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FACTS AT A GLANCE: CORPORATE GOVERNANCE

JANUARY 2012

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 September 30, 2011 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

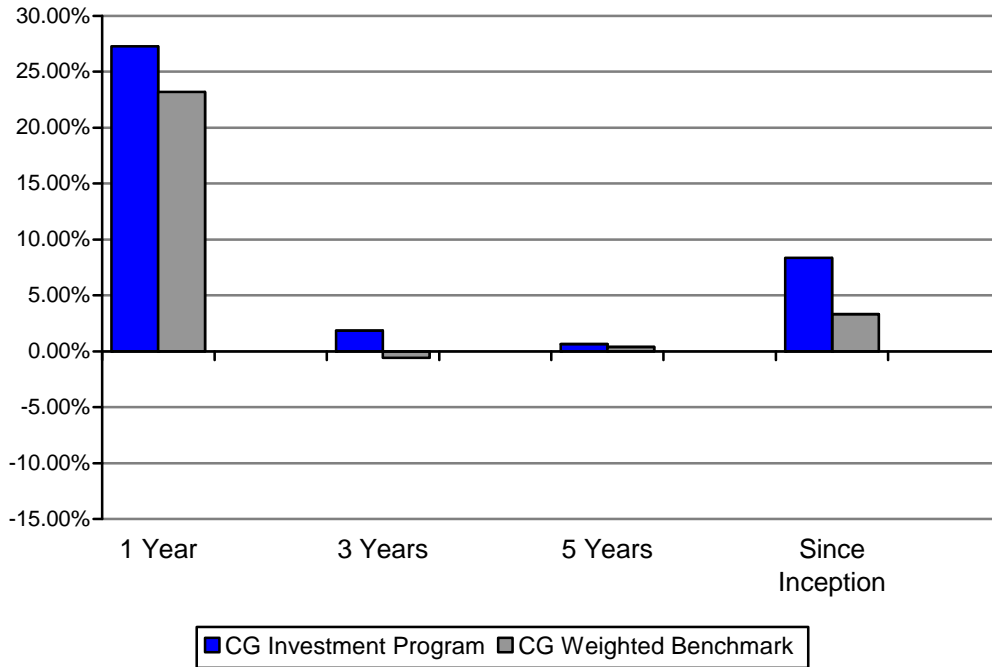
We believe good corporate governance leads to better investment performance. We seek corporate reforms to protect our investments. The corporate governance team challenges companies and the status quo; we vote our proxies; we work closely with regulatory agencies to strengthen our financial markets; 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 Investment 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.

As of the end of November 2011, the CGI Program has more than \$4.0 billion dollars of capital invested among 15 external corporate governance funds and nine 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 CGI Program (represented by the CG Composite in the chart below) has outperformed its Corporate Governance (CG) Weighted Benchmark by almost 5 percent.

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 CalPERS made the first investment in a Korean corporate governance fund. In September 2009, CalPERS added another emerging market fund that specializes in Emerging Europe, Middle East, Asia, Latin America and Africa.



All figures are net of all fees for periods ending June 30, 2011

CalPERS CORPORATE ENGAGEMENT STRATEGY

CalPERS corporate engagement process has the overarching objective of improving alignment of interest between providers of capital and company management. It is CalPERS view that improved alignment of interest will enable the fund to fulfill its fiduciary duty to achieve sustainable risk adjusted returns. There are three main drivers in the corporate engagement program:

- **Financial Performance** – company engagement to address persistent, relative value destruction, through the Focus List Program
- **Value Related Risk** – material environmental, social and governance factors, such as reputational risk, climate change, board diversity and key accountability measures such as majority voting
- **Compliance** – in response to State or Federal legislation, such as Iran and Sudan Acts calling for divestment, which CalPERS mitigates as a risk via engagement

CalPERS engagement activity is market wide, which can be considered as a strategy for improving the quality of beta in the portfolio. CalPERS also has company specific engagement, which can be viewed as a strategy for addressing alpha related risk Compliance is a requirement and mitigates both financial reputational risks for CalPERS.

CalPERS FOCUS LIST PROGRAM

On November 15, 2010 CalPERS adopted a new strategy for engaging underperforming public stock companies through private contacts and proxy actions rather than by posting a public “name-and-shame” Focus List. However, some company engagements will continue to become public information - primarily through proxy actions and shareowner solicitations.

