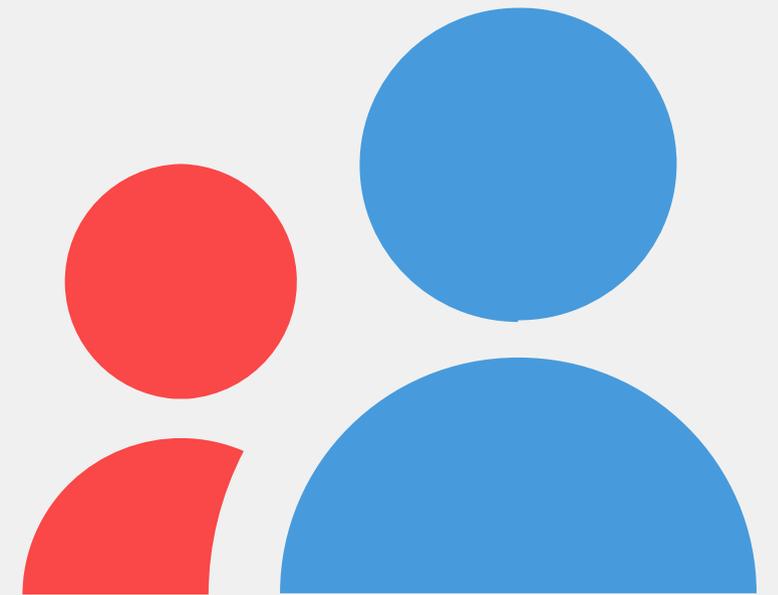




Low-Carbon Transition Work Plan Update

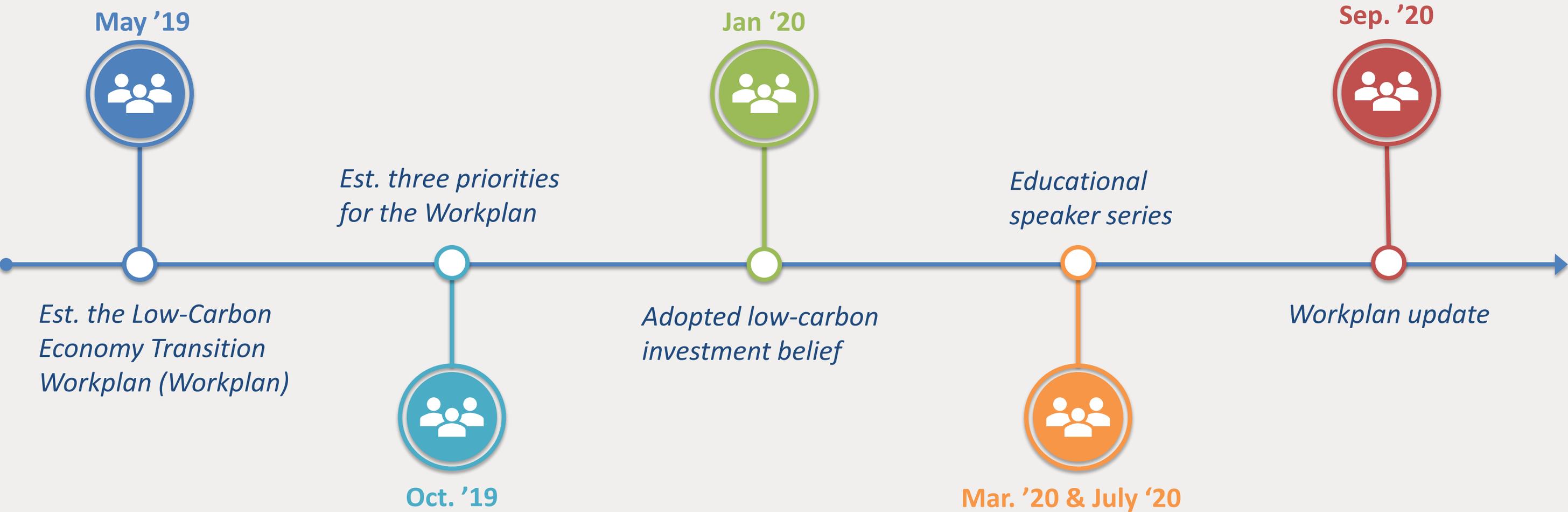
CalSTRS Investment Committee
September 2, 2020



