

Global Governance Program Update

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2015 Strategic Priority | Proxy Access

- Proxy Access gives shareowners in the United States the right to nominate director candidates on a company's ballot or proxy statement.
- This has been longstanding priority for CalPERS, to ensure board accountability. The CFA Institute concludes it will contribute to improved performance. .
- Following the SEC issuing a universal proxy access rule in 2011, the US Chamber of Commerce and Business Roundtable filed suit to challenge the rule and won in court.
- In 2012, shareowners were allowed to file shareowner proposals on a company by company basis requesting proxy access (also known as Private Ordering).
- CalPERS has been a firm supporter of shareowner proposals modeled under the vacated SEC rule. Since 2012, these proposals have received average support levels of 55% and 10 have received majority shareowner support.



The SEC Proxy Access Rule

On August 25, 2010 the SEC adopted final proxy access rules giving shareholders the ability to nominate and elect up to 25% of company directors given that they meet the eligibility requirements of owning at least 3% of the company shares continuously for 3 years.



CFA Institute

"Proxy Access in the United States: Revisiting the Proposed SEC Rule," August 2014.

"...studies offer evidence that proxy access reform enhances board performance...The results of this study show evidence that increased proxy contest costs do not appear to reduce shareowner wealth."

2015 Strategic Priority | Proxy Access – Implementation

We have started to focus on implementation of proxy access by engaging companies, the SEC, filing shareowner proposals and supporting fellow investor campaigns.

- CalPERS is coordinating with a broad coalition of investors, global asset owners, managers and others in support of proxy access.
- Consensus has been reached that these investors will support proxy access proposals which reflect the vacated SEC rule and are not more onerous to shareholders.
- To date, approximately 100 companies have received proxy access proposals at leading U.S. companies modeled after the vacated SEC rule.



The first proxy access victory of 2015 - CalPERS engaged the company and supported a proxy access proposal filed by John Harrington at Monsanto (formulated under the vacated SEC rule of 3% for 3 years) and preliminary vote results from the company stated a majority of the shareowners supported the resolution at 53%.

2015 Strategic Priority | Proxy Access – The Company Response



Proxy Access Proposals

A shareholder proposal on proxy access, modeled after the SEC rule, was filed by James McRitchie at Whole Foods Market, Inc. The company responded by proposing its own version, with a much higher threshold. The company asked the SEC to allow them not to include the shareholder version as it is duplicative.



Council of Institutional Investors
Letter to Whole Foods Market, Inc.
January 8, 2015

“The evisceration of Rule 14a-8... is deeply troubling to CalPERS. We therefore ask Division Staff to review its current interpretation of Rule 14a-8(i)(9) as it relates not only to proxy access but to other proposals seeking improved shareowner rights.”

“CII was deeply disappointed by Whole Foods’ initial move to thwart a shareholder’s non-binding proxy access proposal ... The proposed threshold — requiring a nominating shareholder to have held a 9 percent stake for five years — would not have been viable for any current Whole Foods shareholder.”



CalPERS Letter to the SEC
January 16, 2015

2015 Strategic Priority | Proxy Access – SEC Response

- The SEC staff supported the exclusion of a shareholder proxy access proposal at Whole Foods based on the grounds that this and the management proposal were “similar” and “competing.”
- CII, CalPERS, and NY City wrote the SEC to express concern over the application of a “no-action” ruling that granted Whole Foods Inc. the ability to exclude a shareowner proposal on proxy access.
- On January 16, 2015, following CalPERS and CII’s letters to the SEC, Mary Jo White called for a review of how the rule was being interpreted and announced the SEC would take no view on these types of company challenges during 2015.

“The Commission’s proxy rules enable shareholders to submit proposals for inclusion in a company’s proxy materials for a vote at a shareholder meeting, subject to certain procedural and substantive exclusions. One of the exclusions, Exchange Act Rule 14a-8(i)(9), allows a company to exclude a shareholder proposal that “directly conflicts” with a management proposal. Due to questions that have arisen about the proper scope and application of Rule 14a-8(i)(9), I have directed the staff to review the rule and report to the Commission on its review.”



