

Corporate Governance Update

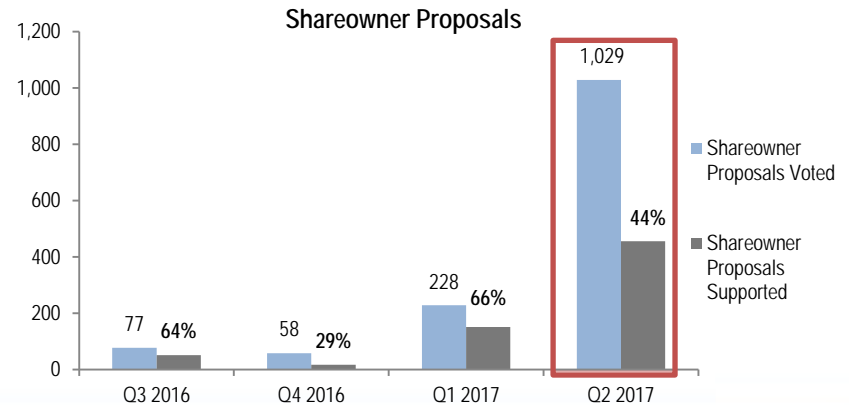
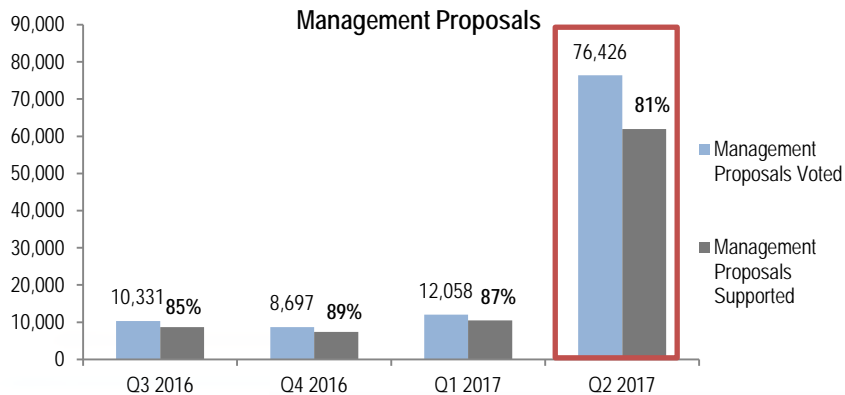
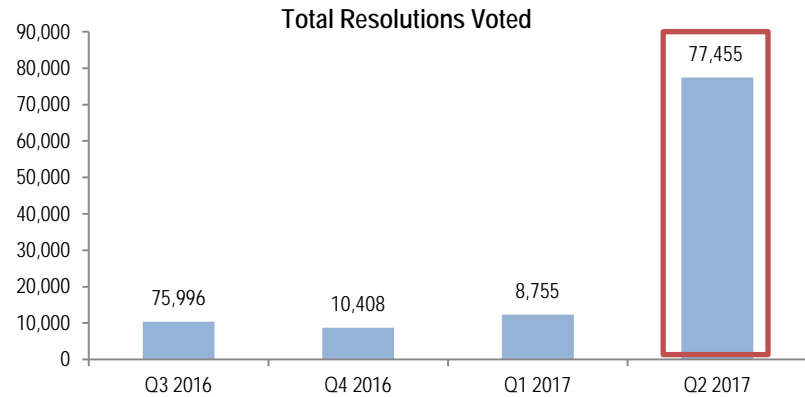
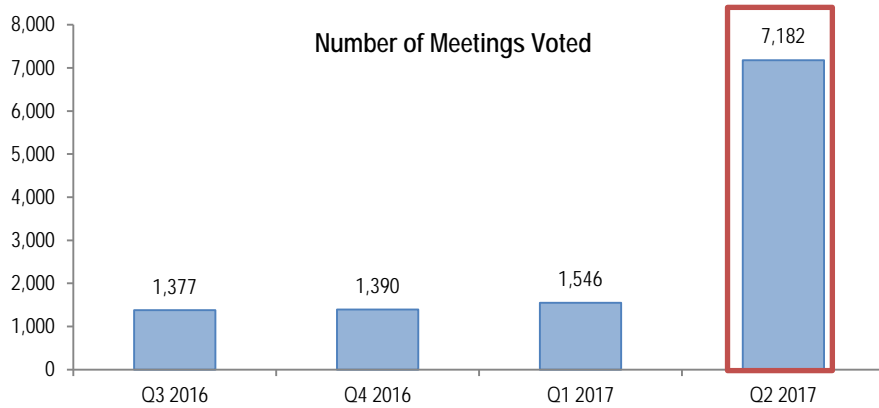
August 14, 2017

