

Principles and Proxy Voting CalPERS Shareowner Proposal Activity 2012

In 2012, the CalPERS Global Governance Program led several successful shareowner proposal campaigns. These campaigns included filing shareowner resolutions at six portfolio companies on topics ranging from Majority Vote for Director Elections, Board Declassification, Shareowner Approval of Severance Agreements, and Elimination of Supermajority Vote Requirements. CalPERS staff actively solicited votes at these six companies and achieved success at each by receiving support from a majority of the voting shares. Table 1 below summarizes CalPERS shareowner proposal activity in 2012 followed by trend data as it relates to majority voting standards for director elections, classified board structures, and supermajority voting requirements. CalPERS also had an active role in soliciting votes for Proxy Access shareowner proposals at both Nabors Industries and Chesapeake Energy Corp which received high levels of shareowner support at 66% and 62% respectively.

As noted above, CalPERS actively solicited shareowner votes for each of the shareowner proposals. A shareowner solicitation includes the hiring of an external proxy solicitor, CalPERS staff contacting major shareowners, issuing shareowner communications through the Securities and Exchange Commission, distributing press releases through the CalPERS Office of Public Affairs, and engagement of proxy advisory firms.

Tables 2, 3 and 4 below reflect trend data within S&P 500 companies for Director Election Standards, Classified Boards, and Supermajority Vote requirements.

