



Regular Meeting

Item Number 22 – Open Session

Subject: Update on Integrating Sustainability Principles Across the Enterprise

Presenter(s): Lisa Blatnick and Scott Chan

Item Type: Information

Date & Time: May 2, 2024 – 10 minutes

Attachment(s): None

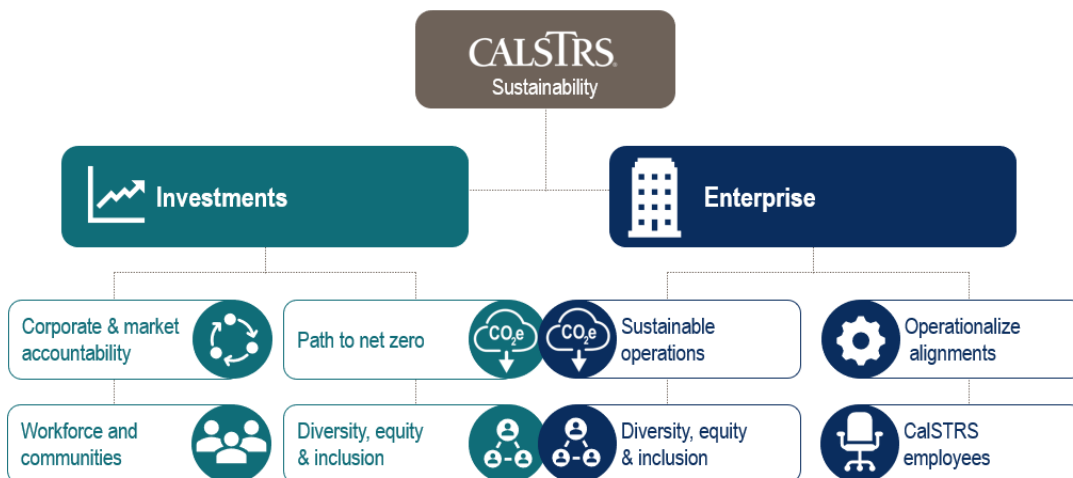
PowerPoint(s): None

Item Purpose

The purpose of this item is to provide an informational update on the alignment of Investments Branch and Enterprise sustainability activities.

Background

In 2021, we created an overarching view of sustainability at CalSTRS and worked to align Investments and Enterprise efforts. In April of 2022, the board requested regular updates on these alignments. Priority alignments are Path to net zero with Sustainable operations; and diversity, equity and inclusion.



After the board approved the new [Stewardship Priorities](#) in January 2024, we updated our sustainability alignment mapping. Investments added Workforce and communities and Enterprise added CalSTRS employees. Both of these focus on social impact and human capital management. There may be future opportunities for alignment in these areas.

DEI

The board receives regular updates on our DEI alignment efforts. In 2024, these included:

- January–Panel on [Cases in Diversity, Equity, and Inclusion: Best Practices in Diversity, Equity, and Inclusion](#) and [Diversity, Equity and Inclusion \(DEI\) Organizational Assessment Update](#)
- March–DEI update in the [Chief Executive Officer Report](#)
- May–Annual update activities under the Diversity in Investment Management Strategy (“DIMI”) during Investment Committee and Chief Executive Officer Report
- May–DIMI Workplan Update to include additional long term goals to continue the DEI momentum

Net zero and sustainable operations reporting

The Investments Branch presented the Net Zero Strategy–Annual Branch Wide Updates to the Investment Committee on May 1. Investments engages its portfolio companies to disclose scope 1 and 2 emissions. Similarly, we measure and report our enterprise emissions as part of our Sustainable operations.

We regularly measure and report our enterprise scope 1 emissions (direct emissions from fuel combustion for heating and our fleet vehicles) and scope 2 emissions (indirect emissions associated with the purchase of electricity) from our headquarters operations. We have reported these emissions to the state since 2005.

From 2010 to 2022, our headquarters greenhouse gas emissions decreased by 83%. We reduced our net emissions by 1,790 metric tons of carbon dioxide equivalent, or CO_{2e}, since 2010. The largest source of emissions is from electricity, which accounted for 52% of emissions in 2022.

We strive to model what we ask others to report while demonstrating leadership among pension funds. We engaged our enterprise sustainability consultant, [ISOS Group](#), to inventory and estimate our relevant scope 3 emissions. These are emissions not owned or controlled by CalSTRS, but we indirectly affect emissions within our value chain from upstream and downstream activities. Our estimates are based on models from the [EPA](#) and [World Resource Institute’s Greenhouse Gas Protocols](#).

We reported our scope 1, 2 and 3 emissions in the [2022–23 Sustainability Report](#). While the methods of accounting for scope 3 emissions are still evolving and under discussion, estimating

our enterprise scope 3 emissions was an instructive exercise in understanding the challenges given the models currently available.

Next steps: Enterprise Strategy Management and Facilities staff have started working with the California Department of General Services to comply with [SB-1020 Clean Energy, Jobs, and Affordability Act of 2022](#) and [SB-1203 Net-zero emissions of greenhouse gases: state agency operations](#). This legislation affects our enterprise energy procurement and greenhouse gas emissions with target dates in 2035.

Sustainability measures and policy

We are establishing measures to advance sustainability using industry frameworks. This activity supports our 2022–25 *Strategic Plan* Goal 3 to fully integrate a unified environmental, social and governance ethos in all we do. We focused on establishing measures for our seven key topics identified within the annual sustainability report: member retirement education; CalSTRS Funding Plan progress; privacy and information security; path to net zero; sustainable operations; employees and human capital management; and diversity, equity and inclusion.

We researched multiple standards and frameworks and models, including Global Reporting Initiative Standards, Ceres Roadmap 2030, and human capital management best practices. We also reviewed available peer reporting on topics such as labor relations, executive compensation and sustainable operations and infrastructure.

We've created a set of internal sustainability measures as our Perform to Sustain map to be reviewed annually at the close of the fiscal year. Our measures and results will also help drive future strategic plan and business plan initiatives and activities.

Next steps: To prepare for the 2025–28 *Strategic Plan*, staff are:

- Evaluating our current policies for opportunities to further and expand our sustainability efforts.
- Gathering recommendation from our consultants for DEI (Guidehouse) and enterprise sustainability (ISOS Group).
- Attending standards and policy seminars to stay apprised of potential implications for our own reporting.

Employee education

In June of 2023, Investments provided an all-branch education session on greenhouse gas emissions. In this alignment session, our enterprise sustainability consultant provided foundational emission education and shared our operational emissions reporting. Our public and private equity partners provided information on corporate portfolio emission measurement and reporting.

Next steps:

Here are upcoming sustainability educational opportunities for our employees:

- The Investments Branch and Enterprise team are developing a Net Zero Investment Academy module for their staff. This onboarding course will provide a general understanding of net zero, our approach in achieving the net zero pledge, and integrating net zero and climate considerations across the enterprise in our operations. The target start date to start this course is the second half of 2024.
- For all staff, we are seeking opportunities to include sustainability into existing educational modules and communications and will create new sustainability micro-learnings in 2024–25.

Strategic Plan Linkage:

2022–25 Strategic Plan

Goal 3: Sustainable organization

Fully integrate a unified environmental, social and governance ethos in all we do.
