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FACTS AT A GLANCE: CORPORATE GOVERNANCE

JULY 2009

Facts at a Glance is a monthly compilation of information of interest to Board Members, staff, and the general public. Information is current as of April 30, 2009, unless otherwise noted. Every effort has been made to verify the accuracy of the information, which is intended for general use only. Please direct any questions and comments to the Public Affairs Office at (916) 795-3991.

INVESTING WITH A CORPORATE GOVERNANCE FRAMEWORK

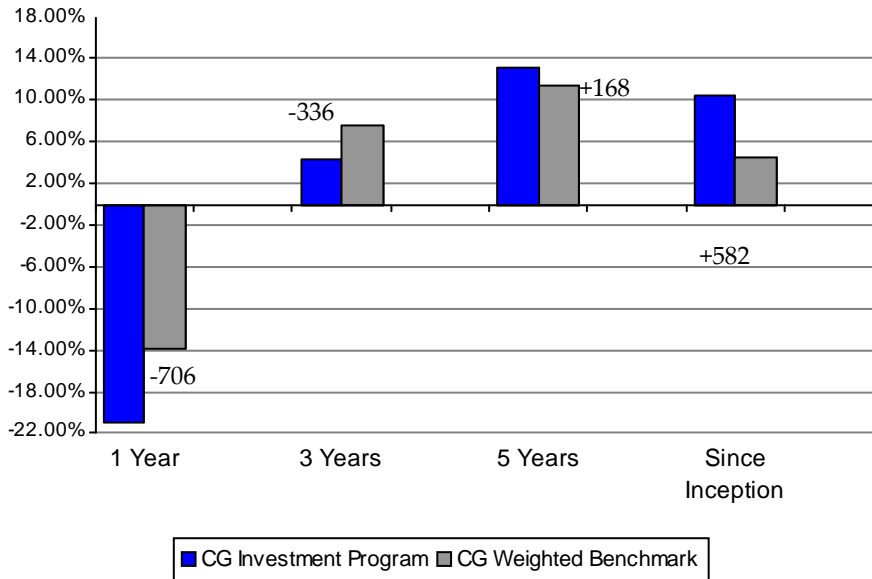
We believe good corporate governance leads to better investment performance. We seek corporate reforms to protect our investments. The corporate governance team challenges companies and the status quo; we vote our proxies; we work closely with regulatory agencies to strengthen our financial markets; and we invest with partners that use corporate governance strategies to add value to our fund by turning around ailing companies.

CORPORATE GOVERNANCE INVESTMENT PROGRAM (CGIP)

The strategic objective of the Corporate Governance Program (CGIP) is to broaden the opportunity set of CalPERS Investment portfolio by achieving returns not available in traditional public markets. The CGI Program focuses on highly concentrated portfolios and incorporates an active engagement strategy to unlock value through operational, strategic, and governance changes.

The CGI program has more than \$3.2 billion dollars of capital invested amongst 21 external corporate governance funds and co-investment partners. The asset allocation of the program contains both domestic and international countries, including the U.S., Europe, UK, Japan, and Korea. Since inception in 1999, the Corporate Governance Investment program (represented by the CG Composite in the chart below) has outperformed its Corporate Governance (CG) Weighted Benchmark by 582 basis points.

In February 2007, the CalPERS Board of Administration approved expansion of the Corporate Governance Investment Program to include investments in foreign emerging markets and in May 2008 we made our first investment in a Korean corporate governance fund.



State Street methodology is CFA Institute compliant.
 All figures are net of all fees for periods ending June 30, 2008.
 Inception Date: January 1999

CalPERS FOCUS LIST

The Focus List Program continuously demonstrates its ability to produce excess returns to CalPERS assets. The program is an annual process that identifies companies in the domestic internal equity portfolio that exhibit both poor economic performance and poor corporate governance. CalPERS focuses on reforming the companies' governance practices with an emphasis on accountability, transparency, independence, and discipline in an attempt to improve shareowner wealth.

CalPERS 2009 FOCUS LIST COMPANIES

Eli Lilly & Company, Hill-Rom Holdings, Inc., Hospitality Properties Trust, and IMS Health, Inc.