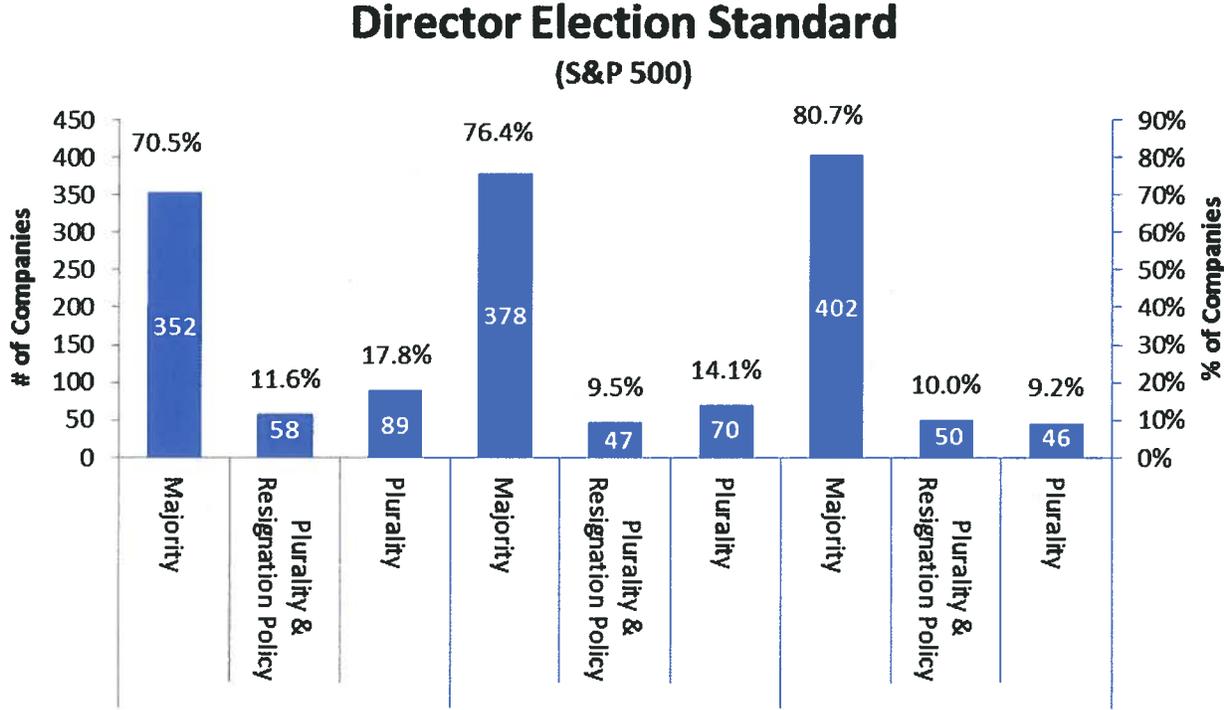
Table 1

Company	Proposal	Annual Meeting Date	Key Points
Apple Inc.	Majority Vote for Director Elections	February 23, 2012	<ul style="list-style-type: none"> Received 80% of "FOR" votes cast Received 50% support of the shares outstanding
Graco Inc.	Majority Vote for Director Elections	April 20, 2012	<ul style="list-style-type: none"> Received 84% of "FOR" votes cast Received 68% support of the shares outstanding
Hospitality Properties Trust	Declassify the Board of Directors	May 9, 2012	<ul style="list-style-type: none"> Received 90% of "FOR" votes cast Received 66% support of the shares outstanding
Nabors Industries	Executive Compensation – Severance Agreements	June 5, 2012	<ul style="list-style-type: none"> Received 66% of "FOR" votes cast Received 52% support of the shares outstanding
New York Community Bancorp	Majority Vote for Director Elections	June 7, 2012	<ul style="list-style-type: none"> Received 54% of "FOR" votes cast Received 35% support of the shares outstanding
Chesapeake Energy Corp.	Eliminate Supermajority Vote Requirements	June 8, 2012	<ul style="list-style-type: none"> Received 86% of "FOR" votes cast Received 53% support of the shares outstanding

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The data trend in Table 2 below reflects the movement of S&P 500 companies towards the adoption of corporate governance best practice related to director elections. Please note the number of companies embracing either majority vote or plurality with resignation policy going from 82% in 2010 to 91% in 2012. CalPERS is a strong supporter of accountability in the boardroom and directors being elected by a majority of the votes cast in an uncontested director election.

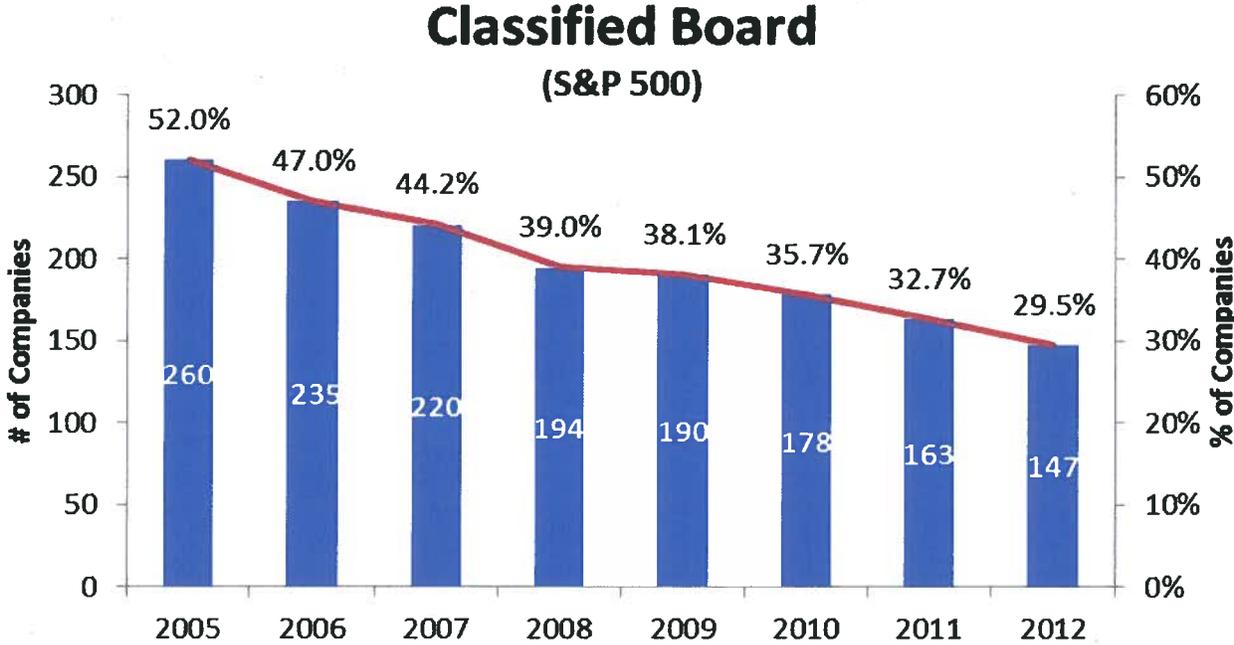
Table 2



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The data trend in Table 3 below reflects the decrease of classified boards and a movement towards use of annual director elections. A classified board structure decreases director accountability by giving shareowners the ability to elect directors only once every three years.

