

Proxy Voting & Corporate Engagements Update

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Investment Committee

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Looking Ahead – 2021 Proxy Season Outlook

- **Proxy Voting & Corporate Engagements**

- ✓ Vote all public company proxies in a manner consistent with CalPERS' Governance & Sustainability Principles and CalPERS' Investment Beliefs
- ✓ Actively engage 2,000+ unique companies annually on executive and employee compensation, corporate board diversity, climate change, investor rights, human capital management, and other sustainability considerations to promote long-term value creation

- **Executive and Employee Compensation:** continue to engage companies on, and to hold compensation committees accountable for, misaligned pay and performance

- **Corporate Board Diversity:** continue to engage companies to improve corporate board diversity and use proxy voting and shareowner campaigns, including filing shareowner proposals and running director vote no campaigns, to bring about change where engagements are not productive

- **Climate Change:** continue to engage companies on climate change risks and opportunities as part of the Climate Action 100+ initiative and use proxy voting and shareholder campaigns, including filing proposals and running proxy solicitations, to effect change

- **Investor Rights:** continue to engage companies to adopt proxy access and majority voting for director elections to facilitate shareowners' ability to hold boards accountable for oversight failures

Looking Back – 2020 Proxy Season Outcomes

- **Enhanced Executive Compensation Accountability**

- ✓ Voted “against” 51% of executive compensation proposals for poor pay-for-performance alignment (1,349 of 2,650 companies)
- ✓ Voted “against” 3,402 compensation committee members at 1,267 companies to hold them accountable for poor pay-for-performance alignment. This was the first year of implementation of voting against compensation committee members at the same time we vote against executive compensation proposals
- ✓ Wrote letters to Chairs of Compensation Committees and/or Boards at 1,267 companies requesting engagement meetings to discuss our “against” votes on their executive compensation proposals. The response rate as of the end of December 2020 was 35%

- **Improved Corporate Board Diversity and Accountability**

- ✓ 65% of companies engaged since July 2017 have since added at least one diverse director to their boards (518 of 800 companies). Excluding delisted, acquired and bankrupt companies, 71% of companies engaged have added a diverse director to their boards (494 of 697 companies)
- ✓ Voted “against” 205 directors at companies where diversity engagements did not result in constructive outcomes. By comparison, we voted against 314 directors in 2019 and 468 directors in 2018. A decrease in the number of against votes over time is a sign of progress

- **Climate Change Accountability: Case-in-Point: ExxonMobil**

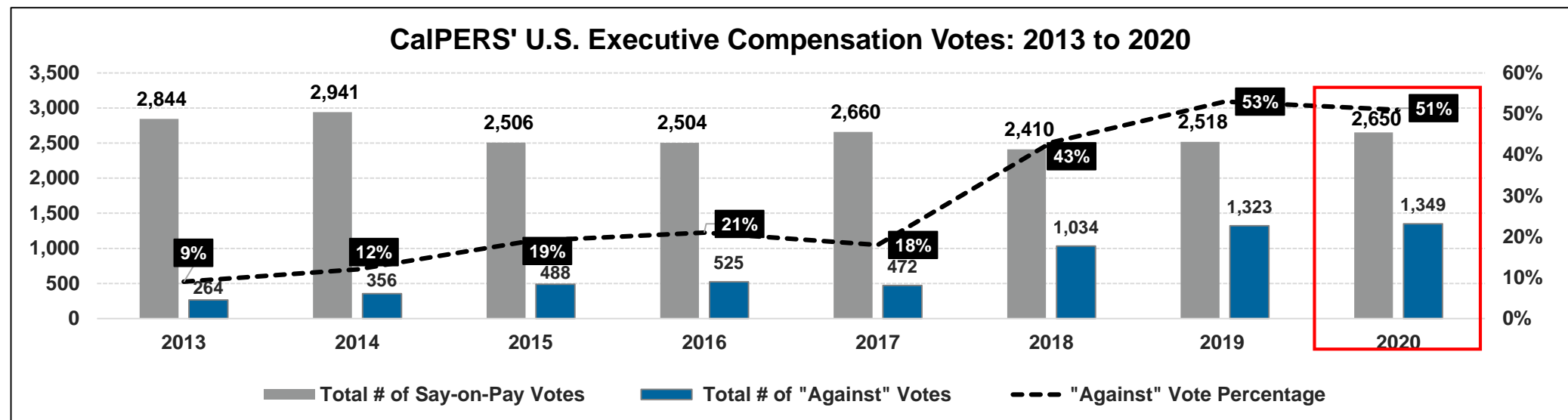
- ✓ May 2020: CalPERS voted “against” multiple board members for failing to disclose scope 3 emissions. ExxonMobil was the only U.S. oil & gas major that did not disclose its scope 3 emissions
- ✓ August 2020: CalPERS filed a shareowner proposal requesting that the company disclose its scope 3 emissions. The proposal was meant to be voted at the company’s 2021 Annual General Meeting (AGM)
- ✓ January 2021: ExxonMobil disclosed its scope 3 emissions for the first time ever. CalPERS withdrew its proposal as a result of the company implementing what the proposal requested

