Attachment 2

JOHN CHIANG

California State Controller

February 6, 2008

Chair Charles Valdes
Investment Committee
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Dear Chair Valdes:

I am writing to urge CalPERS to consider a new initiative that would proactively address the issue of diversity on the boards of corporations in which CalPERS invests. This is an important opportunity for CalPERS to demonstrate its ongoing leadership in the arenas of corporate governance and diversity.

Institutional investors have acknowledged the benefit of diversity on corporate boards. Indeed, CalPERS' own Core Principles of Accountable Corporate Governance recommend that in nominating directors, corporate boards consider a mix of director characteristics and diverse perspectives. The Principles also suggest that board composition should include historically underrepresented groups. (CalPERS Core Principles of Accountable Corporate Governance, sec. B.3.)

As state and national demographics are rapidly changing, so is the composition of corporate America's customers, shareowners, and stakeholders. To properly represent and address the issues of a company's many constituents, and to maintain a competitive edge in today's global markets, a diverse board is a necessity. Indeed, the nominating committees of corporate boards should be encouraged to reach out to their shareowners for suggestions for board candidates who will appropriately represent them.

In addition to being a solid business proposition, diversity fosters good corporate governance. Diversity in the boardroom ensures a wider range of talents, ideas, and viewpoints. This inherently leads to greater creativity, more vigorous deliberation and debate, and more integrity of processes, all of which are desirable traits for a board and are consistent with principles of good corporate governance.

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Despite widespread acknowledgement that diversity underpins the composition of a healthy board, women and minorities continue to be underrepresented on corporate boards. In a 2005 report, on *Women and Minorities on FORTUNE 100 Boards*, the Alliance for Board Diversity found that there is severe under-representation of women and minorities on corporate boards of the Fortune 100 when compared to general U.S. population demographics for race and gender. Particular areas of concern include the lack of representation of minority women and African Americans, as well as Asian-Pacific Islander and Hispanic populations.

I commend CalPERS for its two decades of leadership in corporate governance, as well as for its more recent diversity initiatives. I urge the System to take this opportunity to leverage the intersection of these two issues and to lead an effort to diversify our nation's corporate boardrooms.

The most appropriate first step in this initiative would be to ask staff to compile and analyze the most recent available survey data on board diversity and prepare a report for the March meeting. At that meeting, the Investment Committee might also consider specific actions such as:

1. Amend the current Policy on Corporate Governance Director Nominations to specifically address the issue of diversity in situations where CalPERS is nominating directors.
2. Sponsor the development of an issue paper that sets forth best practices for corporations to follow in seeking diversity on their boards.
3. Actively engage companies on this issue in the focus list process as well as in other engagements and, where appropriate, file or co-file shareowner proposals on board diversity.

I respectfully request that this matter be placed on the Investment Committee agenda in the near future. If you have any questions or wish to discuss this matter, please feel free to give me a call directly at (916) 445-2636.

Sincerely,

Original signed by:

JOHN CHIANG
California State Controller

cc: Members, Investment Committee
Fred Buenrostro
Russell Read