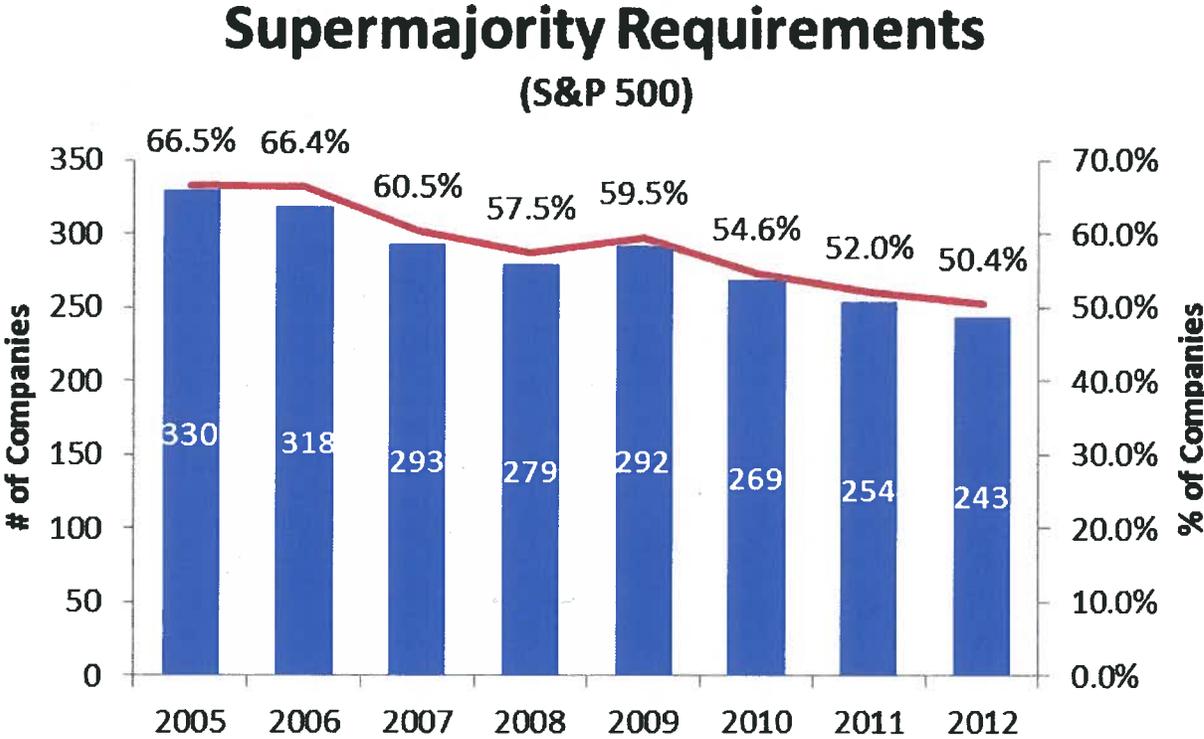
Table 3



Principles and Proxy Voting CalPERS Shareowner Proposal Activity 2012

The data trend in Table 4 below reflects the decrease of supermajority voting requirements (anything over 50%) for bylaw amendments at S&P 500 companies. CalPERS believes that shareowners should be able amend company bylaws by a majority of the vote cast.

Table 4



Principles and Proxy Voting 2012 CalPERS Say On Pay January 2012 – October 2012

In 2011 as required by the Dodd-Frank Act, U.S. companies began holding a non-binding vote (Advisory Vote or “Say-on-Pay”) on executive compensation at least once every three years. CalPERS has always believed executive compensation to be of significant importance – as it is one of the most powerful tools available to attract, retain, and motivate key employees to optimize operating performance, profitability and sustainable long-term total stock return. CalPERS emphasizes improved disclosure, the alignment of interests between executive management with shareowners, and enhanced compensation committee accountability for executive compensation within a well-designed compensation program. Specifically a well-designed compensation program should be:

- Adequately disclosed to provide investors a clear understanding of the program, total pay, and how compensation is appropriately linked to long-term sustainable performance
- Pay-for-performance driven to align management with the long-term economic interests of shareowners.

CalPERS believes the use of the advisory votes will have the following positive desired effects:

- Improved communication between shareowners and the company
- Encourage pay-for-performance practices that better align the interests of executives and shareowners through enhanced transparency
- An increased focus on individual company circumstances and sustainable strategic goals in the development and evaluation of executive compensation plans
- Improved accountability to shareowners by compelling corporate boards of directors to re-examine and act accordingly in cases where compensation packages may be excessive or where executives have failed to produce value for shareowners.