- **Enhanced Investor Rights**

- ✓ Proxy Access: 23 of 25 companies engaged either adopted or committed to adopt proxy access per our request. 2 of 25 companies were acquired
- ✓ Majority Vote on Director Elections: 20 corporate board diversity companies adopted majority voting per our request. We ran an additional 19 majority vote proposals at other non-responding corporate board diversity companies, and 4 passed with >50% support
- ✓ Staff will be engaging 50 companies in 2021 requesting that they adopt proxy access

Appendix

CalPERS' U.S. Executive Compensation Votes: 2013 to 2020

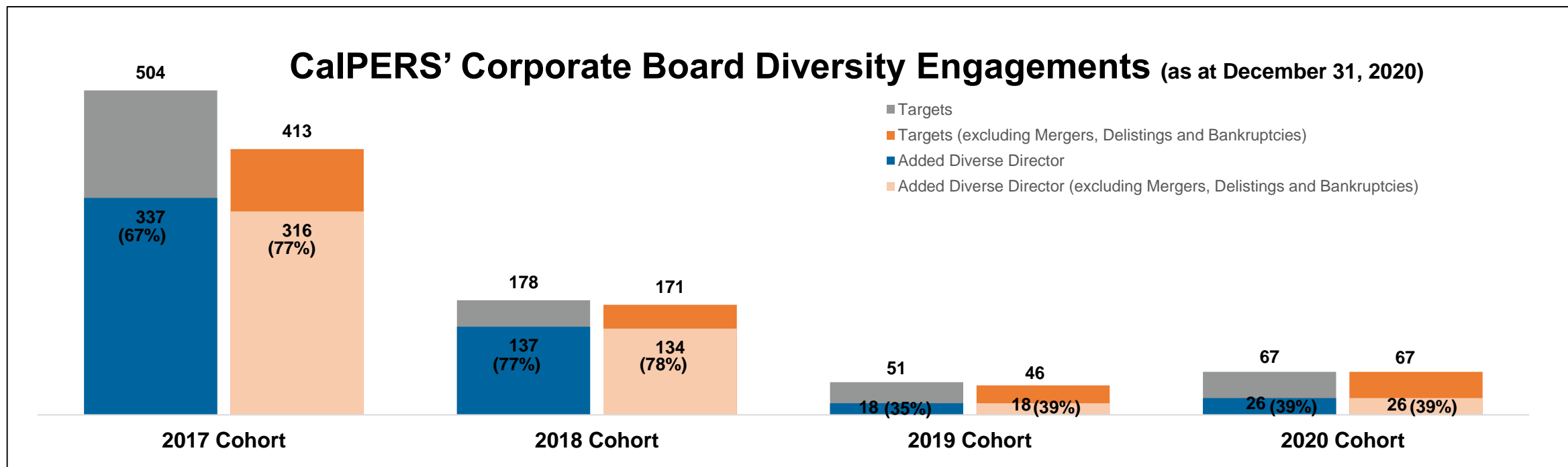


- ✓ 2017: Performed extensive research on executive compensation and pay-for-performance (P4P)
- ✓ 2018 proxy season: Implemented enhanced voting practices on executive compensation (“Say on Pay”) proposals in the United States. Voted “against” 43% of SOP proposals
- ✓ 2019 proxy season: Developed and implemented a new proprietary 5-year quantitative model as part of the enhancement of the CalPERS Executive Compensation Analysis Framework to review SOP proposals. Voted “against” 53% of SOP proposals
- ✓ 2020 proxy season: Applied further enhancements to the executive compensation framework analysis
 - Implemented the CalPERS P4P Scorecard developed in August 2019
 - Voted “against” Compensation Committee members (3,402 directors) when voting “against” compensation plans (51% against)
 - Engaged 1,267 companies related to compensation concerns

