



November 30, 2018

California State Teachers'
Retirement System
Aeisha Mastagni, Co-Interim Director
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Sent via email: rule-comments@sec.gov

Brent J. Fields
Secretary
Securities and Exchange Commission
100 F Street NE.,
Washington, DC 20549-1090

RE: [Roundtable on the Proxy Process, File Number 4-725](#)

Dear Secretary Fields:

I am writing on behalf of the California State Teachers' Retirement System (CalSTRS) to the Securities and Exchange Commission's (SEC, Commission) [request for comments](#) on the November 15, 2018 public forum roundtable regarding the current proxy voting mechanics and technology, the shareholder proposal process, and the role of proxy advisory firms within the proxy process.

CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. We serve the investment and retirement interests of approximately 914,454 plan participants.¹ CalSTRS is the largest educator only pension fund in the world with a global investment portfolio valued at approximately \$219.1 billion as of October 31, 2018.² The long-term nature of CalSTRS liabilities, the composition of its portfolio and the Teachers Retirement Board's fiduciary responsibility to its members make the fund keenly interested in the rules and regulations that govern the securities market. We have a vested interest in ensuring shareholder protections are safeguarded within the SEC's rules and regulations.

Thank you for the opportunity to participate at the Proxy Process Roundtable. CalSTRS welcomed the opportunity to provide our comments and perspectives from a long-term shareholder, institutional investor on the various aspects of the proxy process and rules. We applaud the SEC's action to seek public comment on whether the U.S. proxy system as a whole operates with the accuracy, reliability, transparency, accountability, and integrity that shareholders and companies should expect.

¹ CalSTRS Fast Facts, June 30, 2016. https://www.calstrs.com/sites/main/files/file-attachments/fastfacts_2016.pdf

² CalSTRS Current Investment Portfolio for the period ending October 31, 2018. <http://www.calstrs.com/current-investment-portfolio>

As a long-term shareholder of more than 8,000 global securities, we take our responsibility to vote proxies very seriously and manage our proxy voting activities like any other plan asset. The right to vote at the annual shareholders meeting of a corporation is one of the most important privileges conferred by stock ownership. Voting makes a difference. The exercise of voting rights is a key tool for making our voice heard by the company's directors and management which we believe may affect shareholder value. CalSTRS executes its voting rights in a manner consistent with CalSTRS financial interest on behalf of our teachers, [CalSTRS Corporate Governance Principles](#)³ and best corporate governance practices.

CalSTRS believes an essential part of managing the portfolio is an attention to good corporate governance. CalSTRS believes that sound corporate governance practices are instrumental to help generate long-term economic performance and safeguard the fund's economic interests. CalSTRS not only sees good corporate governance practices as a way to add value but also to mitigate risk in the portfolio. CalSTRS Corporate Governance Principles establish a framework for CalSTRS' proxy voting activities. CalSTRS' ultimate goal is to ensure a reliable, transparent and cost-effective system for voting our proxies. CalSTRS' principles reflect that an essential right is the ability to vote on companies' governing structures. A shareholder vote is an important check and balance in the investor – issuer relationship. CalSTRS fundamentally believes shareholders should have a say in transactions that materially affect their investments.

Below, I have outlined CalSTRS perspective on several topics outlined in the Roundtable announcement that are pertinent to our proxy operations. Germane to these topics were included in a CalSTRS' letter submitted to the Commission on [April 2016, regarding File Number S7-27-15, request for comment regarding Proposed Rulemaking, Concept Release on Transfer Agent Regulations](#).

End-to-End Voting confirmation – Auditable Voting Systems

The Commission can enhance the U.S. proxy system by promoting reforms to facilitate end-to-end vote confirmation. The need for end-to-end auditable and or voter verifiable systems must have stringent integrity properties to ensure shareholders that their votes were properly recorded. We understand the challenges that innovations in trading and equity products have placed on the proxy voting process. In addition to providing investors with confirmation of their votes, the proxy voting systems as a whole, should be regularly audited and confirmed to be accurate, reliable and efficient. The SEC should mandate that all intermediaries transmit the necessary information to enable end-to-end vote confirmation for all votes.

Adopt a Final Rule on Universal Proxy

[In January 2017, CalSTRS submitted a letter to the Commission on File No.S7-24-16, regarding the proposed rule on Universal Proxy.](#) Our letter outlines the importance of the SEC moving forward to finalize Universal Proxy. Current proxy rules do not allow shareholders to fully exercise their voting rights in a contested election. Whether a vote is cast through a proxy or by attending a meeting in person, CalSTRS strongly believes

³ California State Teachers Retirement System Corporate Governance Principles, November 2017.
https://www.calstrs.com/sites/main/files/file-attachments/corporate_governance_principles_1.pdf

shareowners should have the ability to fully exercise their votes for any combination of director candidates. CalSTRS supported the proposed rule on the mandatory use of universal proxies that would include the names of registrant and dissident nominees, allowing shareholders to vote by proxy that replicates voting in person at a shareholder meeting.