CalPERS has made a significant effort to communicate “against” votes to portfolio companies – 2012 included extensive CalPERS dialog and review with companies where votes had been cast “against” their 2011 say-on-pay proposals. Staff found the dialog to be constructive with portfolio companies making significant effort to engage shareowners and/or make disclosures regarding positive change to compensation practices. Based on these positive changes CalPERS voted “for” 87 companies in 2012 where votes had previously been cast “against” in 2011. Specific examples include General Electric, Allstate Corp., Beazer Homes Inc., Lockheed Martin Corp., and Pfizer Inc. as companies demonstrating these positive changes from 2011 to 2012.

In 2012 (YTD) CalPERS voted “against” 231 (Table 5) of the total 2,283 U.S. management say-on-pay proposals. CalPERS will continue its efforts to communicate and engage each of these companies to convey outstanding concerns surrounding pay practices.

CalPERS Say on Pay Review Process – Consistent with the CalPERS Global Principles of Accountable Corporate Governance, the following elements are viewed as negative provisions and contribute to “Against” votes:

- Repricing without shareowner approval
- Evergreen provisions
- Reload stock options
- Vesting of equity awards (less than three years)

Principles and Proxy Voting 2012 CalPERS Say On Pay January 2012 – October 2012

- Concerns with pay for performance discipline – poor stock price performance (absolute, relative, and relative to industry peers) coupled with negative Advisory Firm pay grade or score (Glass Lewis, ISS, Corporate Library, GMI, and Egan Jones).

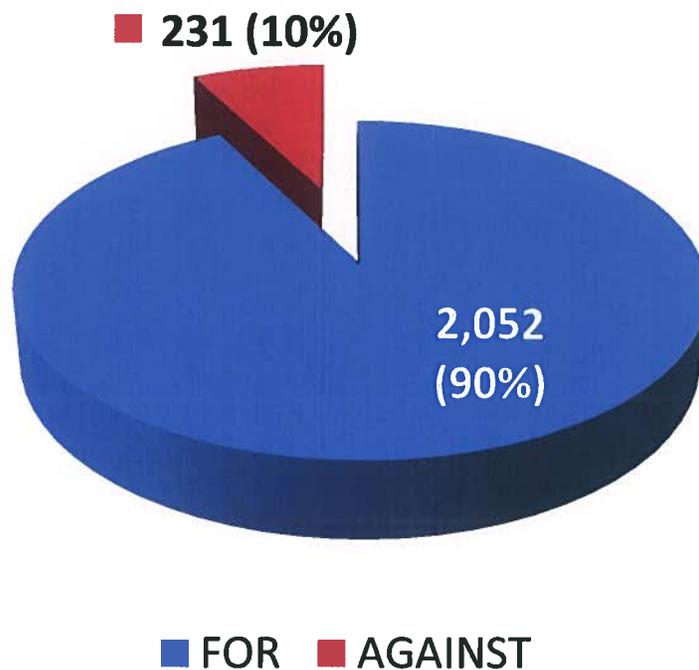
Other Review Items:

- Disclosure of compensation philosophy and policy (e.g. how pay is determined, disclosure of metrics and weights)
- Focus on long-term performance – no less than 3 years
- Severance/Change in Control Arrangements (Single Triggers and Tax Gross-ups)
- Board recommended vote frequency (Annual, Bi-annual, or Tri-annual)
- Dilution effects
- Design of incentive plans to support risk management
- Linkage of health, safety, environmental and social sustainability performance to compensation
- Disclosure of stock ownership requirements
- Clawback Disclosure

Table 6 lists 50 companies CalPERS has voted “against” in both 2011 and 2012. Please note that Hercules Offshore, Kilroy Realty Corp., Nabors Industries, and Tutor Perini Corp have all failed to receive majority shareowner support in both 2011 and 2012 (listed in bold). Staff will continue to review and monitor the progress of these companies in 2013.

