage continued engagement
  - Would like to work with Japanese companies, regulators, exchanges
  - Share best practices

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