IMPACT OF THE FOCUS LIST ON CalPERS RETURNS

A Wilshire Associates study examined the performance of 134 companies targeted by CalPERS Focus List from beginning of 1987 through the fall of 2006. According to the study, "For the five years prior to the "initiative date", the Focus List companies produced returns that averaged 82.2% below their respective industry benchmarks over the entire five-year period, which is equivalent to a return shortfall of -12.7% per year on an annualized basis. For the first five years after the "initiative date," the average targeted company produced excess returns of 15.7% above their respective benchmark return on a cumulative basis, or 3.14% per year on an annualized basis." The "CalPERS Effect" on Targeted Company Shares Prices, by Andrew Junkin, CFA, CIMA, CALA, Managing Director and Thomas Toth, CFA, Vice President; Wilshire Associates Incorporated; July 31st, 2008.

CalPERS SEEKS PROXY ACCESS FOR DIRECTOR NOMINATION

Today in the United States, shareowners do not have effective access to the proxy for the purpose of nominating director candidates. Shareowner access to the proxy for the purpose of nominating director candidates is CalPERS' top priority of focus to ensure a sustainable system of corporate governance that fosters democracy, director accountability and long-term value creation. Without effective proxy access, the director election process simply becomes a ratification of corporate management's slate of nominees. CalPERS believes proxy access is a fundamental shareowner right that allows investors reasonable access to place nominees on corporate proxy ballots with all nominees being subsequently subject to a vote of the majority of shareowners.

CalPERS SEEKS MAJORITY VOTE FOR CORPORATE DIRECTORS

CalPERS believes that in an uncontested director election, a majority of proxies cast should be required to elect a director. In a contested election, a plurality of proxies cast should be required to elect a director. Currently, a plurality vote system is used in many corporate elections, in which directors can be elected by the vote of a single share unless they are opposed by a dissident candidate. CalPERS plans to support this principle through the following courses of action:

- Implement majority vote policies at individual companies through company bylaw and charter amendments;
- Advocate for changes to state laws to implement majority vote where feasible; and
- Seek to advocate regulatory and stock exchange support for the majority vote standard.

CalPERS PRESSES FOR FINANCIAL MARKET REFORM

CalPERS encourages and supports global reform to protect investor interests through legislative, regulatory, securities exchange, and investor forums. The current market climate

presents a window of opportunity for CalPERS to exhibit leadership in shaping market reform to protect investors from a future market meltdown of this magnitude. Addressing certain reforms is critical and will contribute to the restoration of confidence in the capital market system. As a matter of importance, CalPERS has contributed to supporting the establishment of a regulatory financial market system designed to instill trust, integrity, and confidence in the investors, beneficiaries, and stakeholders of the global capital markets through the following action items:

- In collaboration with CalSTRS and other leading U.S. public pension funds and plan sponsors, developed the “Principles of Financial Regulation Reform”, which include: 1) greater disclosure and transparency, 2) true regulatory independence, 3) an increased and effective shareowner voice in the capital markets, 4) earlier identification by regulators of issues that give rise to overall market risk that threaten global markets, and 5) the preservation of institutional investors’ freedom to invest in the full range of investment opportunities.
- As an active member of the Council of Institutional Investors, signed onto a letter urging U.S. Congressional leaders to consider a number of key corporate governance improvements for inclusion in financial market regulatory reform legislation. The corporate governance improvements considered to have the greatest impact for financial market reform legislation include: 1) Majority Voting Standards in Director Elections, 2) Shareowner Access to the Proxy for the Purpose of Nominating Directors, 3) Abolishing the ability of Brokers to vote uninstructed broker proxy votes, 4) Establishing a board structure under the leadership of an Independent Board chairperson, 5) Board use of Independent Compensation Advisers, 6) annual non-binding Advisory Shareowner Vote on executive pay, 7) stronger executive compensation Clawback provisions, and 8) Severance pay limitations that ensure greater pay-for-performance alignment.

CalPERS DIVERSITY STRATEGY

In March 2008, California State Controller John Chiang requested CalPERS to consider a new initiative to address corporate board diversity. Subsequently, in April 2008 the Investment Committee directed staff to develop a white paper on best practices for boards to follow in seeking diversity on their boards.

At the February 17, 2009, Investment Committee Meeting the board accepted the report -- Board Diversification Strategy: Realizing Competitive Advantage and Shareowner Value. The report states that companies with diverse boards perform better than those with similar director profiles in terms of ethnicity, gender, and skill sets. In addition, companies without ethnic minorities and women on their boards may eventually be at a competitive disadvantage and have underperforming share value. CalPERS will be using these findings

as we encourage portfolio companies to demonstrate better performance and better corporate governance.