Table 5

2012 CalPERS Votes - Say on Pay



Principles and Proxy Voting
2012 CalPERS Say On Pay
January 2012 – October 2012

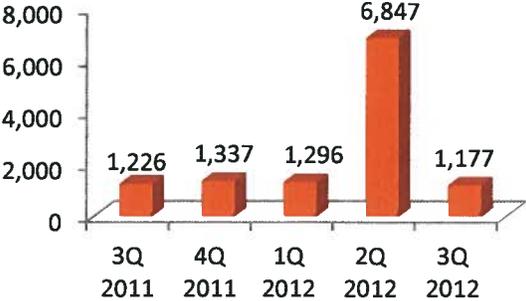
Table 6

Company Name	Ticker	Company Name	Ticker
Abercrombie & Fitch Co.	ANF	Jarden Corporation	JAH
Adobe Systems Inc.	ADBE	KB Home	KBH
AECOM Technology Corporation	ACM	Kilroy Realty Corp.	KRC
Affymax Inc	AFFY	Level 3 Communications, Inc.	LVLT
Allegheny Technologies Inc	ATI	Live Nation Entertainment Inc	LYV
AMN Healthcare Services Inc.	AHS	Martha Stewart Living Omnimedia, Inc.	MSO
Ashford Hospitality Trust Inc	AHT	MGM Resorts International	MGM
Avid Technology, Inc.	AVID	Monolithic Power System Inc	MPWR
Calamos Assets Management Inc	CLMS	Nabors Industries Ltd	NBR
Callaway Golf Co.	ELY	Noble Corp.	NE
Cedar Shopping Centers, Inc.	CDR	NRG Energy Inc.	NRG
Cenveo Inc.	CVO	Penn National Gaming, Inc.	PENN
Chesapeake Energy Corp.	CHK	Phoenix Companies, Inc.	PNX
Cogent Communications Group Inc	COI	Plains Exploration & Production Co	PXP
Comscore Inc.	SCOR	Pozen Inc.	POZN
Coventry Health Care Inc.	CVH	Rigel Pharmaceuticals	RIGL
Devon Energy Corp.	DVN	Ryland Group, Inc.	RYL
Digital River, Inc.	DRIV	Safeway Inc.	SWY
Doral Financial Corp.	DRL	Sprint Nextel Corp.	S
GMX Resources Inc.	GMXR	Staples, Inc.	SPLS
Hercules Offshore Inc	HERO	Tutor Perini Corp	TPC
Intermec Inc	IN	United Online Inc.	UNTD
ITT Educational Services, Inc.	ESI	United States Steel Corp.	X
J.C. Penny Inc (Holding Co.)	JCP	Weatherford International Ltd.	WFT
Janus Capital Group Inc	JNS	Yahoo Inc.	YHOO