The process will include these steps:

- CalPERS will review the performance of the top 500 U.S.-based public companies in terms of CalPERS market value ranging from \$15 million to \$1 billion, including stocks and corporate bonds.
- The pension fund initially will screen companies for total stock returns for one, three, and five years relative to a broad index and industry group.
- CalPERS will conduct a secondary screening for key governance factors, financial analysis and market expectations. Key governance factors include but are not limited to: board independence, election practices, executive compensation, board diversity and skill sets, risk oversight and environmental and social issues.
- CalPERS will sponsor or support shareowner resolutions addressing practices of selected companies that continue to resist positive corporate governance change.

George Diehr, Chair of the CalPERS Investment Committee stated, “It’s consistent with our overall effort to stop the destruction of share value; to raise the bar for better environmental, social and governance practices by companies; and to comply with legislative mandates such as the federal financial market reform and Sudan and Iran divestment State laws requiring continuing engagement with some 40 portfolio companies.”

Key findings of a new 10-year Wilshire Consulting study of CalPERS corporate engagements within the Focus List program, includes public and private contacts, demonstrated outperformance against the sector and benchmark in both three and five year time periods by over 15 percent and 9 percent, respectively.

CalPERS SEEKS PROXY ACCESS FOR DIRECTOR NOMINATION

Shareowner access to the proxy is CalPERS top governance priority 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 has proactively offered considerable support and leadership for actions being taken by the U.S. Congress to address proxy access. On July 21, 2010, President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act) into law. This comprehensive Act includes a dedicated section on strengthening corporate governance provisions including proxy access. The legislation specifically states that the Securities and Exchange Commission (SEC) may issue rules permitting shareowners use of a company proxy for the purpose of nominating individuals to membership on the board.

On August 25, 2010 the SEC enacted a new rule granting shareowner access to the proxy, following more than three decades of debate. The new rule would have given shareholders owning 3 percent of a company's stock for three years the opportunity to nominate a board candidate. However, on July 22, 2011, the U.S. Court Appeals for the D.C. Circuit vacated the SEC's proxy access rule following a challenge by the Business Roundtable and U.S. Chamber of Commerce. The decision invalidating the SEC's rule was disappointing. CalPERS joined leaders from some of the world's largest pension funds and institutional investors representing more than \$2.0 trillion in a public statement urging the SEC to issue new regulations on proxy access. While a market-based approach to proxy access has been stalled once again, the SEC did make effective on September 20, 2011 rule amendments permitting shareowners to file proxy proposals seeking access on a company-by-company basis. CalPERS will stay vigilant in its advocacy efforts to achieve a market-based approach on proxy access.

CalPERS PRESSES FOR FINANCIAL MARKET REFORM

CalPERS encourages and supports global reform to protect investor interests through legislative, regulatory, securities exchange, and investor forums. 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.
- CalPERS voted in favor of the Council of Institutional Investors' endorsement of the July 2009 Investors' Working Group report entitled "U.S. Financial Regulatory Reform: The Investors' Perspective." The report provides an investor perspective on recommendations to improve regulation of the U.S. financial markets focusing on four major areas that the financial crisis has revealed to be fundamentally flawed: 1) strengthening and reinvigorating existing federal agencies responsible for policing financial institutions and markets and protecting investors and

consumers; 2) filling the gaps in the regulatory architecture and in authority over certain investment firms, institutions and products; 3) improving corporate governance at U.S. financial companies and 4) designating a systemic risk regulator, with appropriate scope and powers.

On July 21, 2010 President Obama signed the Dodd-Frank Wall Street Reform and Consumer Protection Act (Act) into law as a historic step toward protecting markets and advancing shareowner democracy. The Act outlines a comprehensive framework for reform following the financial crisis. CalPERS was actively engaged during the drafting of the legislation to ensure that critical issues of concern to long-term, responsible investors were addressed. These included oversight of systemic risk, corporate governance, consumer protection, regulatory independence, regulation of the derivatives markets and the credit ratings industry, sustainability and attention to ensure that legitimate investment opportunities were not constrained. A significant number of CalPERS priorities were addressed in the Act.

The proposed reforms are now at the next critical stage – implementation, which will require ongoing engagement by CalPERS. The recent elections have introduced new uncertainty to the process, empowering the legislation’s critics to stall implementation through aggressive oversight or through withholding of Congressional funds. Moreover, the complexity of rule-making allows a further opportunity for dilution through lobbying by special interest.

CalPERS is therefore carefully addressing each of its priorities for reform and devoting internal expertise and external advice to ensure its views are properly articulated to the relevant authorities. Given the continuing importance of the work to the system’s objectives, Financial Market Reform has been graduated into the core work program.