CalPERS INITIATIVE TO ENSURE THE INTEGRITY OF FINANCIAL REPORTING

As an investor and provider of long-term of capital, CalPERS has a great interest in the improvement and integrity of financial reporting. Investors and shareowners should expect auditors to bring integrity, independence, objectivity, and professional competence to the financial reporting process. Public and investor confidence and stability are essential to the success and effective functioning of the capital markets. To ensure this confidence, as an active investor, CalPERS will provide leadership through substantive initiatives which include:

- Expand CalPERS Global Principles of Accountable Corporate Governance as it relates to accurate financial disclosure, international financial reporting standards and auditor independence;
- Improve financial disclosure and audit practices through direct company engagement in the CalPERS Focus List Program;
- Comment to regulators to assist with market reform, auditor independence and accurate financial reporting;
- Engage audit committee directors through the National Association of Corporate Directors;
- Participate in advisory boards and roundtables to provide investors, perspective — International Corporate Governance Network, Public Company Accounting Oversight Board (PCAOB), Financial Accounting Standards Board (FASB), Securities and Exchange Commission (SEC) and Congressional Committees.
- Participate within the market to address current issues Provided the following comment letters:
 1. May 29, 2009, Concept Release on Possible Revisions to the PCAOB's Standard on Audit Confirmations
 2. April 22, 2009, Request for views on Proposed FASB Amendments on Fair Value Measurement and to Impairment Requirements for Certain Investments in Debt and Equity Securities
 3. April 20, 2009, Comment letter to the SEC regarding the Roadmap for the Potential Use of Financial Statements Prepared in Accordance with International Financial Reporting Standards (IFRS) by U.S. Issuers.
 4. April 14, 2009, Comment letter to the FASB and IASB regarding preliminary views on financial statement presentation.

5. February 18, 2009, Proposed Auditing Standards Related to the Auditor's Assessment and Response to Risk and Conforming Amendments to PCAOB Standards.

CALPERS PURSUES PAY FOR PERFORMANCE INITIATIVES

Executive compensation practices establish a foundation for aligning management with investor interests. Given the separation of ownership and control of companies by management the design of a compensation package is critical to ensuring investors interest are aligned with management.

CalPERS is pursuing many pay-for-performance initiatives, including the following:

- Achieve executive compensation reform at companies targeted through the Focus List Program;
- Utilize the new SEC proxy disclosure to vote compensation related proposals while applying CalPERS Principles of Accountable Corporate Governance;
- Seek opportunities to engage stock exchanges, equity market regulators, governmental authorities, and institutional investors to promote reform that improves executive compensation disclosure and pay-for-performance practices; and
- Continue to expand and implement CalPERS Executive Compensation Principles of Accountable Corporate Governance market wide.

CalPERS PRESSES FOR ENVIRONMENTAL DISCLOSURE

CalPERS successfully completed a number of initiatives, including the development of the Global Framework for Climate Risk Disclosure via the Climate Risk Disclosure Initiative and the Electric Utilities Greenhouse Gas Reporting Project.

CalPERS played a key role in a national effort to seek federal regulations to address climate change. The "Call to Action" campaign organized by CERES and the Investor Network on Climate Risk (INCR) held a press conference in Washington, D.C., in mid-March and issued a letter urging the federal government to take three specific actions to address the uncertainty created by the lack of national policy on climate change. The Call to Action was developed to draw attention to the fact that the uncertainty creates risks for both investors and business as they engage in long-term strategic planning, asset management, and capital budgeting.

Going forward, CalPERS is committed to the following:

- Implementation of the Environmental Company Engagement program. CalPERS is engaging companies in the airline, auto, utilities, and oil and gas industries that lack disclosure on the four elements highlighted in the Global Framework for Climate Risk Disclosure.

- Support of the Carbon Disclosure Project through our membership and as a signatory;
- Participation in the Investor Network on Climate Risk (INCR); and
- Support of Environmental Shareowner Resolutions for Improved Disclosure.

CalPERS CORPORATE GOVERNANCE WEBSITE

www.CalPERS-governance.org

CalPERS has an Internet Web site devoted exclusively to the CalPERS corporate governance program. The site is intended to educate and promote action in the market on CalPERS corporate governance activities. For more information on corporate governance initiatives mentioned in this article please visit the Corporate Governance web site.