



February 3, 2020

California State Teachers'
Retirement System
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Sent via email: rule-comments@sec.gov

Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: [File Number S7-22-19 Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice](#)

[File Number S7-23-19 Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8](#)

Dear Secretary Countryman:

We are writing on behalf of the California State Teachers' Retirement System ("CalSTRS"). CalSTRS was established for the benefit of California's public school teachers over 100 years ago and is the largest educator-only pension fund in the world, with a global investment portfolio valued at approximately \$254.1 billion.¹ We serve the investment and retirement interests of more than 964,000 plan participants and their beneficiaries. The long-term nature of CalSTRS liabilities, and our responsibility as a fiduciary to our members, make the fund keenly interested in the rules and regulations that govern the securities market.

We appreciate the opportunity to provide our comments on the Securities and Exchange Commission's ("SEC" or "the Commission") proposed rules: S7-22-19 Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice ("Proxy Advisor Rule") and S7-23-19 Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8 ("Shareholder Proposal Rule"). We view the proposed rules, in their current form, as detrimental to our ability to function as fiduciaries serving the best interests of our plan beneficiaries. Additionally, we do not believe the proposed rules will achieve the SEC's mission to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.

We believe that the basic proxy infrastructure is desperately in need of reform, and we urge the Commission to make the modernization of the proxy system a priority. Despite

¹ [California State Teachers Retirement System, Current Investment Portfolio as of December 31, 2019](#)

recommendations by the Investor Advisory Committee, consensus from the November 2018 SEC Proxy Roundtable, and the SEC's own agenda, the Commission has yet to address essential reforms to the current proxy system—such as end-to-end vote confirmations, reconciliations, and universal proxies. We have previously communicated to the SEC, in a [November 30, 2018 letter](#), our belief that these issues are of critical importance and deserve the imminent attention of the Commission.

Building upon our previous statements and those made by some of our pension and investment management peers, we wish to express our concerns around the Proxy Advisor Rule and the Shareholder Proposal Rule.

S7-22-19 Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice

The Proxy Advisor Rule proposal introduces substantive hurdles that impact the ability of investors, like CalSTRS, to efficiently vote our proxies in a timely manner. We disagree with the premise of the proposed rulemaking and the assumed risk that proxy advisors could be “*providing inaccurate or incomplete voting advice (including the failure to disclose material conflicts of interest) that could be relied upon to the detriment of investors.*”²

CalSTRS was a signatory to an October 25, 2019, letter from the Council of Institutional Investors (CII)³ to the SEC Commissioners, regarding File No. 4-725 Proxy Advisor Regulation. The letter argued that there was a lack of evidence of pervasive factual inaccuracies in proxy advisors' reports, which was a driver for this rulemaking proposal.

CalSTRS does not believe the rules, as currently drafted, will meet the objectives of the proposal, which are to “*enhance the accuracy, transparency of process, and material completeness of the information provided to clients of proxy voting advice.*”²

We are concerned that the proposed rule seeks to solve problems that simply do not exist and, if implemented, risks further diminishing the rights of shareholders and their ability to hold corporations accountable.

Below we articulate how we use the services of proxy advisors and outline specific aspects of the proposal that threaten to interfere with our ability to fulfill our role as a fiduciary for the teachers of California.

- **Proxy advisors play a critical role in disseminating information, prioritizing stewardship activities, tracking, and executing votes timely.**

Proxy advisors' services are key in assisting investors when voting high volumes of proxies. CalSTRS alone votes approximately 9,000 global securities on an annual basis. Technological solutions offered by proxy advisors facilitate the timely execution of votes and allow us to prioritize votes so that unique circumstances and contentious votes are adequately reviewed by internal staff. The review process

² SEC Proposed Rule, [File Number S7-22-19](#): Amendments to Exemptions from the Proxy Rules for Proxy Voting Advice, Page 11

³ [October 25, 2019, letter from Council of Institutional Investors to SEC](#), Re: File No. 4-725 Proxy Advisor Regulation

proposed by the rule inserts an unnecessary lag in what is already a time-constrained process. Many investors would be challenged to effectively vote all their proxies without the services of proxy advisors.

