Principles and Proxy Voting
2012 CalPERS Say On Pay
January 2012 – December 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 and 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" 89 companies in 2012 where votes had previously been cast "against" in 2011. Specific examples include General Electric, Allstate Corp., Beazer Homes Inc., Lockhead Martin Corp., and Pfizer Inc. as companies demonstrating these positive changes from 2011 to 2012.

In 2012 CalPERS voted "AGAINST" 239 (Table 1) of the total 2,439 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)

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- 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 three years
- Severance/Change in Control Arrangements (Singe 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 2 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. Staff will continue to review and monitor the progress of all companies CalPERS voted "AGAINST" in 2013.

Table 1

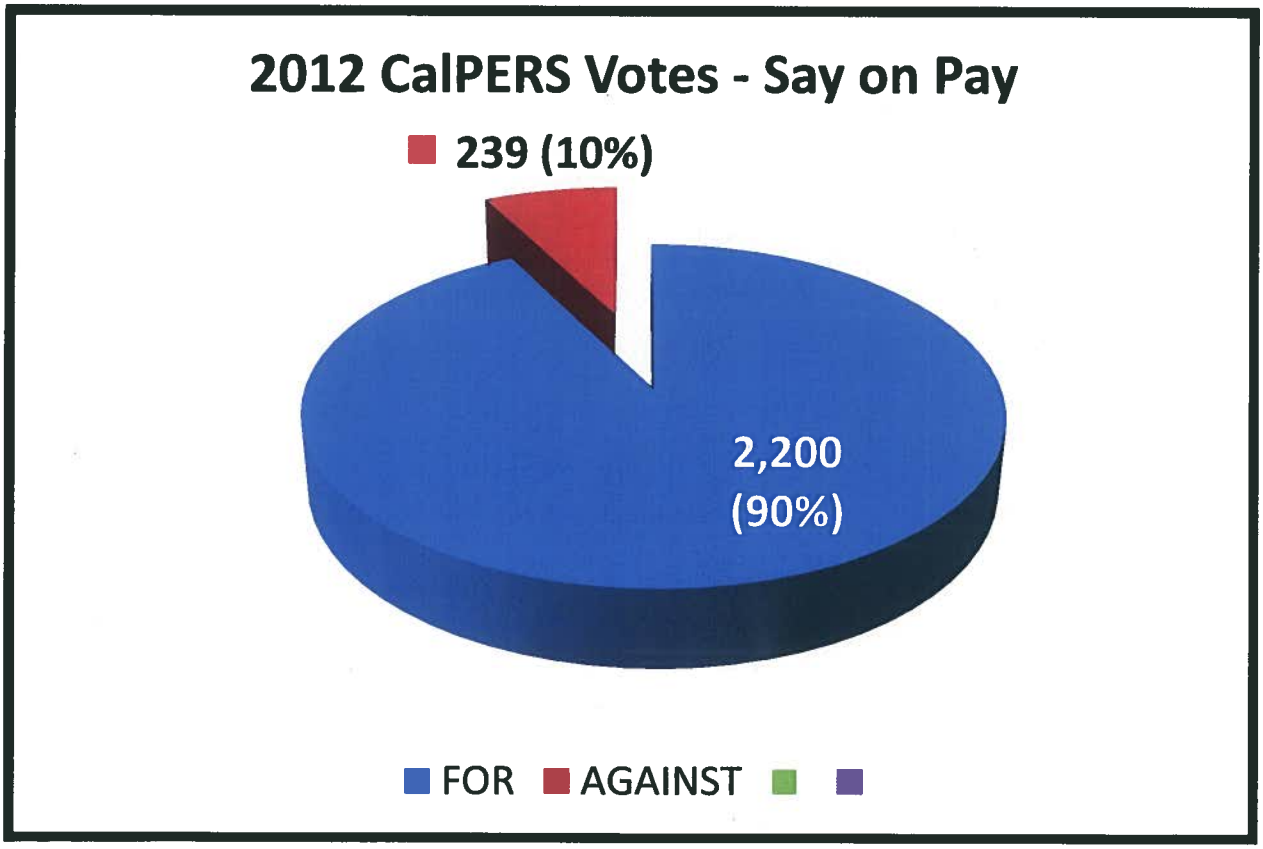

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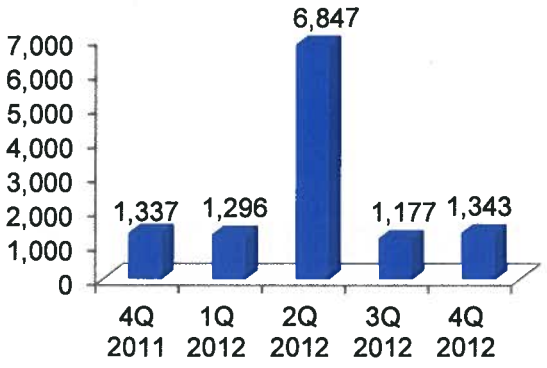
Table 2