We fully endorse the mandatory system for universal proxies and agree with the SEC, the mandatory universal proxy rule would mitigate potential shareholder confusion and logistical issues that may result from allowing the parties in a contested election to choose whether to use a universal proxy. CalSTRS does not support an optional use of universal proxy as this would undermine the voting process and possibly disenfranchise shareholders. We view the suggestion of special accommodations, necessitating shareholders to take additional steps to request a proxy card, as objectionable and impairing the intent of the process.

We recognize the importance that universal proxies are clear and fairly present information so that shareholders can determine the most qualified board candidates. CalSTRS supports the option that, if both parties have proposed a full slate of nominees, the shareholders have the ability to vote for all dissident nominees as a group or the registrant nominees as a group. However, we believe that shareholders should still have the ability to pick and choose between nominees and must not necessarily vote for the full slate of either the registrant or dissident.

Additionally, we emphasize the importance that both parties should be obligated to prominently disclose the maximum number of nominees that can be voted on to ensure a shareholder does not over-vote or is aware of an under vote. This is extremely important for retail investors, as institutional investors, such as CalSTRS utilize online voting platforms that prevent over-voting or provide a flag if under-voting the number of candidates up for election.

It is critical that the SEC move forward to finalize Universal Proxy rules that would permit shareholders to vote by proxy for any combination of candidates for the board of directors, as if they attended the shareholder meeting in person. We believe adopting a final rule may reduce confusion among both institutional and retail investors that results from current multiple and incomplete ballots. Voting by proxy should always be the same as voting in person. We emphasize our request that the SEC finalize Universal Proxy.

Shareholder Proposals Rule 14a-8 and Effective Shareholder Engagement

CalSTRS supports the SEC Rule 14a-8, the federal rule that currently governs shareholder proposals processes. As shared at the Proxy Roundtable, we believe the current regulations surrounding 14a-8 are working and function in a fair equitable manner. Also, since shareholder proposals constitute only 2% to 3% of the proposals, we underscore, “why try to remedy a problem that really doesn’t exist?”

CalSTRS preferred method of working with companies is open, active direct engagements with companies. The shareholder proposal, is one tool that under Section 14a-8, allows investors, such as CalSTRS, to express and asks for a collective vote to improve different aspects at a portfolio company on a variety of governance topics and/or improvement in disclosures.

A majority of companies have adopted best practices to improve governance and disclosures through shareholder proposals. Examples include the declassification of boards, majority vote for director elections in uncontested elections, proxy access and more recently the adoption of many boards to improve board diversity composition and disclosures. Moreover, proposals allow board of directors to consider and act on material risks such as climate change, cyber security, work force litigations such as the “Me Too Movement,” as well as viewing shareholder proposals as opportunities for the board to consider and improve many aspects of the company. Along with a better understanding of their oversight role, shareholder proposals may enlighten directors regarding multiple issues that may not have been elevated to the Board.

CalSTRS has seen firsthand that the shareholder proposal has proven a key tool in our company engagement with the ability to effect change at our portfolio companies. Many times, boards are more willing to have open dialogues with shareholders once a shareholder proposal has been received. CalSTRS urges the Commission to maintain efficient and viable rules to enable investors to present proposals for consideration and a vote at annual meetings.

Proxy Research Firms

In addition to our own letters sent to members of the US House of Representatives, [CalSTRS and 47 other institutional investors through the Council of Institutional Investors, with assets exceeding \\$3 trillion, wrote to the Committee of Financial Services](#) regarding proposed legislation on proxy advisory firms, embedded within H.R. 4015, the “Corporate Governance Reform and Transparency Act of 2017.”

In our letters we state that investors such as CalSTRS vote our proxies based on our own guidelines as outlined in CalSTRS Corporate Governance Principles. CalSTRS voluntarily contracts with proxy advisory firms to obtain cost-effective independent research to help inform our proxy voting and engagement decisions, and to execute votes based on our own proxy voting guidelines. Proxy voting is a critical means by which CalSTRS and other shareowners hold corporate executives and boards to account and is a hallmark of shareholder ownership and accountability. The system of corporate governance in the United States relies on the accountability of boards of directors. It is important to ensure unencumbered shareholder access to independent research as it is a crucial underpinning of effective corporate governance.

In short, CalSTRS does not “rubber stamp” or “robo-vote” the proxy advisory firms’ recommendations. Rather, we vote our proxies according to our own guidelines and principles. Proxy advisory firms’ research provides one of many tools/research that we use in voting our proxies. We use proxy advisors for their independent research function, workflow management and data aggregation. As the end user of proxy research, we are well positioned to assess the quality of the firms’ services. Similar to other investment research in the marketplace, investors should be able to access proxy research that is free from undue influence from the companies that are the subject of the research. We do not believe there is a need to legislate any additional oversight of proxy advisory firms.

In summary, we recommend the SEC focus on the proxy infrastructure, ensuring end-to-end voting confirmation; adopt a final rule on universal proxy, maintain Section 14a-8 as it is,

and allow proxy advisory firms to provide needed research without imposing new regulatory burdens.

Thank you for the opportunity to provide CalSTRS' perspective and for inviting CalSTRS to participate in the roundtable. If you have any questions, please do not hesitate to contact me at [REDACTED], or Mary Hartman Morris, Investment Officer at [REDACTED].

Sincerely,



Aeisha Mastagni
Interim Co-Director of Corporate Governance
California State Teachers' Retirement System