

Global Governance Program Update

February 19, 2013

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
- **Core Issue Driven:** Shareowner rights, board quality and diversity, corporate reporting, executive compensation, regulatory effectiveness
- **Work Streams:** Principles and Proxy Voting, Corporate Engagement, Capital Market Stability, ESG Integration, Institutional Relations
- **Thought Leadership and Coalition Building:** Investor Forum Leadership, CalPERS Global Governance Website, Enterprise Sustainability Reporting

Global Governance: Our Mission

Investment Office (INVO) Vision: We are known as an effective and principled investor, grounding everything we do with a commitment to serve our beneficiaries with excellence and be true to our fiduciary duty.

Global Governance Program Mission: Support INVO's Vision by advocating sustainable risk adjusted returns via:

- Alignment of interest across corporations, markets, and external managers to address:
 - Shareowner Rights
 - Board Quality and Diversity
 - Incentive Structures – Executive Compensation
 - Corporate Reporting
 - Regulatory Effectiveness
- Transparent and stable capital markets
- Integration of relevant environmental, social and governance factors into long-term investment decision making

Good Governance: Enables Sustainable 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

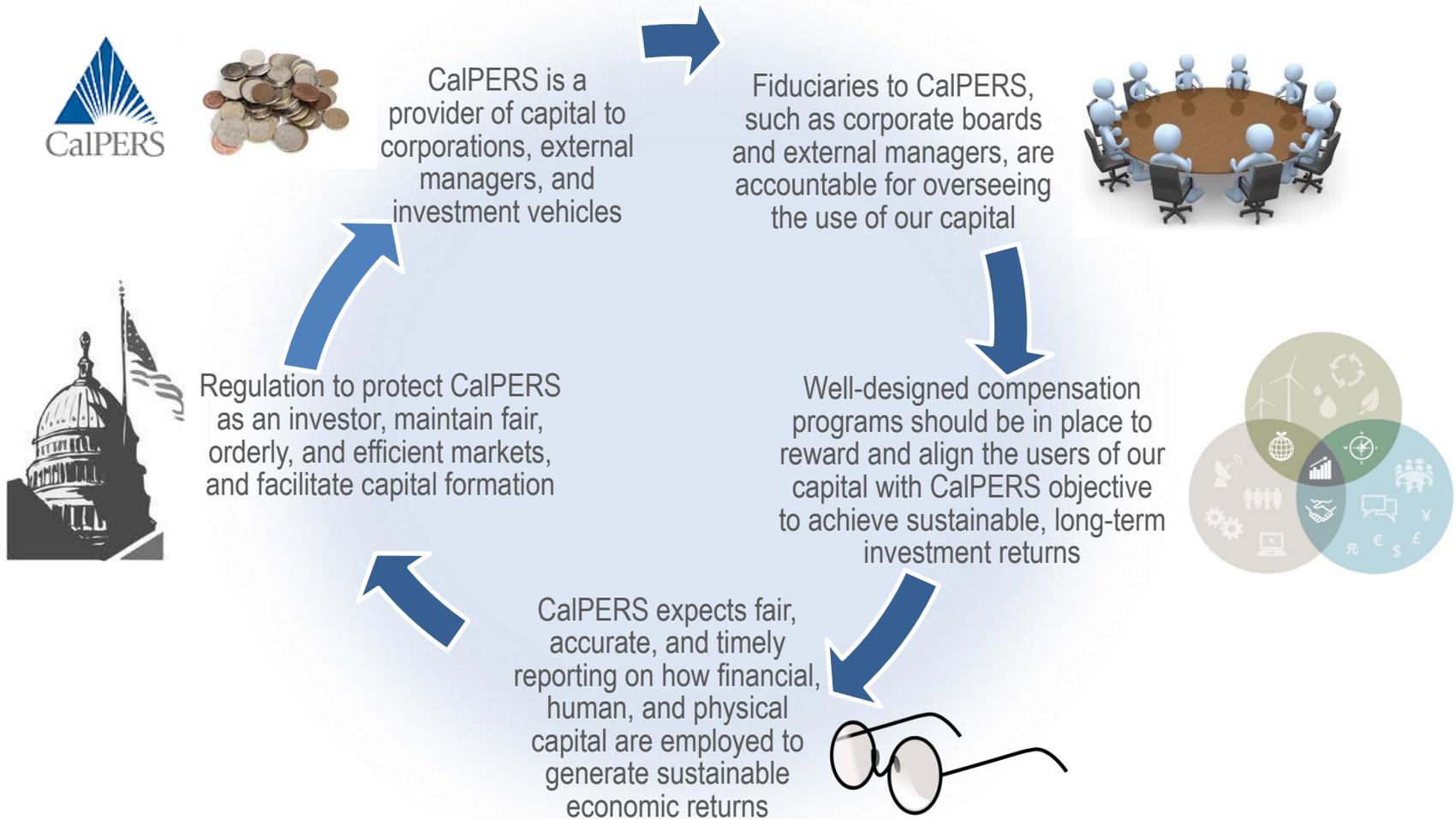
Includes health, safety, and labor practices



Governance - Financial Capital

Includes equity, debt, public and private investments

Good Governance: Enables Long-term Value Creation



Priorities: Where CalPERS Plays an Extensive Role

There are five priorities which staff believes have a material impact on return, can effectively resource, and that are considered to have a high likelihood of impacting a successful outcome.

