

Global Governance Program Accomplishments & Key Initiatives

November 13, 2012

Who We Are: Global Governance

- **We aim to be a principled and effective investor:** To deliver sustainable, risk-adjusted returns
- **Grounded in Economics:** Long-term value creation requires effective management of three forms of capital - financial capital, physical capital, human capital
- **Work Streams:** Principles and Proxy Voting, Corporate Engagement, Capital Market Stability, ESG Integration, Institutional Relations
- **Core Issue Driven:** Shareowner rights, board quality and diversity, corporate reporting, executive compensation, regulatory effectiveness
- **Thought Leadership and Coalition Building:** Investor Forum Leadership, CalPERS Global Governance Website, Enterprise Sustainability Reporting

Governance Program Context:

CalPERS Goal is Long-term Value Creation

"Sustainable investment in its simplest form is the ability to continue, and for a long-term investor like CalPERS with long-term liabilities, it is critically important. Long-term value creation requires the effective management of three forms of capital: this is why we are concerned with environmental, social, and governance issues."

Environment - Physical Capital

Includes managing risk posed by climate change, and the use of natural resources and buildings

Social - Human Capital

Includes health, safety, and labor practices



Governance - Financial Capital

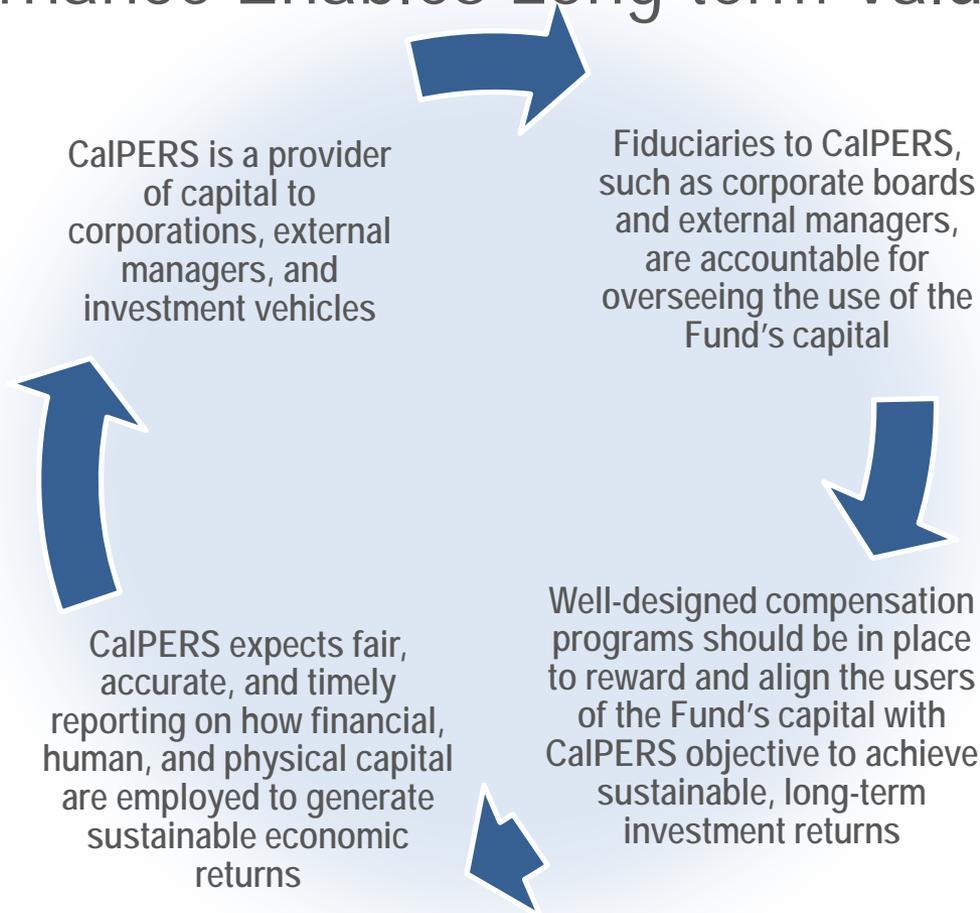
Includes equity, debt, public and private investments

Governance Program Context:

Good Governance Enables Long-term Value Creation

- **Capital Market Governance** – to ensure safety and soundness of capital markets which underpin CalPERS investments
- **Corporate Governance** – to ensure shareowner rights, board quality, and reporting are in place to protect and grow CalPERS capital investments
- **External Manager and Partner Governance** – to ensure CalPERS interests are represented and aligned through the investment chain

Governance Program Context: Good Governance Enables Long-term Value Creation



Global Governance “From-To” Vision

FROM	TO
Anchored to the Global Equity asset class	Anchored to the Total Fund
Corporate Governance	Global Governance – Capital Markets & Sustainability (Environmental, Social and Governance)
Principles and Proxy Voting – Core Principles refer to domestic public equity holdings only	Total Fund Principles tailored for global markets
Corporate Engagement – Governance led	Integration of relevant financial, governance, environment, social and diversity factors
Capital Market Stability – Financial market reform priorities focused on U.S. capital markets	Advancing financial market reform priorities in global capital markets based on investment exposure
ESG Integration – Scattered initiatives on Environmental, Social and Governance components	Prioritization and integration of relevant ESG components across the Total Fund
Institutional Relations – Ad hoc process for managing CalPERS institutional relationships	Clear structure for prioritizing, monitoring, and advancing CalPERS priorities through institutional relationships