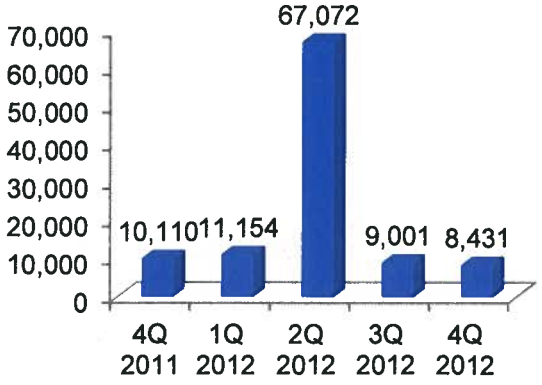
Company Name	Ticker	Company Name	Ticker
Abercrombie & Fitch Co.	ANF	Jarden Corporation	JAH
Adobe Systems Inc.	ADBE	KB Home	KBH
AECOM Technology Corporation	ACM	Kilroy Realty Corp.	KRC
Affymax Inc	AFFY	Level 3 Communications, Inc.	LVLT
Allegheny Technologies Inc	ATI	Live Nation Entertainment Inc	LYV
AMN 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
Hain Celestial Group	HAIN	Unilife Corp.	UNIS

Quarter 4 Overview of Global Proxy Votes Cast

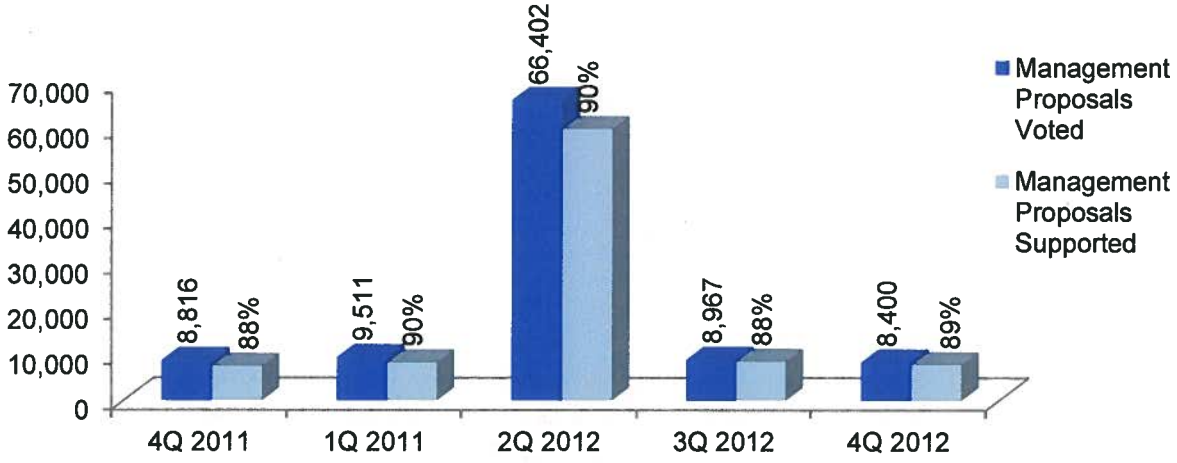
Number of Meetings Voted



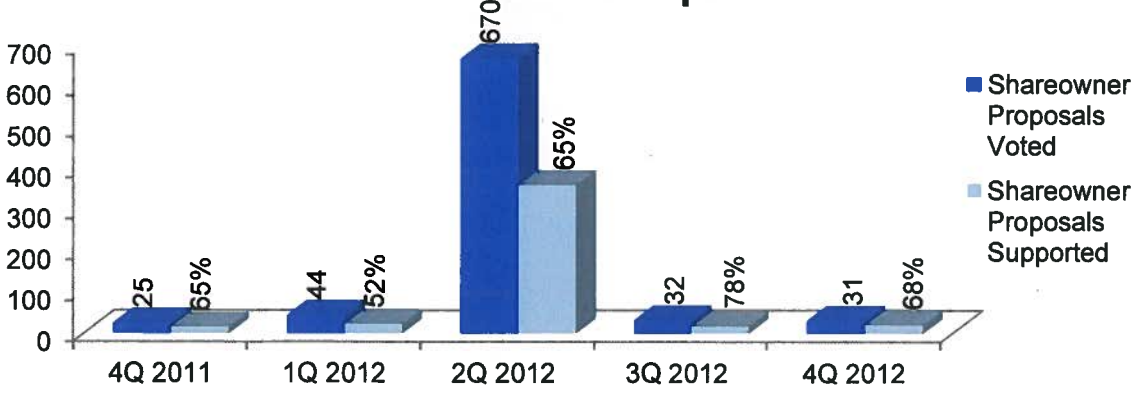
Resolutions Voted



Management Proposals



Shareowner Proposals



Source: Glass Lewis (Viewpoint)

Domestic Management Proposals
Examples of CalPERS FOR Votes

Immunogen Inc.