CalPERS DIVERSITY STRATEGY

On September 26, 2011, CalPERS, CalSTRS and GovernanceMetrics International (GMI) publicly announced that the Diverse Director DataSource (3D) is now open to potential board candidates and will begin accepting submission at www.GMI3D.com. Nearly two years ago, CalPERS and CalSTRS partnered to develop 3D and with the input and counsel from more than 150 leaders in the field we were able to create a new resource to support board quality through improving diversity. This new resource is for shareowners, company nominating committees and search firms seeking skilled individuals who can bring fresh perspective to a board room, advance a company’s business strategy and help investors achieve long-term, risk-adjusted returns.

CalPERS INITIATIVE TO ENSURE THE INTEGRITY OF FINANCIAL REPORTING

As an investor and provider of long-term capital, CalPERS has a great interest in the improvement and integrity of financial reporting.

Financial reporting plays an integral role in the financial system by striving to provide unbiased, transparent and relevant information about the economic performance and condition of businesses.

Effective financial reporting depends on high-quality accounting standards, as well as the consistent and faithful application and rigorous independent audit and enforcement of those standards.

Financial reporting is of great importance to investors and other financial market participants in their resource allocation decisions and to regulators and other users. The confidence of all these users in the transparency and integrity of financial reporting is critically important to global financial stability and sound economic growth.

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 continues to participate in roundtables at the SEC regarding International Financial Reporting Standards (IFRS) and the Public Company Accounting Oversight Board (PCAOB) regarding the significant role of the auditor and the audit report. Additionally CalPERS continues to provide leadership through substantive initiatives which include:

- Promote international integrated reporting, bringing together financial, environmental, social and governance information in one report.
- 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
- Provide commentary to regulators on market reform, financial reporting, auditor independence and auditor's reporting model
- Engage audit committee directors through the National Association of Corporate Directors
- Participate in advisory boards and roundtables to provide investors perspective on accounting and auditing issues: The International Corporate Governance Network–Accounting and Auditing Practices Committee (ICGN–AAPC), Investors Advisory Group (IAG) and the Standing Advisory Group (SAG), Financial Accounting Standards Board Investors Technical Advisory Committee (FASB ITAC), Securities and Exchange Commission (SEC) and Congressional Committees
- Participate in organizations such as the International Corporate Governance Network (ICGN), Council of Institutional Investors (CII) and the Asian Corporate Governance Association (ACGA) to further CalPERS initiatives.
- Participate within the market to address current issues.

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 that investors' interests are aligned with management.

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

- Achievement of executive compensation reform at companies targeted through the Focus List Program
- Engaging CalPERS top 300 public companies on executive compensation advisory vote issues
- Utilization of the new SEC proxy disclosure to vote compensation-related proposals while applying CalPERS Principles of Accountable Corporate Governance
- Seeking 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
- Continuing to expand and implement CalPERS Executive Compensation Principles of Accountable Corporate Governance market-wide

INTEGRATING ENVIRONMENTAL, SOCIAL, GOVERNANCE ISSUES INTO INVESTMENT PROCESS

The Investment Committee held a workshop on Monday, August 15, 2011 to examine how best to integrate environmental, social and governance issues into the Pension Fund's investment process in order to enhance risk management. Environmental, social and governance issues – known as ESG – can affect the financial performance and long-term value of companies and investments. A link to the public workshop and all supporting material presented is as follows:

<http://www.calpers.ca.gov/index.jsp?bc=/investments/video-center/view-video/esg-workshop.xml>

For the past year, the CalPERS Investment Office has been developing a comprehensive plan to implement ESG into investment decision-making across all asset classes. The workshop sought Board input on priorities and the development of an ESG integration plan.

"The workshop will help us understand how we apply the principles of sustainability to our investment due diligence," said George Diehr, Investment Committee Chair. "ESG issues can play a role in company performance, and as a long-term investor it's important for us to factor into our decision-making anything that can impact a company's sustainability and value."

"As a global investor, we're mindful of ESG-related risks and opportunities around the world," said Anne Stausboll, CalPERS Chief Executive Officer. "We want to incorporate sustainability-related factors into our investment decision-making because we believe it can lead to better investment performance and maximize our risk-adjusted returns for our members."

The Investment Committee heard key findings of a study on the integration of ESG at other financial institutions. Among other things, the study, commissioned by CalPERS and conducted by Mercer Consulting, offers an overview of international developments in ESG.

“Environmental, social and governance factors are an essential part of our risk management,” said Joseph Dear, CalPERS Chief Investment Officer. “We must have a way to ensure that the critical challenges that sustainability represents are taken fully into account as we pursue our investment strategy across all our asset classes.”

Investment Office staff will return to the Investment Committee in the months to come with a dedicated action plan for implementing each of the opportunities presented at the workshop.

CalPERS CORPORATE GOVERNANCE WEBSITE

CalPERS has an Internet website 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 website at www.CalPERS-governance.org