Corporate Board Diversity Engagements & Accountability

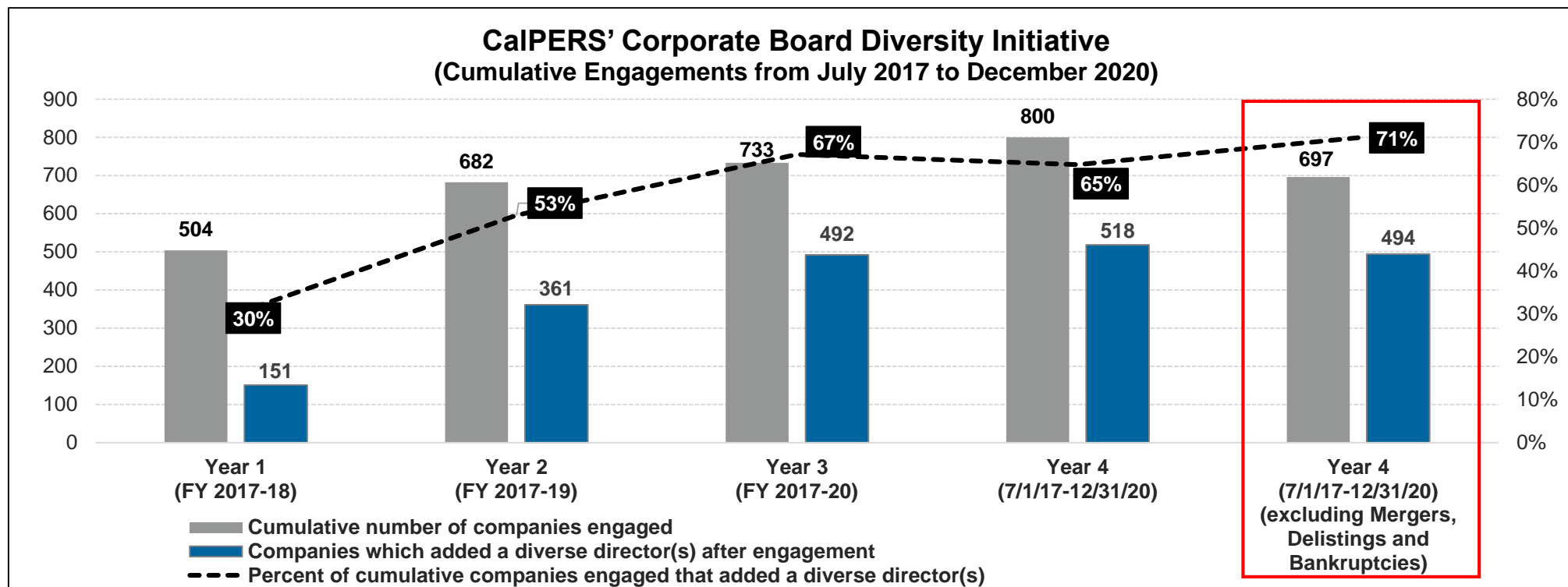
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- Voted “against” 205 directors at companies where diversity engagements did not result in constructive outcomes. By comparison, we voted against 314 directors in 2019 and 468 directors in 2018. A decrease in the number of against votes over time is a sign of progress
- CalPERS’ Diversity Director “Vote No” campaign targeted 23 companies with multi-year unresponsiveness
 - ✓ 14 companies either added or committed to add elements of diversity to their boards
 - ✓ Ran public “Vote No” campaigns with proxy solicitations at 9 companies and voted against 29 directors. 7 directors received >20% opposition, with one director failing to receive majority support
- Board Diversity Shareowner Proposals – Negotiated settlement of 3 board diversity shareowner proposals (1 proposal pending for 2021)
- Engaged 46 companies surrounding majority for director elections at non-responding diversity companies
 - ✓ As at December 31, 2020 – 23 added a diverse director to their boards they didn’t previously have
 - ✓ Reached settlements with 20 companies that committed to adopt majority vote
 - ✓ 19 proposals went to vote, 4 passed with >50%
- Continued partnership with CalSTRS, LACERA, and SFPERS on the California Board Diversity Initiative to improve board diversity at companies headquartered in California
- Tailwinds from California legislature on board diversity: SB 826 (women) and AB 979 (underrepresented groups)

CalPERS' Corporate Board Diversity Engagements (2017 to 2020 Cohorts)