Contents

- Global Proxy Voting – Q2 2017 Votes Cast
- 2017 Shareowner Campaigns Update
- CalPERS' Shareowner Campaigns – U.S. Market Trends
- 2017 Corporate Engagement Update
- Evolution of the CalPERS Focus List Program
- Appendix
 - Proxy Voting – Notable Highlights
 - 2017 Shareowner Campaigns – Proxy Solicitations

Global Proxy Voting – Q2 2017 Votes Cast

During the period April 1, 2017 to June 30, 2017, CalPERS voted at 7,182 company meetings consistent with CalPERS' Governance and Sustainability Principles



Corporate Governance Update

2017 Shareowner Campaigns Update

Proxy Access Campaign:

- CalPERS' proxy access shareowner proposal at Old Republic International Corp. passed with 74% support
- NYC Funds targeted 71 companies surrounding the adoption of proxy access, 51 settled, and 20 proposals were filed
 - CalPERS ran proxy solicitations, filed shareowner letters with the SEC, and attended annual general meetings. Other areas of support included engagements with companies and proxy advisory firms
 - 14 proxy access proposals have passed to date (3 failed, 1 company was acquired, and 2 AGMs are pending)

Majority Vote for Director Elections Campaign:

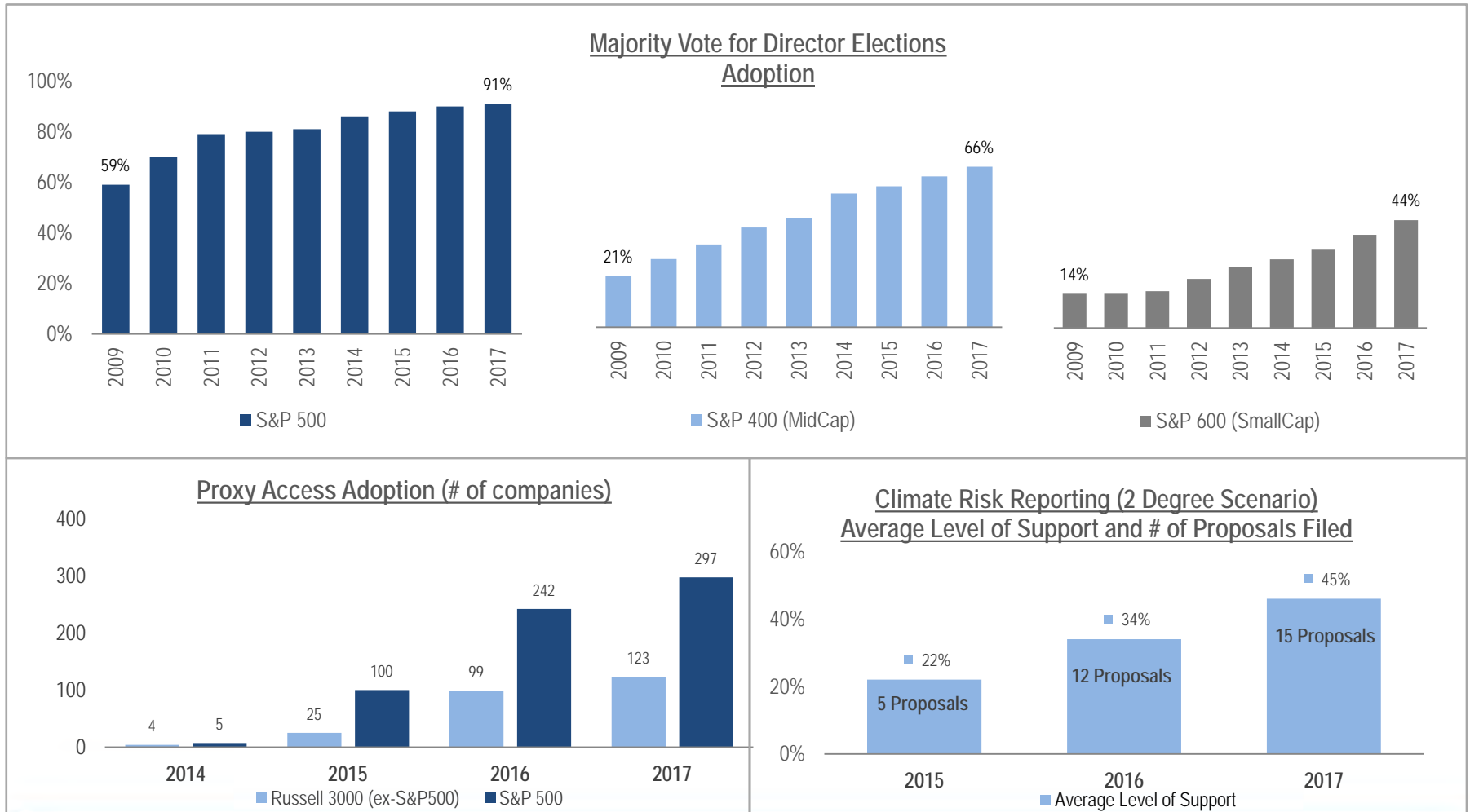
- Staff began engaging a further 50 companies in the fall of 2016 regarding the adoption of majority voting for director elections
- 34 companies have adopted or committed to adopt majority vote and 16 companies are in various stages of engagement
- 325 of the 350 companies engaged since 2010 have either adopted or committed to adopt majority vote for director elections