What Did We Do: 2012 Key Accomplishments

Work Stream	2012 Key Accomplishments
Principles and Proxy Voting	<ol style="list-style-type: none"> 1. Amended Global Principles of Accountable Corporate Governance to include principles on board accountability and disclosure of corporate political and charitable contributions, diversity, audit, and risk management. 2. Exercised 97,000+ proxy votes in compliance with Statement of Investment Policy for Global Proxy Voting. 3. Analyzed and communicated "AGAINST" vote rationale seeking change for 200+ compensation say-on-pay proxy proposals at U.S. companies – 87 companies have agreed reforms. 4. Achieved majority voting support for all six of CalPERS filed shareowner proposals and solicited for the first successful proxy access proposal.
Corporate Engagement	<ol style="list-style-type: none"> 1. Achieved adoption of governance best practices at 2011 Focus List Program companies addressing director independence, majority voting, annual director elections, sustainability reporting, and executive compensation. Financial performance is monitored by Wilshire Associates. 2. Monetized 2012 Focus List Program. 3. Achieved adoption of majority voting standards at 49 major portfolio companies representing \$1.1 billion in CalPERS assets under management. 4. Launched Diverse Director DataSource (3D). 5. Joined the 30% Coalition in writing to 41 S&P 500 companies where CalPERS felt the companies boards lacked diversity. 6. Participated in the PRI Investor Pilot Group – engaged two companies, to develop a better understanding of how the Guidance on Responsible Business in Conflict-Affected and High-Risk Areas can facilitate a dialogue and establish agreed upon concrete actions with investee companies.

What Did We Do: 2012 Key Accomplishments

Work Stream	2012 Key Accomplishments
Capital Market Stability	<ol style="list-style-type: none"> 1. Proactively went on record over 25 times to submit comment letters, give testimony, or present CalPERS core issues in face-to-face meetings with regulatory and legislative leaders. 2. Advocated for completion of “unfinished” Dodd-Frank Act business related to derivatives, credit ratings, investor protections, and regulatory funding. 3. Appointed to U.S. regulatory advisory bodies associated with the SEC, FDIC, and PCAOB.
ESG Integration	<ol style="list-style-type: none"> 1. Established and formalized CalPERS ESG Cross-Asset Class investment team. 2. Launched CalPERS first Total Fund report – <i>Towards Sustainable Investment: Taking Responsibility</i>.
Institutional Relations	<ol style="list-style-type: none"> 1. CalPERS won board seat elections at leading governance organizations (CII, PRI) and was appointed to governance organizations and regulatory oversight bodies (ICGN, SEC, FDIC, PCAOB). 2. Provided thought leadership by leading the Global Peer Exchange and participating in discussions at CII, ICGN, and PRI. 3. Co-chaired PCAOB taskforce on “going concern.” 4. Fully complied with California Iran and Sudan Acts.

What We Will Do: 2013 Key Initiatives

Work Stream	2013 Key Initiatives
Principles and Proxy Voting	<ol style="list-style-type: none"> 1. Review and update Global Principles of Accountable Corporate Governance and incorporate the Total Fund. 2. Execute proxy voting and reporting duties for CalPERS 9,500+ portfolio holdings. 3. Analyze and communicate "AGAINST" vote rationale to companies regarding compensation say-on-pay proxy proposals. 4. Launch shareowner proposal campaigns to support corporate engagement initiatives.
Corporate Engagement	<ol style="list-style-type: none"> 1. Integrate ESG and board diversity into company engagements. 2. Implement and monetize the 2013 Focus List Program. 3. Advance the adoption of majority voting standards in director elections (50 – 75 companies). 4. Implement ad hoc company engagements, as needed (e.g. California Public Divest from Iran Act). 5. Use Diverse Director DataSource (3D) to support company engagement initiatives and CalPERS asset classes.

What We Will Do: 2013 Key Initiatives

Work Stream	2013 Key Initiatives
Capital Market Stability	<ol style="list-style-type: none"> 1. Support regulators overseeing investor protection. 2. Support appointment of investor aligned regulatory leaders/commissioners. 3. Seek adoption of high-quality global accounting, auditing, and development of corporate sustainability reporting standards. 4. Address minimum governance expectations at emerging growth companies.
ESG Integration	<ol style="list-style-type: none"> 1. Develop manager expectations for integrating relevant ESG factors into investment decision making. 2. Develop Total Fund Principles on Sustainability. 3. Complete review of evidence to support development of CalPERS investment beliefs.
Institutional Relations	<ol style="list-style-type: none"> 1. Contribute thought leadership, exchange information and build consensus through governance organizations and networks. 2. Ensure compliance with California State Law impacting CalPERS Investment Office. 3. Develop inventory of CalPERS participation in ESG organizations to better evaluate opportunities for thought leadership, best practices, and to leverage investor resource allocation.

Global Governance website:
www.calpers-governance.org/

View and download Full Sustainable Investment Report at:
<http://ow.ly/aoHfm> or scan the QR code