- ✓ 67% of the 2017 corporate board diversity cohort have since added a diverse director to their boards following CalPERS' engagement. Excluding delisted, acquired and bankrupt companies, 77% have added a diverse director. Engagements started in July 2017
- ✓ 77% of the 2018 corporate board diversity cohort have since added a diverse director to their boards following CalPERS' engagement. Excluding delisted, acquired and bankrupt companies, 78% have added a diverse director. Engagements started in October 2018
- ✓ 35% of the 2019 corporate board diversity cohort have since added a diverse director to their boards following CalPERS' engagement. Excluding delisted, acquired and bankrupt companies, 39% have added a diverse director. Engagements started in July 2019
- ✓ 39% of the 2020 corporate board diversity cohort have since added a diverse director to their boards following CalPERS' engagement. Excluding delisted, acquired and bankrupt companies, 39% have added a diverse director. Engagements started in July 2020

CalPERS' Corporate Board Diversity Cumulative Engagements (July 2017 to December 2020)



- Market-wide improvements in corporate board diversity**

- ✓ 93% of Russell 3000 companies now have at least one female director compared to 78% in Q2 2017 (Q2 2020 Equilar data)
- ✓ 23% of Russell 3000 board seats are now held by women compared to 16% in Q2 2017 (Q3 2020 Equilar data)
- ✓ 59% of new independent directors at S&P 500 companies are women and minority men (2020 U.S. Spencer Stuart Board Index)

Climate Action 100+ Engagements Update

- Climate Action 100+ initiative now has over 500 investors with over \$52 trillion in assets under management
- CalPERS leading engagements at 22 companies including 6 Japanese companies
- Member of the CA100+ Steering Committee and Chair of the Asia Advisory Group
- CalPERS filed or co-filed climate risk proposals at 3 companies for upcoming 2021 proxy season, and will publicly solicit support for specific shareowner proposals that are aligned with the goals of Climate Action 100+, including those seeking full transparency and board oversight of lobbying from shareowner funds
- CalPERS was one of eight primary signatories on a letter regarding Investor Expectations on Corporate Lobbying on Climate Change sent to all 47 U.S. companies on the Climate Action 100+ list, and supported by over 200 asset owners and asset managers. Ran 8 proxy solicitations in support of shareowner proposals on climate lobbying filed by other investors
- In 2020, the initiative developed the Net Zero Company Benchmark, which will be used to publicly benchmark focus companies
 - ✓ The first company benchmark scorecards will be released on the CA100+ website in March 2021
- Nearly half (43%) of CA100+ companies have now set a net zero by 2050 target or ambition
- Results and progress of collaborative engagements are detailed in the Climate Action 100+ 2020 Progress Report (<http://www.climateaction100.org/>)
- **Case-in-Point: ExxonMobil**
 - ✓ May 2020: CalPERS voted “against” multiple board members for failing to disclose scope 3 emissions. ExxonMobil was the only major U.S. oil & gas company that did not disclose its scope 3 emissions
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Climate Action 100+ Engagement Goals

- **Investors signed on to Climate Action 100+** are requesting the boards and senior management of companies to:
 - ✓ **Implement a strong governance framework** which clearly articulates the board's accountability and oversight of climate change risks and opportunities;
 - ✓ **Take action to reduce greenhouse gas emissions across the value chain**, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial level; and
 - ✓ **Provide enhanced corporate disclosure** in line with the [final recommendations of the Task Force on Climate-related Financial Disclosures \(TCFD\)](#) and, when applicable, sector-specific Global Investor Coalition on Climate Change Investor Expectations on Climate Change [\[1\]](#) to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2-degrees Celsius, and improve investment decision-making.
- Engagement goals include “net zero by 2050” and alignment of lobbying activities and executive compensation with a transition to a low-carbon economy