Mary Jo White
SEC Chair
January 16, 2015

2015 Strategic Priority | Proxy Access – Working with others

Board Accountability Project

- NYC Funds have filed proxy access shareowner proposals (modeled after the SEC rule at 3% ownership for 3 years) at 75 companies.
- CalPERS has been supporting New York City by engaging regulators, companies, fellow investors, and proxy advisory firms.
- To help ensure a successful vote outcome, CalPERS will also assist NYC in the period leading up to individual company annual meetings by assisting with shareowner solicitation campaigns, company engagement and shareowner letters to the SEC.
- Companies have been selected based upon:
 - Energy sector
 - Diversity issues
 - Governance issues
- Other companies with proposals include Apple, Bank of America and Kohl's.

Global Governance Program Update

Proxy Access

Shareholder Proposals – Highlights

Energy Sector	Duke Energy Corporation	Southern Company, The	NVR, Inc.	Chipotle Mexican Grill, Inc.
AES Corporation, The	EOG Resources, Inc.	Southwestern Energy Company	PACCAR Inc	Electronic Arts Inc.
Alpha Natural Resources, Inc.	EQT Corporation	Westmoreland Coal Company	Precision Castparts Corp.	Equity Residential
American Electric Power Company, Inc.	Exxon Mobil Corporation	Whiting Petroleum Corporation	Priceline Group Inc., The	Exelon Corporation
Anadarko Petroleum Corporation	FirstEnergy Corp.	Diversity Issues	Regeneron Pharmaceuticals, Inc.	Expeditors International of Washington, Inc.
Apache Corporation	Freeport-McMoRan Inc.	Alexion Pharmaceuticals, Inc.	Roper Industries, Inc.	Hasbro, Inc.
Arch Coal, Inc.	Hess Corporation	Alliance Data Systems Corporation	SBA Communications Corporation	HCP, Inc.
Cabot Oil & Gas Corporation	Marathon Oil Corporation	AvalonBay Communities, Inc.	Urban Outfitters, Inc.	Mylan Inc.
Chevron Corporation	Murphy Oil Corporation	CF Industries Holdings, Inc.	VCA Inc.	New York Community Bancorp, Inc.
Cimarex Energy Co.	Noble Energy, Inc.	eBay Inc.	Visteon Corporation	Republic Services, Inc.
Cloud Peak Energy Inc.	Occidental Petroleum Corporation	Fidelity National Financial, Inc.	Governance Issues	Splunk Inc.
ConocoPhillips	Peabody Energy Corporation	FleetCor Technologies, Inc.	American Realty Capital Properties, Inc.	Staples, Inc.
CONSOL Energy Inc.	Pioneer Natural Resources Company	Level 3 Communications, Inc.	Apartment Investment and Management Company	TRW Automotive Holdings Corp.
Devon Energy Corporation	PPL Corporation	Monster Beverage Corporation	Avon Products, Inc.	United Therapeutics Corporation
DTE Energy Company	Range Resources Corporation	Nabors Industries Ltd.	Cheniere Energy, Inc.	Vertex Pharmaceuticals Incorporated

* Some companies may have a proposal for more than one issue.

2015 Strategic Priority | Climate Risk

In December, staff attended the 2014 UN Climate Summit held in Lima, Peru. World leaders from government, finance, business, and civil society were in attendance. Participants shared announcements and actions to reduce emissions, strengthen climate resilience, and mobilize political will for a meaningful climate agreement in Paris 2015.

United Nations Climate Change Conference Overview: Call for global climate solutions

- CalPERS sees a need for policy action on climate change. Our fiduciary duty calls on us to protect the investments of members and the effects of climate change have the potential to seriously impact our portfolio.
- Institutional investors will play a key role in financing the transition to a low-carbon and climate-resilient economy.
- We must push policymakers to take action on carbon pricing, to provide regulatory support for energy efficiency and renewable energy, and to fully support innovation and deployment of new low-carbon technologies.

