



California State Teachers'
Retirement System
Sustainable Investment & Stewardship Strategies
100 Waterfront Place, MS 4
West Sacramento, CA 95605

October 5, 2021

The Honorable Maxine Waters
Chairwoman
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

The Honorable Patrick T. McHenry
Ranking Member
Committee on Financial Services
United States House of Representatives
Washington, DC 20515

Dear Madam Chairwoman Waters and Ranking Member McHenry:

We write on behalf of the California State Teachers' Retirement System ("CalSTRS") regarding our strong support for the discussion draft of a bill at the hearing scheduled for October 5, 2021, titled "Oversight of the U.S. Securities and Exchange Commission: Wall Street's Cop Is Finally Back on the Beat." CalSTRS strongly supports the Draft Bill, which would amend the Securities Exchange Act of 1934 to improve the governance of multi-class stock companies, to require issues to make annual diversity disclosures, and for other purposes.

Established in 1913, CalSTRS is the largest educator-only pension fund in the world with a global investment portfolio valued at approximately \$318 billion as of August 31, 2021.¹ As administrators of both a defined benefit plan and a defined contribution plan, our mission is to secure the financial future and sustain the trust of more than 975,000 Californian educators. 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 affect shareholders.

The aforementioned Draft Bill is consistent with U.S. corporate governance principles and reflects the sound legislative policy recommendations of the U.S. Securities and Exchange Commission's (SEC) Office of the Investor Advocate (Office). Those recommendations request Congress to direct the SEC to adopt rules under which the stock exchanges would enact improvements to listing requirements providing minimum threshold standards for the corporate governance structure of issuers that want their shares trading in the public markets.

¹ [California State Teachers' Retirement System, Current Investment Portfolio as of August 31, 2021](#)

The threshold listing standards recommended by the Office and included in the Draft Bill would prohibit, on a prospective basis, the listing of any security of an issuer that (1) has two or more classes of stock with unequal voting rights for more than a certain period of years without periodic approval by shareowners, or (2) fails to provide adequate disclosure of the diversity of its board of directors and senior executives. The Draft Bill would also clarify that the SEC has the authority to issue other rules and regulations to require the stock exchanges to improve their listing standards in a manner the SEC determines necessary or appropriate for the protection of investors.

Performance of Dual-Class Companies is Mixed

From CalSTRS' perspective, the performance record of dual class companies is decidedly mixed in the long-run and even in the medium term, notwithstanding selection bias affecting which companies pursue the dual class experiment.

As cited in numerous empirical studies, companies that commit to improving governance structures produce substantially better operational and market results. 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.

We believe the academic research and developing market practice suggest a logical compromise. We recommend a simple, effective sunset mechanism on common stock structures with unequal voting rights, so that markets do not suffer long-term damage from perpetual or long-lasting multi-class stock structures. We believe that time-based “sunsets” are the way forward, requiring multi-class structures with unequal voting rights to collapse to one-share, one-vote within a reasonable and specified period after the initial public offering (IPO). A sunset of no more than seven years offers an appropriate period to harness whatever benefits of innovation and control a multi-class structure may provide while mitigating the agency costs it incurs over time. In recognition both of evolving market practice and academic research suggesting that multi-class structures become problematic five to nine years after the IPO, we request in this petition a sunset of seven years or less.

Board Diversity is an Essential Tool

CalSTRS believes board diversity is an essential tool to improve corporate accountability and enhance long-term sustainable value to shareholders. Our Corporate Governance Principles² which guide our proxy voting and corporate engagement activities, state that corporate boards should be composed of diverse individuals with regards to skills, education, experiences, expertise and personal qualities. CalSTRS has long been an advocate of boardroom diversity, and has multiple, long-running initiatives and partnerships focused on engaging companies on this exact issue.

² [CalSTRS Corporate Governance Principles](#)

The Honorable Maxine Waters and The Honorable Patrick T. McHenry

October 1, 2021

Page 3

In general, we believe that companies should establish a format to disclose the various skills, experience and backgrounds of board members and how those attributes enhance the long-term strategy of the company. Inconsistent and non-standardized disclosure practices between companies result in the inability of investors to accurately assess the appropriateness of the composition of a board. We believe the board has a fiduciary duty to represent and protect the best interest of shareholders. Enhanced disclosure of board diversity provides investors with an additional metric with which to consider when electing directors.

In summary, CalSTRS supports the Draft Bill and encourages the Committee to move forward with the necessary reforms to ensure further investor protection, corporate performance, and the efficiency of the U.S. capital markets, generally.

Thank you for the opportunity to provide CalSTRS' perspective and for your consideration of our views. If you have any questions, please do not hesitate to contact me directly at amastagni@calstrs.com.

Sincerely,



Aeisha Mastagni
Portfolio Manager, Sustainable Investment and Stewardship Strategies
California State Teachers' Retirement System

CC: [Members of House Congressional delegation]