CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

California State Teachers'
Retirement System
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December 19, 2017

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Via e-mail: «Email»

Re: H.R. 4015

To «Office»:

CalSTRS was established more than 100 years ago to provide retirement benefits for California's public school teachers and is the largest educator-only pension fund in the world. The CalSTRS portfolio is currently valued at approximately $215 billion, which we carefully invest, as patient capital with a long-term investment horizon, to meet the retirement needs of more than 900,000 plan participants and their families. [1]

We are writing to express our opposition to H.R. 4015, which would impose new regulatory burdens and restrictions on proxy advisors. As a large institutional investor, we use proxy advisors to help inform our proxy voting at portfolio companies. Investors such as CalSTRS are the main clients of the services of proxy advisory firms. Proxy advisory firms provide useful research regarding the governance and finances at these companies to supplement our own due diligence and research, and they play an important and helpful role in enabling cost-effective proxy voting with respect to the more than 7,000 companies in our investment portfolio. We do not outsource our proxy voting to these proxy advisors. Rather, our Investment staff, in consultation with our governing Teachers' Retirement Board, develops carefully thought-out proxy voting guidelines, and then we vote our own proxies based on those well-established guidelines.

H.R. 4015 would establish a new federal regulatory scheme for proxy advisory firms that would (1) grant companies the right to review the proxy advisory firms' research reports before the paying customer – investors – receive the reports; (2) mandate that proxy advisory firms hire an ombudsman to receive and resolve company complaints; and (3) if the ombudsman is unable to resolve the

[1] California State Teachers' Retirement System Current Investment Portfolio as of September 30, 2017. http://www.calstrs.com/current-investment-portfolio and At-a-Glance http://www.calstrs.com/glance.

complaints, and if the company submits a written request, require proxy advisory firms to publish the company management's dissenting statement. While the stated goal of the proposed legislation is the "protection of investors", we believe H.R. 4015 is unnecessary, overly burdensome and counter-productive. Furthermore, we believe the proposed requirements on the industry could weaken the governance of public companies in the U.S. and do not reflect the needs of proxy advisory firm customers who are primarily institutional investors, such as CalSTRS.

While we understand some funds may utilize proxy advisory firms to assist them in executing their proxy voting responsibilities, the SEC has taken steps to make sure investors are properly carrying out their due diligence obligations. In fact as recently as 2014, the SEC acknowledged the important role proxy advisors play in the oversight of proxy voting of fund fiduciaries and, in 2014, issued updated regulatory guidance on the responsibilities of Investment Advisers who utilize proxy advisory firms in their proxy voting. In addition, the SEC has authority under current law to address any conflicts at these proxy advisory firms and has taken steps to require additional disclosure of these conflicts by proxy advisors. Accordingly, we believe that the existing SEC regulatory regime already protects our interests with respect to proxy advisory firms and that H.R. 4015 is both unnecessary and counter-productive.

The proposed legislation would result in higher costs for pension plans, like CalSTRS, and other institutional investors. H.R. 4015 would give companies the right to review reports and lobby the advisory firms prior to the reports being distributed to their customers and require firms to establish an ombudsman to address issues raised by the companies. Given the already short time period between when companies issue their proxy materials and the shareholder meeting date, the review and lobby process would severely limit CalSTRS ability to review and vote proxies in a timely manner. This multi-layered review would substantially raise costs in order to meet deadlines and maintain the current level of scrutiny and due diligence over proxy voting. Moreover, the proposed legislation is likely to limit competition by reducing the current number of proxy advisors and imposing additional barriers to entry for potential new firms—again raising costs for investors.

Thank you for considering our views on this very important matter. We would be happy to discuss our perspectives with you or your staff at your convenience. Should you have any immediate questions or wish to discuss our concerns, please contact Aeisha Mastagni, Portfolio Manager, by phone at 916-414-7418 or by email at amastagni@calstrs.com.

Sincerely,

Anne Sheehan
Director of Corporate Governance