Outcome of the 20th session of the Conference of the Parties held in Lima, Peru

The Lima UN climate conference has set the stage for governments to deliver a new universal climate change agreement in Paris, at the end of 2015. The new agreement is aimed at putting the world on track to a low-carbon, sustainable future while keeping a global temperature rise under 2 degrees C.

2015 Strategic Priority | Climate Risk

CalPERS participated in the following:

“How can Businesses Responsibly Shape the Climate Policy Agenda at Caring for Climate Business Forum”

- The forum brought together nearly 200 CEOs with representation from more than 30 countries.
- Shared the PRI-UN co-led Case for Investor Engagement in Public Policy that CalPERS helped develop and acknowledges policy engagement by long-term investors as part of our fiduciary duty.



Roundtable Discussion with United Nations Secretary-General Ban Ki-moon

- Joined a select group of business, government, NGO, and senior leadership in presenting the benefits and challenges for effectively shaping the national and international climate agenda.
- Highlighted the importance and responsibility by CalPERS (as a shareowner) of constructive corporate engagement, and role of accountable corporate boards in addressing climate change.

2015 Strategic Priority | Climate Risk – Company Response

- The Ceres co-led Global Investor Statement on Climate Change (launched September, 2014), calls on government leaders to provide stable, reliable and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge, as well as develop plans to phase out subsidies for fossil fuels.

**2014 GLOBAL
INVESTOR
STATEMENT ON
CLIMATE CHANGE**



Royal Dutch Shell Supports Climate Risk Proposal by Shareowners

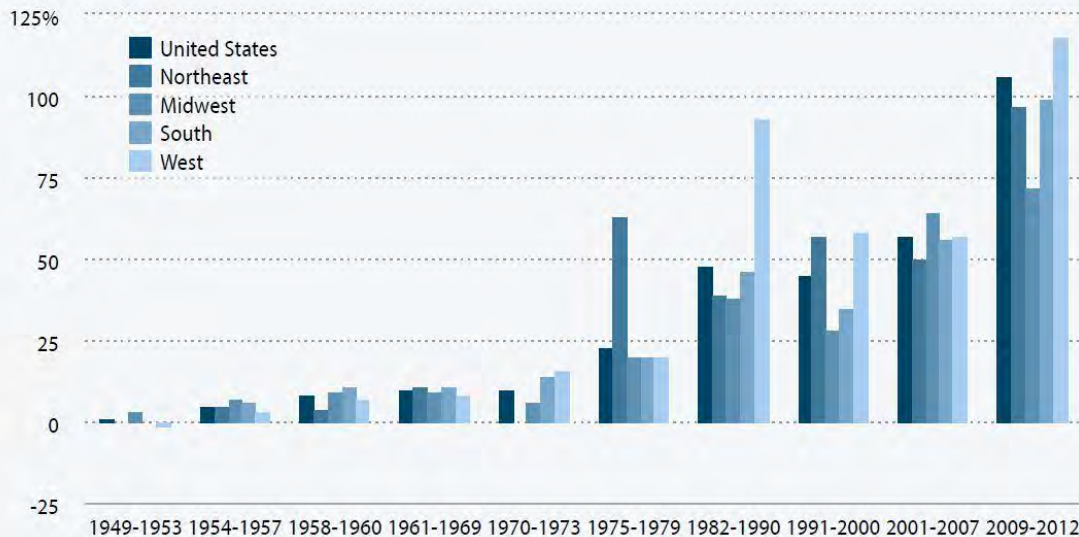
Shell has backed a shareholder proposal calling for the company to recognize climate change risks by improving transparency. The company said they would urge shareholders to vote for the resolution at the AGM this May. The proposal refers to the carbon asset risk initiative (CAR) stating, "...we'd also like to highlight the global investor coalition on climate change's document outlining their expectations for oil & gas majors... This builds on the...CAR initiative." CalPERS has applauded Shell's leadership as this is the first time a major energy company supported a shareowner proposal on climate risk.

"Ultimately, in order to deliver real changes in investment flows, international policy commitments need to be implemented into national laws and regulations. These policies must provide appropriate incentives to invest, be of adequate duration to improve certainty to investors in long-term infrastructure investments and avoid retroactive impact on existing investments."