Climate Risk Reporting Campaign:

- 15 climate risk reporting proposals went to vote in 2017 and received 45% average level of support (up from 34% in 2016)
- CalPERS co-filed climate risk proposals at 3 companies – Occidental Petroleum, Chevron and ExxonMobil
 - Occidental Petroleum (AGM 5/12/17) – proposal passed with 67% shareowner support
 - Chevron Corp. (AGM 5/31/17) – proposal withdrawn due to substantial implementation. Staff will continue to engage Chevron surrounding best practice related to climate risk reporting frameworks
 - ExxonMobil (AGM 5/31/17) – proposal passed with 62% shareowner support
- CalPERS also ran proxy solicitations at 13 U.S. companies seeking implementation of climate risk reporting
 - 1 of the 13 proposals passed (at PPL Corp. passed with 57% support)

CalPERS Shareowner Campaigns vs. U.S. Market Trends

CalPERS Campaigns – Majority Vote for Director Elections, Proxy Access, and Climate Risk



2017 Corporate Engagement Update

Global Climate 100 Initiative (Montreal Pledge) Engagements:

- Developed a “Memorandum of Understanding” document outlining the partnership engagement framework
- Finalized CalPERS’ first cohort of 20 engagement companies
- CalPERS to introduce the Global Climate 100 Initiative with investors at PRI in Person in September 2017
- Public launch is planned at COP23 in November 2017
- Continue to build engagement partners through Global Investor Coalition (GIC)

Diversity & Inclusion Engagements:

- Staff has been collaborating with CalSTRS since August 2016 to engage 87 California companies regarding gender diversity on their boards. Over the last year, 21 of these companies have added at least one female board member.
- Staff wrote letters in January 2017 to the four S&P 500 companies that lacked gender diversity on their boards. Two of the companies have since added a female director, and the other two have committed to consider diversity in future board appointments
- Staff wrote letters in July 2017 to the 504 companies in the Russell 3000 that lacked gender diversity on their boards and were not part of an active CalPERS diversity engagement

Enhanced Focus List Program Engagements:

- Continued active Japan engagements as needed to accomplish desired governance reforms
- Transitioned to market-wide approach through the “Japan Board Independence Initiative”

Japan Board Independence Initiative: Rationale & Implementation

Why a market-wide initiative for Japan?