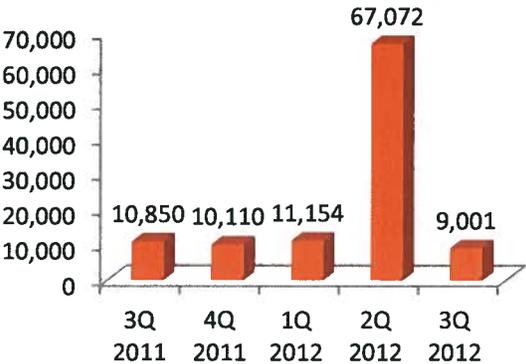


Quarter 3 Overview of Global Proxy Votes Cast

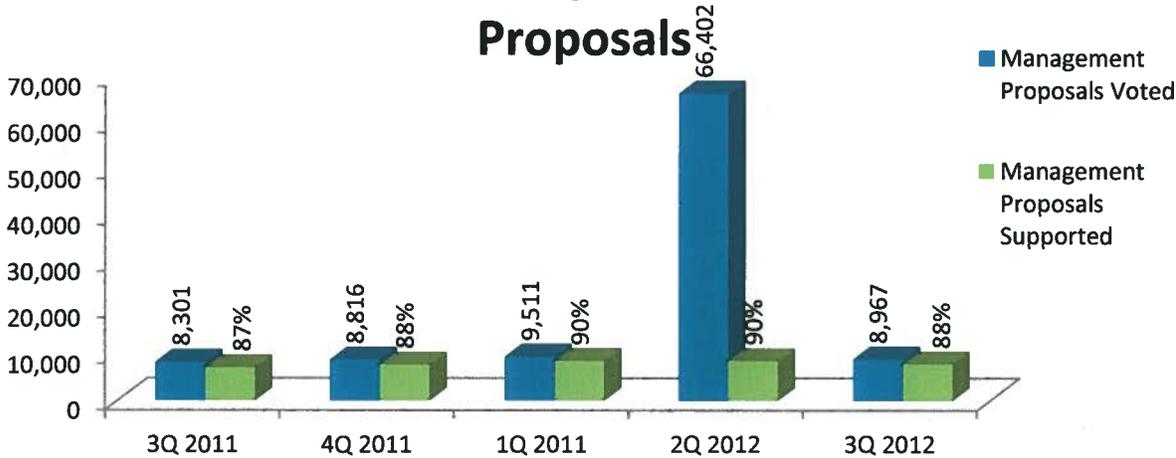
Number of Meetings Voted



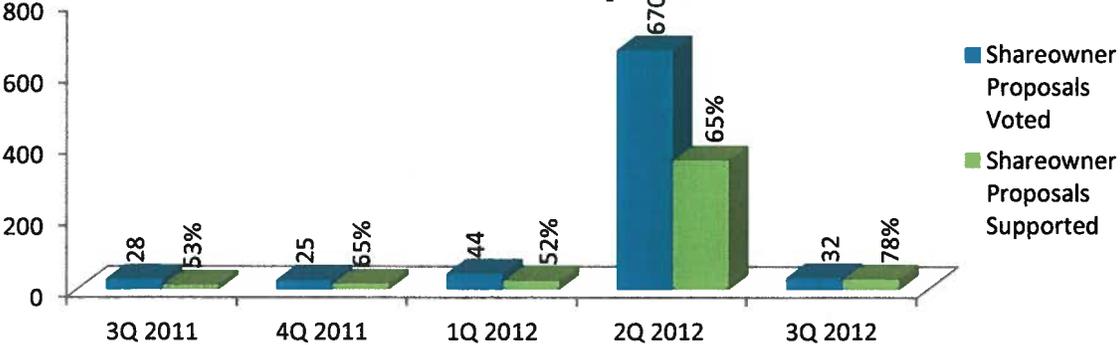
Resolutions Voted



Management Proposals



Shareowner Proposals



Source: Glass Lewis (Viewpoint)



Domestic Management Proposals Examples of CalPERS FOR Votes



Smithfield Foods Inc.

- **Issue:** Eliminate Supermajority Voting Requirements
- **Reason:** CalPERS believes shareowners should not be subject to supermajority voting thresholds.
- **Vote Result:** 99% FOR



Alere Inc.

- **Issue:** Eliminate Classified Board Structure
- **Reason:** Annual director elections are in line with CalPERS principles.
- **Vote Result:** 99% FOR



Global Payments Inc.

- **Issue:** Adopt Majority Vote for Director Elections
- **Reason:** CalPERS believes directors should be elected by a majority of the proxy votes cast.
- **Vote Result:** 99% FOR



Domestic Management Proposals Examples of CalPERS AGAINST Votes



LaPorte Bancorp

- **Issue:** Provision requiring a Supermajority Majority Vote
- **Reason:** CalPERS believes shareowners should not be subject to supermajority voting thresholds.
- **Vote Result:** 8% AGAINST



Youko.com Inc.

- **Issue:** Amend Class B Voting shares to increase voting power from three to four votes per share.
- **Reason:** CalPERS is a firm supporter of the concept of one share - one vote.
- **Vote Result:** 5% AGAINST





International Proposals

Examples of CalPERS AGAINST Votes



Texwinca Holdings Ltd



- **Country:** Hong Kong
- **Issue:** Approve the issuance of equity without preemptive rights
- **Reason:** CalPERS believes preemptive rights should be protected. Further, the company has not disclosed limits for the issuance of shares.
- **Vote Result:** Pending



Opto Circuits Ltd



- **Country:** India
- **Issue:** Long-Term Equity Award Grant
- **Reason:** CalPERS believes long-term incentive awards should have minimum vesting periods of three years.
- **Vote Result:** Pending



RPC Group Plc



- **Country:** United Kingdom
- **Issue:** Authority to set General Meeting Notice at 14 days
- **Reason:** CalPERS believes this reduced timeframe may not allow shareowners sufficient time to review voting matters.
- **Vote Result:** 4% AGAINST



Oracle Corporation Japan



- **Country:** Japan
- **Issue:** Elect Directors
- **Reason:** Withhold vote from director nominee Takao Endoch. CalPERS believes a majority of the statutory auditors should be independent.
- **Vote Result:** Pending



RÉMY COINTREAU

Remy Cointreau SA



- **Country:** France
- **Issue:** Takeover Defense Plan
- **Reason:** CalPERS believes the authority to issue warrants as a takeover defense is not in shareowner best interests.
- **Vote Result:** Pending



Shareowner Proposals Examples of CalPERS FOR Votes



THQ Inc.