2015 Strategic Priority | Explore Income Inequality

FIGURE B [VIEW INTERACTIVE on epi.org](#)

Average share of growth during economic expansions captured by the top 1%, nationally and by region, 1949–2012



Source: Authors' analysis of state-level tax data from Sommeiller (2006) extended to 2012 using state-level data from the Internal Revenue Service SOI Tax Stats (various years), and Piketty and Saez (2012)

ECONOMIC POLICY INSTITUTE

“When the rate of return on capital exceeds the rate of growth of output and income, as it did in the nineteenth century and seems quite likely to do again in the twenty-first, capitalism automatically generates arbitrary and unsustainable inequalities that radically undermine the meritocratic values on which democratic societies are based.”

Thomas Piketty

Capital in the Twenty-First Century
March 10, 2014

Dr. Woody Brock

Capitalism, Inequality, and Piketty
October 2014

“[Piketty fails] to identify the tradeoff between the societal goals of reduced income/wealth inequality on the one hand, and higher economic growth and living standards on the other. This was a serious oversight.”

2015 Strategic Priority | Explore Income Inequality

Exploring Income Inequality as an Investor Issue – Project Objectives

- Enhance understanding of whether—and, if so, how—income inequality impacts institutional investors’ long-term ability to deliver sustainable, risk adjusted returns

Description	Comments
<u>Literature Review</u> Comprehensive review of research and analysis related to income inequality and its impact, if any, on institutional investors	<ul style="list-style-type: none"> Program staff reviewing research Subject to be included in upcoming update to SIRI Database to include retirement and health costs
<u>Symposium</u> Dialogue and debate about inquiry’s findings	<ul style="list-style-type: none"> Developed concept note and initiated conversations with University of California to conduct research and host event

“Investment Belief 2

A long time investment horizon is a responsibility and an advantage...

- Favor investment strategies that create long-term, sustainable value and recognize the critical importance of a strong and durable economy in the attainment of funding objectives...”

Financial Markets | 114th Congress – January Recap

Financial regulatory reform and cost-benefit bills being moved quickly through Congress

- House considering several GOP priorities, including “technical corrections” to Dodd-Frank (HR 37) and reducing regulations (HR 185)
 - H.R. 37: Passed House in 271-154 vote; contains a significant change to the Volcker Rule; President expected to veto
 - H.R. 185: Passed House in 250-175 vote; requires “lowest cost rulemakings” and additional cost-benefit requirements; President expected to veto

Hearings of Interest

- FHFA Director testified before Financial Services Committee; repeated calls for legislation to reform Government Sponsored Enterprises (GSEs)

Veto Threats

- White House has threatened to veto eight bills, including H.R. 37 and H.R. 185—the most threats to begin a new Congress since President Reagan started issuing formal veto threats in 1985

Leadership of Key Committees

- Senate Banking Committee: Richard Shelby (R-AL) (returning after previous Chairmanship)
- House Financial Services Committee: Jeb Hensarling (R-TX) (returning)
- House Agriculture: Mike Conaway (R-TX) (*new*)
- Senate Agriculture: Pat Roberts (R-KS) (*new*)

Financial Markets | Highlights

Throughout the quarter, staff engaged with policymakers on various capital market issues in alignment with CalPERS' Financial Markets Principles, including:

Systemic Risk

- Engaged with U.S. Senators, U.S. Representatives, SEC Commissioners, CFTC Chair, and CFTC Director of Legislative Affairs on equity market structure, housing finance reform and derivatives regulation issues
- Sent letter to Members of the California Delegation opposing swaps push out provision in FY2015 spending bills

Governance

- Through the U.S.-India Investment Initiative, participated in a roundtable discussion, hosted by the U.S. Treasury, on capital market reforms and policy measures that would help spur long-term investment in India

Transparency

- Met with director of SEC's Division of Corporation Finance to discuss disclosure effectiveness

Financial Markets | UNEP-FI International Consultation

On April 21-23, 2015, CalPERS will host a high-level international consultation for the UN Inquiry into the Design of a Sustainable Financial System (CalPERS CEO represents us at the Advisory Council: Guiding the Inquiry) with select senior investment practitioners and policymakers to identify policy options which galvanize institutional assets for sustainable development.