- **CalSTRS voluntarily contracts with proxy advisor firms to obtain cost-effective and independent research to help inform our proxy voting and engagement decisions.**

Proxy advisory reports supplement CalSTRS staff research where there are issues and/or proposals that require closer scrutiny. CalSTRS is opposed to the requirements that proxy advisors share advance copies of their recommendations with issuers, which would effectively provide companies with a mechanism to influence proxy advisors' recommendations and compromise the independence of proxy advisors' research. These requirements would also delay the receipt of research by investors, significantly impacting the value of the research and leaving investors with less information on which to base their votes.

- **Proxy advisors are not soliciting investors to cast their vote in a particular manner or in line with proxy advisor recommendations.**

The proposed rule seeks to classify proxy advice as "solicitation," unless the proxy advisors adhere to administrative burdens that add cost and interfere with their ability to provide services to their clients, like CalSTRS. All 9,000 of CalSTRS' securities are voted based on CalSTRS Corporate Governance Principles⁴, a Teachers' Retirement Board approved document, which guides all our proxy voting and engagement activities. Not only is the voting of proxies a fiduciary duty, CalSTRS also believes that the execution of proxies is an important shareholder right. We always seek to exercise this right in a consistent fashion that is in the best interests of our beneficiaries.

- **The proposed Proxy Advisor Rule will unnecessarily burden small firms with additional costs, potentially driving firms out of the business or preventing new entrants.**

We feel the proposed rule will introduce additional costs and complications leading to additional barriers that may impact competition in the proxy advisor market, which already has a limited number of participants. Moreover, the limiting of competition in the proxy advisor business runs counter to the SEC's mission to maintain fair, orderly, and efficient markets. Further reduction of competition in the proxy advisor sector may dilute the quality of service provided to investors. We believe the current market structure, which allows investors to choose those services that best fulfill their needs, drives proxy advisors to provide the highest caliber of service.

CalSTRS is supportive of one aspect of the proposal. We agree that conflict of interest disclosure is important for a well-functioning and unbiased proxy voting system. Investors should be informed when there may be potential conflicts of interest that could affect proxy advisor recommendations. Investors need confidence that the research being considered when voting is unbiased and fact based. However, we do not believe the SEC needs to create a new

⁴ [CalSTRS Corporate Governance Principles](#)

Vanessa A. Countryman
S7-22-19 Proxy Advisory Firms / S7-23-19 Exchange Act Rule 14a-8
February 3, 2020

regulatory structure to enforce such disclosure. We generally believe that proxy advisors are currently providing adequate disclosures that meet the needs of investors, and any modifications to disclosures can be enforced through existing SEC authority.

S7-23-19 Procedural Requirements and Resubmission Thresholds under Exchange Act Rule 14a-8

The right to vote at the annual shareholders meeting of a corporation is one of the most important privileges conferred by stock ownership. In addition to voting, stock ownership also comes with the right to submit shareholder proposals, which allow shareholders, even very small investors, the ability to communicate concerns to public companies and ask for a collective vote from the broad shareholder base. CalSTRS believes that shareholder proposals have made a significant and positive impact on corporate policies and practices on a wide range of issues.

CalSTRS supports the current SEC Rule 14a-8, the federal rule that currently governs the shareholder proposal process. We believe the current regulations surrounding 14a-8 are working and function in a fair and equitable manner. Less than 2% of voting items at U.S. shareholder meetings are shareholder proposals, prompting us to ask whether the rulemaking is creating a problem that does not exist and therefore does not need to be fixed.

CalSTRS opposes the increases to the submission requirements articulated in the Shareholder Proposal Rule as we believe they are unnecessary and cumbersome to a process that currently operates well and strikes an appropriate balance between shareholders and issuers.

In summary, we recommend the SEC focus on (1) implementing solutions to improve the proxy infrastructure, (2) allowing proxy advisory firms to provide needed research without imposing new regulatory burdens, and (3) maintaining the current SEC Rule 14a-8 governing the shareholder proposal purpose.

Thank you for the opportunity to provide CalSTRS' perspective on these proposals.

Sincerely,



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California State Teachers' Retirement System