CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
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[redacted]

March 22, 2017 Via email: rule-comments@sec.gov

Michael S. Piwowar, Acting Chairman
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: **Pay Ratio Final Rule Adopted Aug. 5, 2015, File No. S7-07-13 – Implementation Comments**

Dear Chairman Piwowar:

We are writing on behalf of the members of the California State Teachers' Retirement System (CalSTRS) in response to your request for comment regarding reconsideration of pay ratio rule implementation. Although, your request for comments appear to address unanticipated compliance difficulties by issuers, we believe it is important to consider the investor perspective. Therefore, we are writing to express our continued support for Section 953(b) of the Dodd-Frank Act, what is termed the "Pay Ratio Disclosure", and convey the benefits of such disclosure for long-term shareholders.

CalSTRS' mission is to secure the financial future and sustain the trust of California's educators. We serve the investment and retirement interests of more than 914,454 plan participants and their beneficiaries.[1] CalSTRS is the largest educator only pension fund in the world, with a global investment portfolio valued at approximately $202 billion as of February 28, 2017.[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.

We continue to applaud the Commission for adopting a carefully calibrated rule that provides a large amount of flexibility, while adhering to the statutory mandate. As was noted by former Chairman Mary Jo White, the

> "The rule addresses concerns about the costs of compliance by providing companies with flexibility in meeting the rule's requirements. For example, a company will be permitted to select its methodology for identifying its median employee and that employee's compensation, including through statistical sampling of its employee population or other reasonable methods. The rule also permits companies to make the median employee determination only once every three years and to choose a determination date within the last three months of a company's fiscal year. In addition, the rule allows companies to exclude non-U.S. employees from countries in which data privacy laws or regulations

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[1] CalSTRS at a Glance, Fact Sheet: http://www.calstrs.com/sites/main/files/file-attachments/calstrsataglance.pdf

[2] CalSTRS Current Investment Portfolio for the period ending February 28, 2017.
http://www.calstrs.com/current-investment-portfolio

make companies unable to comply with the rule and provides a *de minimis* exemption for non-U.S. employees.[3]

We appreciate the thoughtful and balanced approach to establishing the pay ratio rule. Nonetheless, if through the course of this inquiry, the Commission discovers tactics to make the rule even more cost effective, we would certainly be open to those ideas.

From a technical aspect, we believe the disclosure of the pay ratio will provide benefits to us as long-term shareholders through:

- An additional metric for evaluating and voting on executive compensation practices and say-on-pay proxy proposals,
- Disclosure of the CEO pay to median employee ratio to evaluate pay levels in the context of companies' broader compensation structures,
- The ability to see how the ratio evolves over time at individual companies and relate that to company performance,
- And an overall insight into the company's pay culture.

While we believe the pay ratio rule will provide the above benefits, nothing in the proposed rule precludes issuers from providing additional disclosure around their company-specific ratio. In fact, we would encourage companies to provide more information and greater context around their ratio, such as number of overseas employees, number of hourly employees, the ratio of CEO pay to the average employee, or other pertinent information. We believe compensation committee members should generally be aware of their pay ratio an how that aligns with the company's long-term pay structure and company culture. CalSTRS is a long-term investor and has been actively involved in corporate governance issues, such as executive compensation for over two decades. We have Corporate Governance Principles[4] that articulate our view on executive compensation and specifically the compensation committee's responsibility over the company's pay philosophy which should include a long-term view of the program, an evaluation of its effectiveness, and a comprehensive list of topics committees should consider in the context of their oversight role. We believe the CEO to median worker pay ratio should be part of their responsibilities across the total compensation plan and structure, which is why companies should use this disclosure to provide additional context.

CalSTRS has long been an advocate of superior compensation for superior performance; however we do believe there is a point where shareholders and the broader marketplace are not reaping the benefits of these high levels of pay. Directors, and especially compensation committee members, need to be aware of the pay ratio for the current disclosure requirement, but also all ratio measurements that relate to the deployment of human capital. The marketplace will naturally use the pay ratio disclosure and compare it to other performance measures in efforts to understand a company's business model.

People and morale can drive success at an organization or can lead to ultimate failure. Like other capital allocation decisions, compensation committees need to be aware of how their company allocates capital to its

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[3] SEC Adopts Rule for Pay Ratio Disclosure, Press Release, Former Chair Mary Jo White, August 5, 2015. https://www.sec.gov/news/pressrelease/2015-160.html

[4] California State Teachers' Retirement System Corporate Governance Principles, Principles for Executive Compensation pages 9-12, updated July 14, 2016.
http://www.calstrs.com/sites/main/files/file-attachments/corporate_governance_principles_1.pdf

workforce and understand how outsized pay at the tope can affect morale down the chain of the organization. Boards of directors and institutional investors have a fiduciary duty to thoroughly review all aspects of compensation with diligence and care, and understand how the various ratios and metrics will be interpreted in the marketplace. In addition, it is important for institutional investors to review compensation as it affects the value of our investments.

At CalSTRS we support governance structures that promote best practices in the marketplace and we support disclosures that help us make informed decisions on proxy votes or engagement targets. All of which helps us safeguard the investment portfolios to provide future retirement savings for our California teachers.

Once again, we applaud the Commission for its circumspect efforts to address concerns about the costs of compliance by providing companies with flexibility in meeting the rule's requirements. We encourage the SEC to implement the rule as efficiently as possible for issuers and to ensure swift implementation of this final rule to provide investors an additional metric to evaluate and vote Say-on-Pay proposals and executive compensation practices.

Thank you for the opportunity to respond. If you would like to discuss this letter further, please feel free to contact me at my number above or Mary Hartman Morris at [redacted], [redacted].

Sincerely,

Anne Sheehan
Director of Corporate Governance
California State Teachers' Retirement System