- Japan is CalPERS' second largest public equity investment market
- A market-wide approach has the potential for greater impact – 864 of 1219 companies have < 1/3 board independence
- Continue to leverage partnerships with other investors following the market adoption of the Japan Stewardship Code
 - CalPERS collaborated with a group of international institutional investors in 2014 calling for one-third board independence by 2017 at 33 large Japanese companies. 13 of these companies have now met the 1/3 threshold

Why focus on board independence?

- Board Independence is essential to a sound governance structure
- Board Independence in Japan is low relative to other developed markets
- Opportunity for success due to recent market governance reforms (i.e. Japan Corporate Governance Code)

Implementation of Japan Board Independence Initiative (2017 Japan Proxy Season):

- In line with the Governance & Sustainability Principles, and to move the market towards majority independent boards, staff amended the proxy voting practice for Japan to consider a minimum one-third board independence threshold
- Updated CalPERS' statement of compliance to Japan Stewardship Code to reflect CalPERS' one-third threshold
- Communicated CalPERS' one-third independence voting threshold through Japanese market media
- Voted against all non-independent directors when Japanese companies have less than one-third independence
- Wrote to companies where CalPERS voted against directors due to the one-third threshold to explain voting rationale

Evolution of the CalPERS Focus List Program

1987

Corporate engagement begins – CalPERS Legal Office files first shareholder proposal in the U.S.

1989

CalPERS publicly discloses first Focus List in “name and shame” format

2011

Focus List Program transitions to confidential-only engagements

2014

CalPERS adopts “Enhanced Focus List” to increase scale and impact of Program

2015

CalPERS identifies eight companies per year for engagement in the Japanese market

2017

The Enhanced Focus List transitions to a Thematic Approach in line with the ESG Strategic Plan (climate change, Japan board independence initiative, and board diversity)

Focus List Program Transition to Thematic Approach is in line with the ESG Strategic Plan

Global Climate 100 Initiative (Montreal Pledge) Engagements:

- Objective: Manage climate risks and opportunities by engaging CalPERS' most significant 100 carbon emitters. Per CalPERS' Governance & Sustainability 5-Year Strategic Plan, staff will engage 20 companies per year over 5-years
- Key Performance Indicators:
 - Establish a carbon reduction target consistent with Paris COP 21
 - Measure and report reduction in carbon footprint
 - Track financial performance of companies with established reduction targets

Japan Board Independence Initiative:

- Objective: Enhance Total Fund Board Independence in Japan
- Key Performance Indicator: Track the total number of Japanese portfolio companies that have less than one-third board independence

Diversity & Inclusion Engagements:

- Objective: Enhance Total Fund performance by increasing corporate board diversity
- Key Performance Indicators:
 - All public companies in which CalPERS invests have a dimension of board diversity
 - Track financial performance of companies with diverse boards
 - Board diversity: 3 years for the S&P 500; 20 years for all 10,000+ holdings in public equity

Appendix

Proxy Voting – Notable Highlights

Company Meetings:

- Wells Fargo:
 - Withheld votes from 9 director nominees for oversight failures stemming from the retail banking controversy (these directors held leadership positions on the board and had long tenures). Vote Support: J. Baker – 69%, J. Chen – 70%, L. Dean – 61%, E. Hernandez – 52%, D. James – 77%, C. Milligan – 57%, F. Pena – 53%, S. Sanger – 55%, S. Swenson – 67%

- Mylan:
 - Withheld votes from 5 director nominees for failing to manage risk surrounding the 2016 EpiPen controversy (these directors held leadership positions on the board and had long tenures). Vote Support: W. Cameron – 44%, R. Coury – 66%, N. Dimick – 50%, M. Parrish – 52%, R. Vanderveen – 63%
 - Voted “AGAINST” the Advisory Vote on Executive Compensation. This proposal received 83% shareowner opposition

- Netflix
 - Withheld votes from 3 director nominees for repeated failures to implement majority supported shareowner proposals. Vote Support: R. Hastings – 74%, J. Hoag – 51%, A. Battle – 62%
 - CalPERS also supported shareowner proposals on proxy access (passed w/ 53%) and a binding majority vote resolution (received 47% of outstanding shares - required 66% of outstanding shares to pass)