Proposed discussion topics include:

- The global policy architecture for investment and sustainable development - review of critical institutions and agreements that shape the market rules for institutional investors and state of integrating sustainable development factors
- Investor Governance - policy options which could help align the governance of investment institutions with sustainability: fiduciary duty, stewardship, risk, disclosure
- Systemic Risk & Sustainability - policy options which would enable institutional investors to better manage systemic market failures such as climate change
- Capital Reallocation - policy options which would enable institutions to invest at scale across asset classes (bonds, equities, infrastructure) in sustainability priorities: agriculture, energy, infrastructure & property
- Incentives – policy options which would align remuneration and financial system fiscal measures with long-term sustainable value creation

Global Governance Program Update

ESG Integration | Cross Asset Class Team on Sustainable Investment

	From	To	Update
PHASE 1	Definitions <ul style="list-style-type: none"> Lack of consensus on definitions 	<ul style="list-style-type: none"> Clarity and consensus in the use of definitions 	<ul style="list-style-type: none"> Review & assess data sources internally and externally, vendor presentations, past consultant work done for CalPERS, Peer work Review SASB development of standards on materiality Review work of external managers
	Practice Inventory <ul style="list-style-type: none"> Internal: Lack of understanding of current inclusion of Sustainable Investment considerations in each asset class i.e. policies, principles, processes External: Lack of understanding of what others are doing in the market, what PRI, Ceres, ICGN have proposed 	<ul style="list-style-type: none"> Understanding of current inventory of CalPERS Sustainable Investment practices Understanding of external best practices 	<ul style="list-style-type: none"> Map out current inventory of internal current inclusion of ESG policies, principles, processes Map out inventory of external best practices (PRI, ICGN) Present to the Cross-Asset Class Team
PHASE 2	Establish Processes & Practices <ul style="list-style-type: none"> Lack of practices for staff and external managers 	<ul style="list-style-type: none"> Asset Class specific, and flexible, practices (within delegated authority) for integrating sustainability considerations throughout the lifecycle of the relationship with managers. 	<ul style="list-style-type: none"> Public & Private asset classes propose appropriate draft practices for their programs. Utilize common core considerations across fund Test and review results from pilot before wider roll out
PHASE 3	Evolve over time <ul style="list-style-type: none"> Lack of knowledge base and space to collaborate 	<ul style="list-style-type: none"> Sharing of best practices and lessons learned 	<ul style="list-style-type: none"> Present assessment of practices and results to discuss with SIOs and the INVO office. Work with program areas to help their practices improve for the benefit of the fund. Review practices & key lessons learned to ensure alignment with the Investment Beliefs

ESG Integration | Review and Assess Data Sources

Staff has reviewed data sources to inform our understanding of CalPERS exposure to ESG issues. The project goal is to implement reporting and analytical tools to support the integration of Environmental, Social and Governance topics into the investment process at CalPERS.

The following objectives will be met as part of the project

- Analytics will allow for assessment and monitoring of portfolios on ESG topics
- Company research tools will allow for deeper dive at target companies
- Data will support ability to identify and engage on CalPERS prioritized topics

The scoring was concentrated around five key elements

- Organization – Staff dedicated to ESG research and analysis
- Coverage – Asset classes and scope
- Ratings – The methodology to assess ESG risk is intuitive
- Reporting – Ability to integrate with our current vendors and a clearly understood format
- Cost – Ease and cost of implementation

ESG Integration | Review and Assess Data Sources

Progress Update

- MSCI has been selected as the data provider for the asset classes as a common source
- CalPERS will have access to the Intangible Value Assessment ratings and data as well as the Impact Monitor ratings and data
- MSCI has provided training on the tool to INVO staff from a number of asset classes

Next Steps

- Asset classes will continue to explore the platform for ESG integration
- ESG Manager Expectations document to be presented to the Investment Committee by June 2015.

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

View and download Full Sustainable Investment Report at:
<http://goo.gl/J9BMHz> or scan the QR code