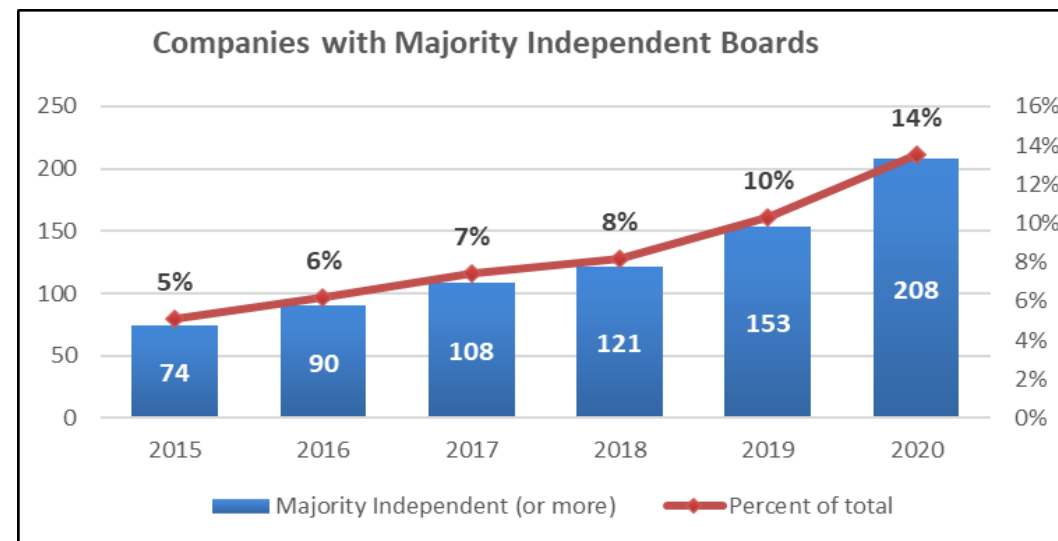
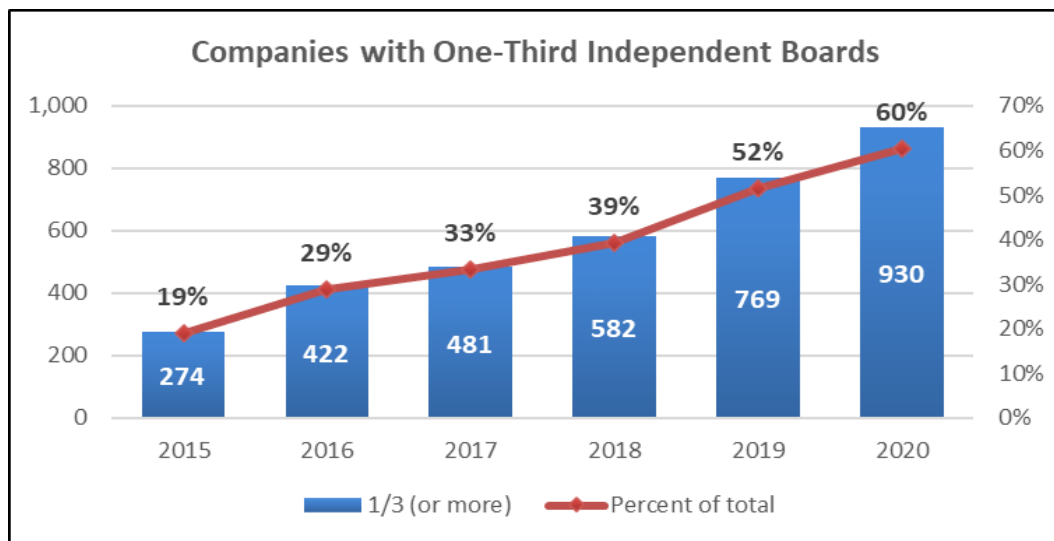
[1] The [Global Investor Coalition on Climate Change](#) Investor Expectations on Climate Change sector guides cover [oil and gas](#), [mining](#), [utilities](#) and [auto manufacturers](#) and provide additional sector specific disclosure recommendations, particularly regarding the oversight of public policy positions.

Source: <http://www.climateaction100.org/>

CalPERS' Japan Board Independence Initiative

Objective: Increase board independence at Japanese portfolio companies and market overall

- ✓ In 2017, Staff amended the proxy voting practice for Japan to vote “against” non-independent directors when board independence is less than 1/3. CalPERS communicated the change through the local Japanese media ahead of the 2017 proxy season
- ✓ In 2017 and 2018, Staff wrote letters to companies (with less than 1/3 board independence) to communicate voting rationale
- ✓ From 2017 to 2020, companies with 1/3 board independence nearly doubled, from 33% to 60%
- ✓ CalPERS continues to engage Japanese companies to encourage increased board independence



Source: IR Japan; Universe: Tokyo Stock Exchange 1st Section as of June 30, 2020

CalPERS Corporate Governance Resources

CalPERS Corporate Governance Website:

<https://www.calpers.ca.gov/page/investments/corporate-governance>

- **Corporate Engagements**
 - ✓ Board Diversity
 - ✓ Climate Action 100+
 - ✓ Executive Compensation
 - ✓ Japan Board Independence
 - ✓ Majority Vote
 - ✓ Proxy Access

- **Proxy Voting**
 - ✓ Governance and Sustainability Principles
 - ✓ Proxy Voting Guidelines
 - ✓ Notable Proxy Votes
 - ✓ Global Proxy Voting Decisions
 - ✓ Executive Compensation Analysis Framework
 - ✓ Executive Analysis Framework: Frequently Asked Questions