Proxy Voting & Corporate Engagements Update

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Global Equity

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Looking Ahead – 2020 Proxy Season Outlook

- **CalPERS casts votes at approximately 11,000 company meetings annually**
  - ✓ Staff cast votes in line with CalPERS' Governance & Sustainability Principles and Investment Beliefs
  - ✓ From March through June, staff will cast votes at approximately 8,000 meetings
  - ✓ Staff typically engages 2,000 unique companies a year on governance and sustainability topics
  - ✓ Priority engagements on climate change, corporate board diversity, and executive and employee compensation
  - ✓ Other engagements on deforestation, plastic waste, human capital management, and other topical issues

- **Climate Action 100+:** Engage portfolio companies to ensure that their strategies take into account the risks and opportunities arising from climate change through:
  - ✓ Improving governance of climate-related risks and opportunities
  - ✓ Curbing greenhouse gas (GHG) emissions, and
  - ✓ Strengthening climate-related financial disclosures

- **Corporate Board Diversity:** Engage companies to improve corporate board diversity
  - ✓ Use proxy voting and shareowner campaigns to bring about change where engagements have not led to positive outcomes

- **Executive and Employee Compensation:** Ensure that the design and practice of compensation at portfolio companies appropriately incentivizes management and employees to generate long-term sustainable returns in alignment with the interests of long-term investors

Looking Back – 2019 Proxy Season Outcomes

- **Made progress in engaging Climate Action 100+ companies**
    - ✓ CalPERS leading engagements at 22 companies including 6 Japanese companies
    - ✓ Engaging companies to implement measurable targets relating to the goals of the Paris Agreement
    - ✓ Results and progress of collaborative engagements are detailed in the Climate Action 100+ 2019 Progress Report (http://www.climateaction100.org/)
    - ✓ Notable successes include public commitments by some companies to be "net-zero by 2050," 70% of CA100+ companies setting long-term emissions reductions targets and commitments to provide TCFD-aligned reporting

- **Made progress in improving corporate board diversity**
    - ✓ 53% of companies engaged since July 2017 added a diverse director to their boards (389 of 733 companies)
    - ✓ Met 3-year KPI for all S&P 500 companies to have at least one female director on their board
    - ✓ Voted "against" 314 directors at companies where diversity engagements did not result in constructive outcomes (by comparison voted against 468 directors in 2018)

- **Enhanced executive compensation voting**
    - ✓ Voted "against" 53% of executive compensation proposals, up from 43% in 2018. The 5-year average prior to staff's January 2018 implementation of the enhanced compensation analysis framework was 16% "against"
    - ✓ Developed and implemented a new proprietary 5-year quantitative pay-for-performance model

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Appendix

Climate Action 100+

CalPERS is playing a leading role in both strategy and implementation

- CalPERS convened the initiative following the carbon footprint of our global equity portfolio in 2015

  - ✓ Inaugural Chair of the initiative

  - ✓ Initiative now has over 370 signatories with over $35 trillion in assets under management

  - ✓ Signatories are engaging the 100 companies with the largest GHG emissions

- Member of the Steering Committee of the initiative and Chair of the Asia Advisory Group

  - ✓ CalPERS staff are also participating on multiple working committees

  - ✓ CA100+ notable successes at: Shell, Glencore, Xcel Energy, Maersk, Rio Tinto, HeildelbergCement, Duke Energy, Nestle, VW, and AES, PetroChina and PTT Public Company Limited

CalPERS is leading engagement on 22 portfolio companies globally

- Close collaboration amongst engagement, integration and policy & advocacy teams