Sustainable Investment & Stewardship Strategies

Timeline

Review of the Low-Carbon Economy Transition Workplan



Background

October 2019 offsite: Board adopted 3 priorities for Low-Carbon Economy Transition Workplan



Establish a low-carbon investment belief



Assess “Transition Readiness” across asset classes



Expand investments in low-carbon solutions

1

Build Board and Staff consensus on portfolio impacts

Provide staff and the Board tangible actions and investment strategies that support CalSTRS low-carbon investment belief

2

Evaluate the transition-readiness of portfolios by asset class

Analyze how physical and transition risks impact various asset classes and determine if low-carbon transition risk is currently mispriced. Provide staff with tools and processes to manage climate risks.

3

Identify investments in new climate-related solutions

Capitalize on new investments that are additive to total fund, with a focus on the intersection of climate change and positive financial drivers that support a low-carbon transition.

4

Expand stewardship activities

Develop and implement effective engagement and advocacy strategies that promote alignment with a transition towards a low-carbon economy.

5

Enhance communications and reporting strategies

Initiatives	Board Priority	Status	Progress/Outcomes	Upcoming Activities
Low-carbon investment belief		Complete	<ul style="list-style-type: none"> ✓ Investment belief adopted January 2020 	
Board education	 	Ongoing	<ul style="list-style-type: none"> ✓ Educational speaker series: Oct. 2019, March 2020, July 2020 ✓ SB 964 response (Green Team report) ✓ Expanded Value of Engagements 	<ul style="list-style-type: none"> ✓ Educational speaker series continuing for duration of work plan
Portfolio research and climate-related data		Ongoing	<ul style="list-style-type: none"> ✓ SISS collaboration with CalSTRS Risk team ✓ Enhanced understanding of data needed to properly assess physical and transition risks across different asset classes 	<ul style="list-style-type: none"> ✓ Finalize diligence on CalSTRS preferred data providers ✓ Develop investment processes for public and private assets to utilize physical and transition risk data

Initiatives	Board Priority	Status	Progress/Outcomes	Upcoming Activities
<p><u>Real Estate:</u></p> <ul style="list-style-type: none"> - Analyze current portfolio - Identify preferred physical risk data source 		<p>Ongoing</p>	<ul style="list-style-type: none"> ✓ SISS collaboration with Real Estate to develop consensus on how to evaluate physical risk within Real Estate portfolio ✓ Identified preferred physical risk data vendor 	<ul style="list-style-type: none"> ✓ Secure data agreement for preferred physical risk data ✓ SISS to collaborate with Real Estate to utilize physical risk data within investment process
<p><u>Public Equity:</u></p> <ul style="list-style-type: none"> - Analyze current portfolio 		<p>Ongoing</p>	<ul style="list-style-type: none"> ✓ Board approval to fully integrate low-carbon index into SISS hierarchy and compensation 	<ul style="list-style-type: none"> ✓ Leverage low-carbon index to better understand transition risk in public markets through diligence on enhanced indices ✓ Ongoing discussions with Global Equity to optimize low-carbon transition questions in external manager annual DDQ

Initiatives	Board Priority	Status	Progress/Outcomes	Upcoming Activities
<p><u>SISS Private Portfolio:</u> - Internal Governance Structure, Policy & Benchmarks</p>		<p>Ongoing</p>	<ul style="list-style-type: none"> ✓ Developing proposed structure and governance framework for SISS private portfolio with CIO/DCIO 	<ul style="list-style-type: none"> ✓ Late 2020 - discuss SISS private portfolio with Board and request approval
<p><u>SISS Private Portfolio:</u> - Develop SISS pipeline</p>		<p>Ongoing</p>	<ul style="list-style-type: none"> ✓ Initiated due diligence on over 10 new low-carbon related investment opportunities 	<ul style="list-style-type: none"> ✓ Further develop SISS private portfolio investment pipeline ✓ Continue diligence on multiple low-carbon transition investment opportunities
<p>Asset Class Partnerships</p>	 	<p>Ongoing</p>	<ul style="list-style-type: none"> ✓ Identify existing relationships within CalSTRS private asset classes to leverage high-quality deal flow 	<ul style="list-style-type: none"> ✓ Discuss investment opportunities with existing strategic partners

