



*Andrew Junkin, CFA, CAIA  
Managing Director*

April 23, 2015

Mr. Henry Jones  
Chair, Investment Committee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: Corporate Governance Engagement Analysis

Dear Mr. Jones:

Annually, Wilshire analyzes the performance for all companies CalPERS has engaged through its corporate governance efforts. The letter summarizes our findings for the 1999-2013 cohort years.

### **Methodology**

Under the corporate governance program, from 1999 to 2013 CalPERS engaged a total of 188 companies, 59 of which were publicly named to the CalPERS public Focus List and 129 of which were engaged privately. In 2013 there were 5 companies privately engaged by CalPERS' Global Governance group. It is worth noting that in November 2010 CalPERS eliminated the use of its public Focus List by adopting a purely private engagement approach.

Wilshire examined the daily returns for each company beginning at CalPERS' initial contact date and calculated excess returns for each company relative to the Russell 1000 Index. The initial contact dates were provided by CalPERS. This is similar to the methodology used in the annual "CalPERS Effect" paper that Wilshire has provided for many years. The sector analysis was also derived from the Russell 1000. For example, technology companies were compared to the technology sector of the Russell 1000 and so forth.

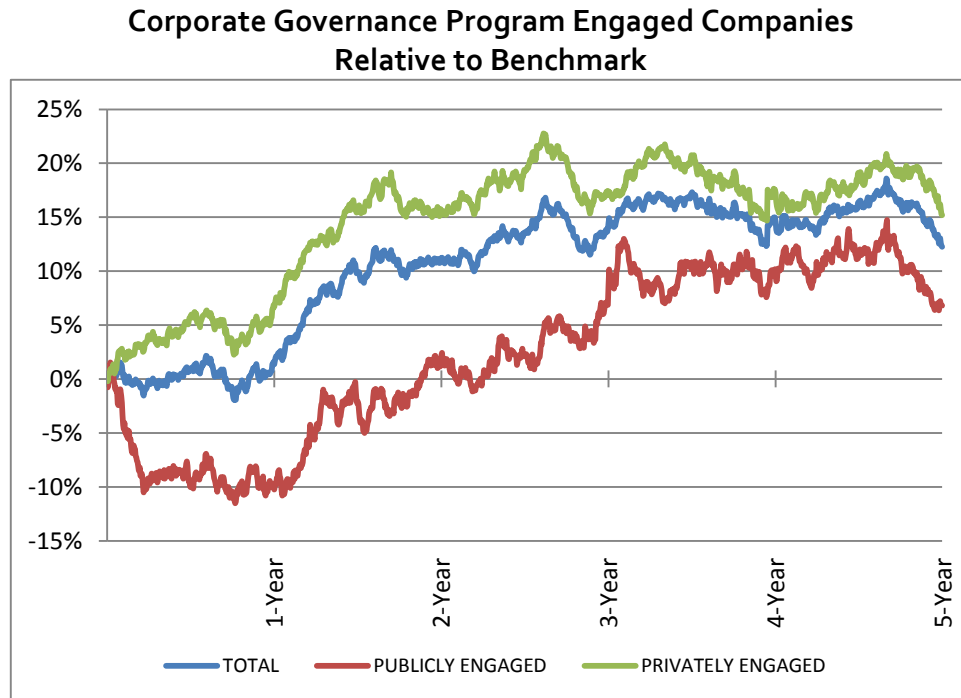
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## Findings

The following graph depicts the average cumulative excess returns for the total sample, the publicly engaged companies, and the privately engaged companies versus the Russell 1000 Index.

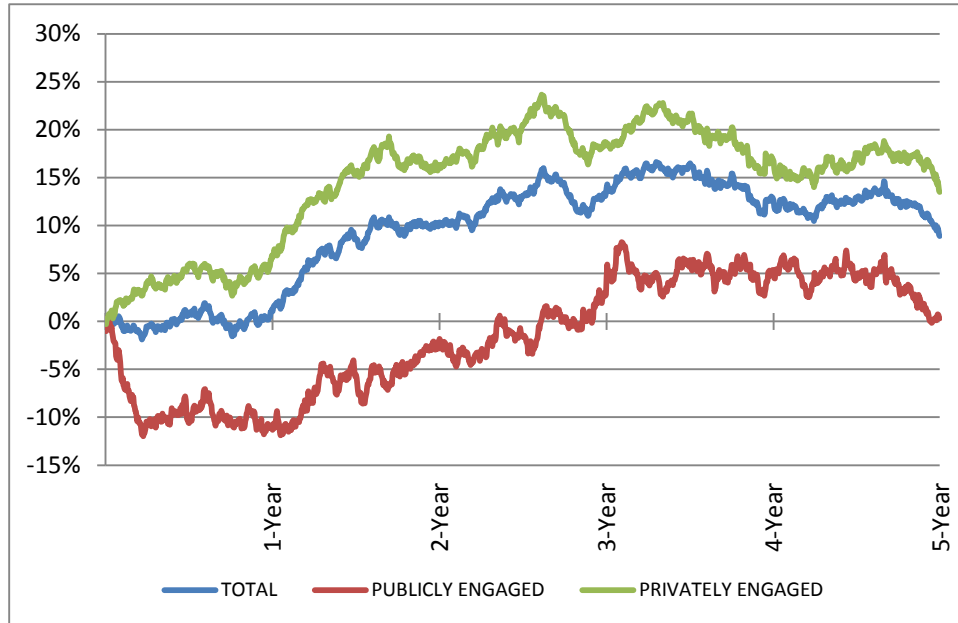


As you can see, privately engaged companies outperformed the publicly engaged companies in this analysis. The turnaround in stock performance for publicly engaged companies is not apparent until approximately two years from engagement, whereas the privately engaged firms that are contacted are perhaps more receptive to or are already engaged in some measure of reform move more quickly to better governance standards, improving the performance of those stocks more rapidly.