  - ✓ All 22 company engagements underway, including 6 Japanese companies

 - ✓ Filed or co-filed climate risk proposals at 4 companies in 2019

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/

Corporate Board Diversity Cohorts: 2017, 2018, 2019
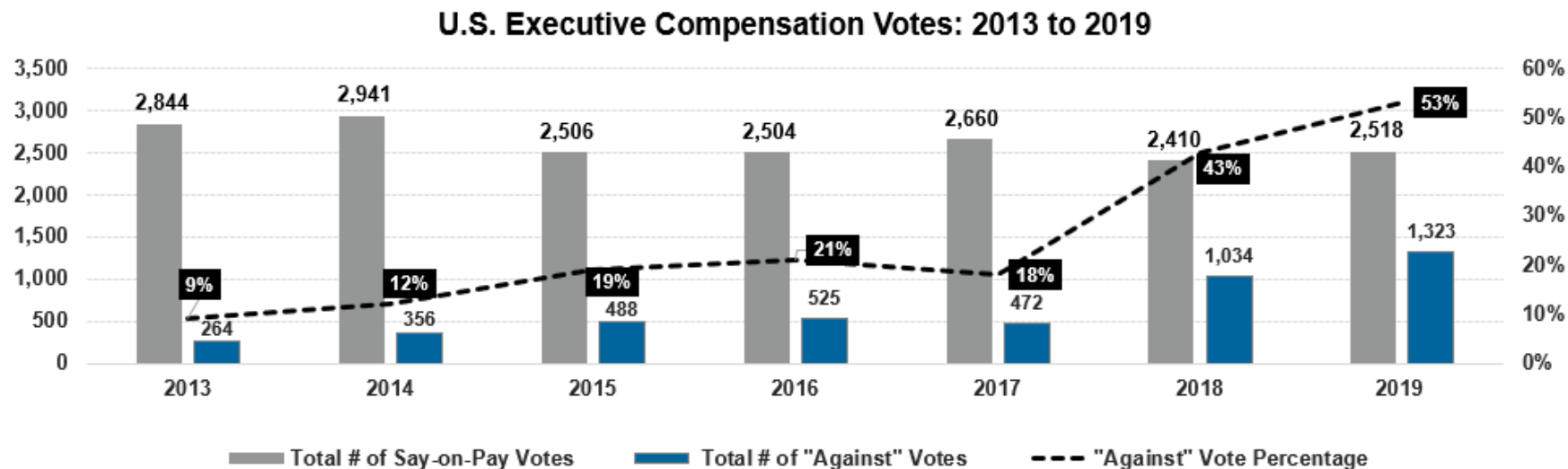
Corporate Board Diversity Engagements
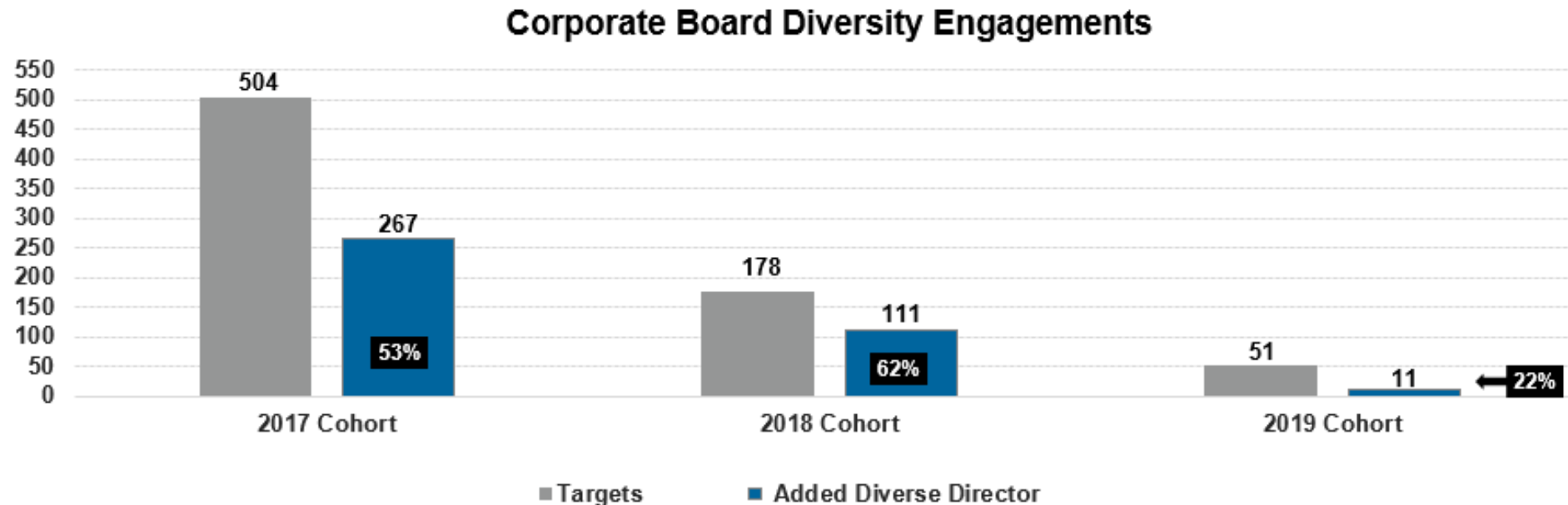
- ✓ 53% of the 2017 corporate board diversity cohort have since added a diverse director to their boards following staff's engagements (267 of 504 companies). Engagements started in July 2017

- ✓ 62% of the 2018 corporate board diversity cohort have since added a diverse director to their boards following staff's engagements (111 of 178 companies). Engagements started in October 2018

- ✓ 22% of the 2019 corporate board diversity cohort have since added a diverse director to their boards following staff's engagements (11 of 51 companies). Engagements started in July 2019

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Corporate Board Diversity Continued

- 2019 proxy season
  - ✓ Filed 121 majority vote shareowner proposals at non-responding diversity companies that did not have majority voting for director elections
    - ➢ As of December 31, 2019 – 48 of the 121 had added a diverse director to their boards
    - ➢ Reached settlements with 67 companies that committed to adopt majority vote
    - ➢ 19 proposals went to vote, 7 passed with >50%
  - ✓ Withheld votes from 314 directors at companies where engagements where not constructive

- 2020 proxy season
  - ✓ Engage current and new portfolio companies lacking board diversity
  - ✓ Continue to file majority vote shareowner proposals at non-responding companies that do not have majority voting for director elections
  - ✓ Continue to withhold votes against directors where engagements are not constructive
  - ✓ Continue to partner with CalSTRS and LACERA on the California Diversity Initiative to improve board diversity at CA headquartered companies

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U.S. Executive Compensation Votes: 2013 to 2019

U.S. Executive Compensation Votes: 2013 to 2019

Year	Total # of Say-on-Pay Votes	Total # of "Against" Votes	"Against" Vote Percentage
2013	2,844	264	9%
2014	2,941	356	12%
2015	2,506	488	19%
2016	2,504	525	21%
2017	2,660	472	18%
2018	2,410	1,034	43%
2019	2,518	1,323	53%

Legend: Total # of Say-on-Pay Votes — Total # of "Against" Votes — - - - "Against" Vote Percentage

✓ 2017: Staff carried out 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: apply further enhancements to the executive compensation framework analysis

  ➢ Implement the CalPERS P4P Scorecard developed in August 2019

  ➢ Vote "against" Compensation Committee members when voting "against" compensation plans