- **Issue**: Increase Authorized Common Stock
- **Reason**: CalPERS believes the request for an increase of authorized shares is reasonable.
- **Vote Result:** 91% FOR

Devry Inc.

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

Buckeye Technologies 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

United Community Bancorp

- **Issue:** Provision requiring a Supermajority Majority Vote
- **Reason:** CalPERS believes shareowners should not be subject to supermajority voting thresholds.
- **Vote Result:** 24% AGAINST

Biglari Holdings Inc.

- **Issue:** Authorization of Dual Class Stock
- **Reason:** CalPERS is a firm supporter of the concept of one share one vote.
- **Vote Result:** 15% AGAINST

News Corp.

- **Issue:** Elect Directors
- **Reason:** Withhold from directors R. Murdoch, J. Murdoch & L. Murdoch for lack of independent board leadership.
- **Vote Result:** R. Murdoch - 3% J. Murdoch - 17% L. Murdoch - 21% AGAINST

International Proposals
Examples of CalPERS AGAINST Votes

Eurocommercial Properties N.V.

Eurocommerical Property

- **Country**: Netherlands
- **Issue**: Approve the issuance of equity without preemptive rights
- **Reason**: CalPERS believes preemptive rights should be protected. Further, the company has not dislosed limits for the issuance of shares.
- **Vote Result:** 58% FOR

BARRY CALLEBAUT

Barry Callebaut AG

- **Country**: Switzerland
- **Issue**: Remuneration Report
- **Reason**: CalPERS believes long-term incentive awards should have minimum vesting periods of three years.
- **Vote Result:** Pending

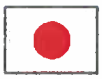
BARRATT DEVELOPMENTS PLC

Barrat Developments 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:** 95% AGAINST

HAMAMATSU Photonics

Hamamatsu Photonics



- **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

LOTTE

Lotte Midopa

- **Country**: Korea
- **Issue**: Acquisition
- **Reason**: CalPERS has concerns with the lack of disclosure in the sale process.
- **Vote Result:** Pending

Shareowner Proposals
Examples of CalPERS FOR Votes

Techne Corporation

- **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:** 99% FOR

Cisco Systems Inc.

- **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

News Corp.

- **Issue:** Eliminate Dual Class Stock
- **Reason:** CalPERS is a firm supporter of one share - one vote.
- **Votes Result:** 29% FOR

RPM International Inc.

- **Issue**: Declassify the Board of Directors
- **Reason**: CalPERS is a firm supporter of annual director elections.
- **Votes Result:** 77% FOR

Cardinal Health Inc.

- **Issue**: Stock Retention Requirements
- **Reason**: CalPERS is a firm supporter of holding and stock retention requirements.
- **Vote Result:** Pending

Shareowner Proposals
Examples of CalPERS AGAINST Votes

Hampden Bancorp 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:** 25% FOR

News Corp.

- **Issue**: Simple Majority Vote
- **Reason**: CalPERS supports proposals to eliminate supermajority voting. However, in this case due to high levels of family/inside ownership approval of the proposal is not in minority shareowner best interest.
- **Vote Result:** 12% FOR

Procter & Gamble Co.

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

Executive Compensation Proposals
Examples of CalPERS FOR Votes

Hillshire 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**: 84% FOR

Parker-Hannifin Corp.

- **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**: 93% FOR

Gas Natural 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**: 83% FOR

Executive Compensation Proposals
Examples of CalPERS AGAINST Votes

Oracle Corp.

- **Proposal**: Say on Pay
- **Reason**: The company has failed to link pay with performance.
- **Vote Result**: 41% FOR

Abaxis Inc.

- **Issue**: Long term incentive plan
- **Reason**: CalPERS believes the plan is too costly relative to the company's peers.
- **Vote Result**: 72% FOR

Amerigroup Corp.

- **Issue:** Advisory Vote on Golden Parachutes
- **Reason**: The presence of a single trigger related to a change in control.
- **Vote Result**: 60% FOR

Mergers & Acquisitions Votes Cast

GeoEye Inc.

- **Aquirer**: Digital Globe
- **Reasons**: Strategic board rationale, positive market reaction and premium offered. CalPERS had a position in both securities.
- **Vote Result:** 98% FOR

Cooper Industries

- **Aquirer**: Eaton Corp.
- **Reasons**: Strategic board rationale and positive market reaction.
- **Vote Result**: 99% FOR

Fidelity Bancorp Inc.

- **Aquirer**: Wesbanco Inc.
- **Reasons**: Strategic board rationale and premium offered. CalPERS had a position in both securities
- **Vote Result**: 97% FOR