- **Shareowner Rights:** structural mechanisms that define the formal relationship between CalPERS as the capital provider and those charged with protecting and growing CalPERS capital
- **Board Quality and Diversity:** diverse characteristics, experience, and competencies to ensure effective board leadership and oversight of CalPERS capital
- **Executive Compensation:** incentive structures designed to protect and grow CalPERS capital which are aligned with the long-term sustainable economic interests of CalPERS Total Fund
- **Corporate Reporting:** including strong accounting and auditing standards, and sustainability reporting which leads to informed financial, physical, and human capital allocation decision making
- **Regulatory Effectiveness:** to protect investors, maintain fair, orderly, and efficient markets, and facilitate capital formation

Criteria: For Evaluating Core Issues

Given number of stakeholders and views, we need clear criteria for narrowing our focus on issues which can be clearly linked to furthering the Global Governance Program's mission and for deciding what type of role CalPERS should play.

1. **Materiality** – Does the issue have the potential for a **meaningful** impact on portfolio risk or return?
 - **Net Portfolio Performance:** Relevant to improving portfolio returns or reducing risk.
 - **Capital Exposure:** Relevant to CalPERS capital exposure in \$\$ terms.
 - **Scale:** Relevant to the number of companies in which CalPERS invests.
 - **Evidence:** Supported by empirical data, broad market consensus, or strong CalPERS conviction that the issue will improve returns or reduce risk.

2. **Principles** – To what extent is the issue supported by CalPERS Principles of Accountable Corporate Governance?
 - **Core Principles:** Clearly aligned with board adopted Core Principles.
 - **CalPERS Principles:** Clearly aligned with principle/policy language developed by CalPERS.
 - **Third Party Endorsement:** Tangential support based on CalPERS public endorsements.

3. **Capacity** – Do we have the expertise and resources to influence a meaningful outcome?
 - **Internal:** Relevant to the allocation of internal staff with the requisite expertise.
 - **External:** Relevant to immediate access to and ability to manage external resources or expertise.

4. **Timeliness** – Is the issue time sensitive with a clearly defined deadline?

5. **Definition and Likelihood of Success** – Successful outcomes can be derived from investment performance, thought leadership, proxy vote results, and regulatory action to protect investors. Is there a likelihood of success that CalPERS action will influence an outcome which can be measured? Can we partner with others to achieve success?

What Did We Do: Shareowner Rights

Quarterly Program Update: Key Accomplishments

1. Engaged 50 major companies, to request majority voting, with 34 agreeing to introduce new election policies for Directors.
2. Continued carrying out a proxy solicitation at Apple to support the company's proposal to amend its Articles.
3. Following engagement with other investors, Chesapeake Energy has agreed to sweeping governance reforms, including proxy access, independent chairman, and reporting on environmental risks around "fracking."

What Did We Do: Board Quality & Diversity

Quarterly Program Update: Key Accomplishments

1. Co-hosted the Board Quality – Board Diversity event, at Toigo’s GroundBreakers Summit, introducing candidates from the Diverse Director DataSource (3D) to companies and investors.

What Did We Do: Executive Compensation

Quarterly Program Update: Key Accomplishments

1. Staff has engaged an additional 200 leading companies where CalPERS voted against pay proposals. Over half have agreed to improve alignment by raising performance targets or extending time periods.

What Did We Do: Corporate Reporting

Quarterly Program Update: Key Accomplishments

1. CalPERS launched the Sustainable Investment Research Initiative (SIRI), a scholarly inquiry to define the factors relevant to both risk and long-term value creation, which derive from environmental, social and governance issues. SIRI is to be hosted by the UC Davis Graduate School of Management, and co-chaired by faculty at Columbia Law School.

What Did We Do: Regulatory Effectiveness

Quarterly Program Update: Key Accomplishments

1. Staff has met with senior Federal Congressional staff from each of the House and Senate committees responsible for the financial market, and the Chairmen of the PCAOB and CFTC to discuss audit reform and financial benchmarks in the wake of the LIBOR scandal.

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

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