Proxy Voting – Notable Highlights

Shareowner Proposals:

- Proxy Access
 - Voted “FOR” 42 proxy access shareowner proposals (17 proposals passed with majority support). As of June 30, 2017, 60% of the S&P 500 have implemented proxy access
- Environmental/Climate Risk Reporting Proposals:
 - Voted “FOR” 51 shareowner proposals related to environmental issues (e.g. GHG Emissions, Sustainability Reporting, and Recycling Strategies)
 - Voted “FOR” 15 climate risk reporting shareowner proposals – three passed with majority shareowner support (Occidental, PPL, and Exxon)
- Diversity Related Proposals:
 - Voted “FOR” 13 diversity related (board/employment) shareowner proposals – two passed with majority shareowner support (63% at Cognex and 85% at Hudson Pacific Properties). The average level of support in 2017 for diversity related proposals was 32% (up from 24% in 2016)
 - Voted “FOR” 13 gender pay equity shareowner proposals (the highwater mark was 18% support at The Travelers Companies). The average level of support in 2017 for gender pay proposals was 13%

Corporate Governance Update

2017 Shareowner Campaigns – Proxy Solicitations

Company Name	Proposal	AGM	Result	Company Name	Proposal	AGM	Result
Humana Inc.	Proxy Access	4/20/2017	76% - Pass	National Oilwell Varco, Inc.	Proxy Access	5/17/2017	98% - Pass
AES	Climate Risk	4/20/2017	40% - Fail	Universal Health Services, Inc.	Proxy Access	5/17/2017	8% - Fail
Paccar	Proxy Access	4/25/2017	49% - Fail	Martin Marietta Materials, Inc.	Proxy Access	5/18/2017	73% - Pass
International Business Machines Corporation	Proxy Access	4/25/2017	59% - Pass	Crown Castle International Corp.	Proxy Access	5/18/2017	87% - Pass
Noble Energy	Climate Risk	4/25/2017	24% - Fail	Senior Housing Properties Trust	Proxy Access	5/18/2017	79% - Pass
Marathon Petroleum	Climate Risk	4/26/2017	40% - Fail	Hospitality Properties Trust	Proxy Access	5/24/2017	84% - Pass
Ameren	Climate Risk	4/27/2017	46% - Fail	Southern	Climate Risk	5/24/2017	46% - Fail
Hess	Climate Risk	5/4/2017	30% - Fail	Old Republic	Proxy Access	5/26/2017	74% - Pass
DTE	Climate Risk	5/4/2017	45% - Fail	Exxon	Climate Risk	5/31/2017	62% - Pass
Duke	Climate Risk	5/4/2017	45% - Fail	Chevron	Climate Risk	5/31/2017	Withdrawn
Kinder Morgan, Inc.	Proxy Access	5/10/2017	59% - Pass	Nabors Industries	Proxy Access	6/7/2017	67% - Pass
Kinder Morgan, Inc.	Climate Risk	5/10/2017	38% - Fail	NeuStar, Inc.	Proxy Access	6/8/2017	Merger
Dominion Resources	Climate Risk	5/10/2017	48% - Fail	Netflix	Proxy Access	6/8/2017	67% - Pass
Waters Corporation	Proxy Access	5/11/2017	89% - Pass	Devon	Climate Risk	6/8/2017	41% - Fail
Occidental Petroleum	Climate Risk	5/12/2017	67% - Pass	Monster Beverage	Proxy Access	6/14/2017	40% - Fail
FirstEnergy	Climate Risk	5/16/2017	42% - Fail	Abercrombie & Fitch Co.	Proxy Access	6/16/2017	82% - Pass
The Charles Schwab Corporation	Proxy Access	5/16/2017	67% - Pass	NetApp, Inc.	Proxy Access	9/15/2017	-
PPL	Climate Risk	5/17/2017	57% - Pass	WebMD Health Corp.	Proxy Access	9/29/2017	-
Minerals Technologies	Proxy Access	5/17/2017	88% - Pass				