- **Issue:** Request to adopt Majority Vote for Director Elections
- **Reason:** CalPERS believes a majority of the votes cast should be required to elect a director.
- **Votes Result:** 90% FOR



FedEx Corp.



- **Issue:** Request for an Independent Board Chairman
- **Reason:** CalPERS believes if the Board Chair was independent the board may be able to exercise stronger oversight of management.
- **Votes Result:** 28% FOR



Mckesson Corporation



- **Issue:** Request to allowing the ability to Act by Written Consent
- **Reason:** CalPERS believes shareowners should have the right to act by written consent.
- **Votes Result:** 50% FOR



Airgas Inc.



- **Issue:** Declassify the Board of Directors
- **Reason:** CalPERS is a firm supporter of annual director elections.
- **Votes Result:** 64% FOR



Medtronic Inc.



- **Issue:** Proxy Access
- **Reason:** CalPERS believes shareowners should have access to the director nominations and subsequent director election process.
- **Vote Result:** 8% FOR



Shareowner Proposals Examples of CalPERS AGAINST Votes



Rainmaker Systems Inc.

- **Issue:** Regarding the Sale of the Company
- **Reason:** CalPERS believes business decisions such as these are best left to management and the board.
- **Vote Result:** 38% FOR



The J.M. Smucker Company

- **Issue:** Prepare Coffee Sustainability Plan
- **Reason:** CalPERS supports the development and disclosure of sustainability goals. However, we believe the company's existing level of disclosure meets the request of the proposal.
- **Vote Result:** Proposal withdrawn prior to AGM - No vote result



Procter & Gamble Co.

- **Issue:** Advisory vote on Electioneering Expenditures
- **Reason:** CalPERS believes disclosure of political contributions and activities benefit shareowners. However, we feel the proponents request for an advisory vote on the topic is unnecessary due to the company's existing policies.
- **Vote Result:** 7% FOR



Executive Compensation Proposals Examples of CalPERS FOR Votes



Constellation Brands Inc.

- **Issue:** Amend Long-Term Stock Incentive Plan
- **Reason:** Proposal is in line with CalPERS Global Principles of Accountable Corporate Governance. The plan is performance based and awards vest over a three year period.
- **Vote Result:** 97% FOR



Dell Inc.

- **Issue:** Say on Pay
- **Reason:** Proposal is in line with CalPERS Global Principles of Accountable Corporate Governance. The company has structured a compensation program with a pay for performance discipline.
- **Vote Result:** 97%.FOR



Thermon Group Holdings Inc.

- **Issue:** 2011 Cash-Based Incentive Plan
- **Reason:** Proposal is in line with CalPERS Global Principles of Accountable Corporate Governance related to annual incentive awards.
- **Vote Result:** 99% FOR





Executive Compensation Proposals Examples of CalPERS AGAINST Votes

Yahoo Inc.

- **Proposal:** Say on Pay
- **Reason:** The company has failed to link pay with performance.
- **Vote Result:** 49% FOR



WebMD Corp.

- **Issue:** Long term incentive plan
- **Reason:** CalPERS believes the plan is too costly relative to the company's peers.
- **Vote Result:** 70% FOR



Benihana Inc.

- **Issue:** Advisory Vote on Golden Parachutes
- **Reason:** The presence of a single trigger related to a change in control.
- **Vote Result:** 91% FOR



Mergers & Acquisitions Votes Cast

Network Engines Inc.

- **Aquirer:** Unicom Systems Inc.
- **Reasons:** Strategic board rationale and premium offered.
Going Private - CalPERS only held Network Engines
- **Vote Result:** 92% FOR



Quest Software Inc.

- **Aquirer:** Dell Inc.
- **Reasons:** Strategic board rationale.
CalPERS had a position in both securities
- **Vote Result:** 96% FOR



World Heart Corp.

- **Aquirer:** HeartWare International Inc.
- **Reasons:** Strategic board rationale.
CalPERS had a position in both securities
- **Vote Result:** 95% FOR