Initiatives	Board Priority	Status	Progress/Outcomes	Upcoming Activities
Climate Action 100+ (CalSTRS leads 8 companies)		Ongoing	<ul style="list-style-type: none"> ✓ Secured “Net Zero” commitments from following companies: Southern Co., Duke Energy, Dominion Energy, Daikin Industries, and ENEOS (formerly JXTG Holdings) 	<ul style="list-style-type: none"> ✓ Meet with companies to evaluate progress on net zero commitments (Fall 2020) ✓ Encourage net zero commitments from three additional companies
Low-Carbon Policy Advocacy		Ongoing	<ul style="list-style-type: none"> ✓ Serve on Carbon Pricing Policy Working Group (CERES) ✓ Serve on Valuing Water Finance Task Force (CERES) ✓ Supported methane emissions regulation in Pennsylvania 	<ul style="list-style-type: none"> ✓ Continue participation in CERES advisory committees ✓ Support CERES Blueprint for Responsible Policy Engagement on Climate Change ✓ Develop strategy to support low-carbon transition legislation
Activist Stewardship		Ongoing	<ul style="list-style-type: none"> ✓ Identified strategic opportunity for innovative activist stewardship methodology and campaign 	<ul style="list-style-type: none"> ✓ Further discussions with Board

Initiatives	Board Priority	Status	Progress/Outcomes	Upcoming Activities
Green Initiative Task Force Report, Value of Engagements	 	Complete	<ul style="list-style-type: none"> ✓ Dec. '19 - published SB 964 compliant TCFD-aligned report ✓ Updated Value of Engagement communications to include low-carbon transition information 	<ul style="list-style-type: none"> ✓ Dec. '20 - abbreviated Green Team report ✓ New Value of Engagement communications on quarterly basis
Fossil Fuel Divestment Perspective		Complete	<ul style="list-style-type: none"> ✓ June '20 - published CalSTRS divestment perspective on the website 	<ul style="list-style-type: none"> ✓ Update divestment perspective and responses as needed
Low-Carbon Communications Plan	 	On-going	<ul style="list-style-type: none"> ✓ Additional staff contributing to expansion of low-carbon communication strategies 	<ul style="list-style-type: none"> ✓ Develop and execute CalSTRS communication plan for low-carbon economy transition

Focusing on Board's three action items, during Fiscal Year 2020-2021 staff intends to:

- ✓ Complete transition readiness assessments underway in Real Estate and Global Equity portfolios; begin assessments in one additional asset class.
- ✓ Evaluate alternatives to current Low-Carbon index strategy to reduce portfolio carbon emissions in line with SISS and overall CalSTRS portfolio risk-return objectives.
- ✓ Continue working with Investment Strategy and Risk unit to identify market-leading tools and processes that help manage total portfolio carbon risk exposure.
- ✓ Obtain approval for SISS private markets portfolio and finalize at least one commitment to a new low-carbon investment that contributes to total Fund's return goals.

Staff will also continue to pursue other workstream objectives aligned with Workplan, including:

- ✓ Access and share low-carbon transition expertise to help shape CalSTRS risks management efforts and build investment opportunities.
- ✓ Continue to enhance corporate engagement outcomes through: Climate Action 100+ initiative by securing net-zero commitments from three additional CalSTRS-led engagement companies; leading innovative activist stewardship campaign.
- ✓ Implement enhanced communications strategy focused on new methods of information delivery while also bettering current means of reporting.

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