The following chart mitigates any sector effects that may be present. For example, in any given year, the CalPERS' corporate governance effort may uncover a number of companies within a single sector that are in need of engagement. The performance of that sector relative to the performance of the Russell 1000 Index could impact the prior analysis significantly (either positively or negatively). Therefore, in the chart below, we consider the performance of each company relative to the performance of its sector.

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**Corporate Governance Program Engaged Companies  
 Relative to Sector**



By including the impacts of the engaged companies' sectors, the analysis generally shows that engagement has added value versus similar peer companies, as it has against a broad index. While the performance of publicly engaged companies is roughly in line with other sector peers at the end of the five year analysis period, the relative performance shows a significant improvement from the one-year mark. This might indicate that CalPERS noted the need for engagement before the companies did and that the impacts were positive after some initial work in the first year of engagement.

An additional view into the engagement process would be that the individual companies should not be equally weighted, but that the yearly cohorts should be. This logic would be supported by the fact that Staff spends a certain amount of time each year on engagement activities and that one year's efforts should not count more than another simply because there were more companies engaged during a particular year. The table below presents the average of the yearly cohort performance.

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	All Engaged Companies Average of Yearly Cohorts		Publicly Engaged Companies Average of Yearly Cohorts		Privately Engaged Companies Average of Yearly Cohorts	
	Cumulative		Cumulative		Cumulative	
	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM
1 Year	0.64%	0.97%	-10.05%	-8.23%	5.58%	5.62%
3 Years	11.50%	11.90%	-1.16%	2.26%	19.24%	18.56%
5 Years	8.91%	12.81%	-5.46%	0.32%	16.60%	19.04%

Again, the privately engaged companies outperformed the publicly engaged companies.

The table below examines various company level performance characteristics for the full five years versus both the sector and benchmark. The table details the company with the maximum, minimum and median relative performance, in addition to the overall number of underperforming and outperforming companies. Note that 19 of the 188 companies did not have five years of returns due to their more recent initial contact dates.

	Versus Sector	Versus Benchmark
Maximum	389.06%	344.02%
Minimum	-230.34%	-177.30%
Median	1.18%	6.35%
# Underperforming	82	80
# Outperforming	87	89
# w/o 5 Years of Returns	19	19

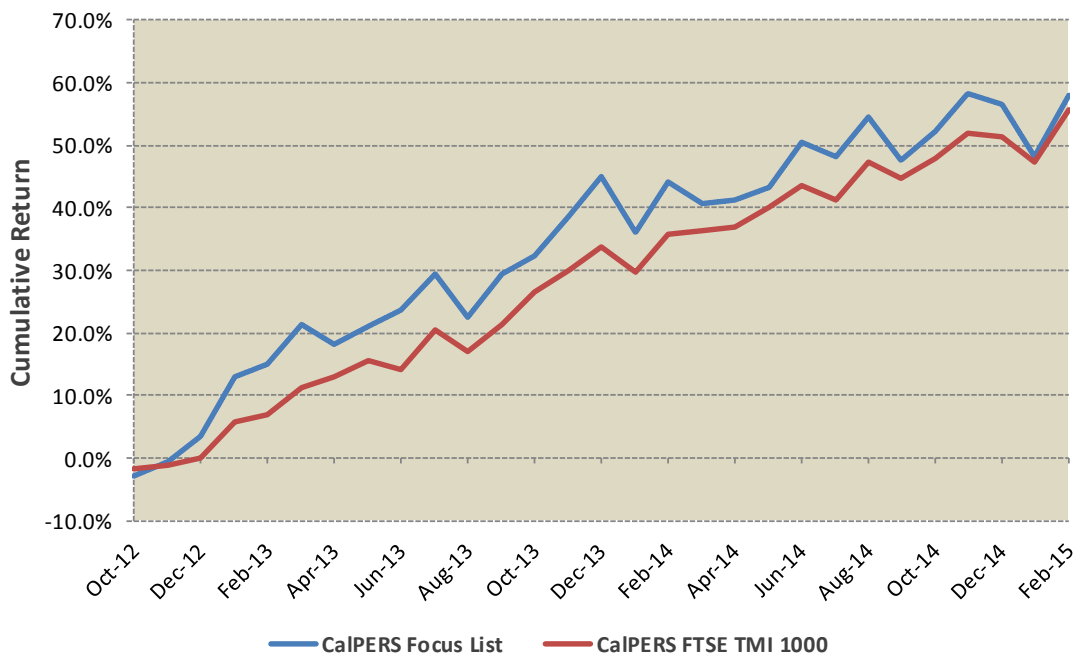
### Investing in Corporate Governance Engagements

In 2012, CalPERS made a decision to begin investing in the companies with which Staff was engaging. This practice was initiated with the seven companies that were named to the 2012 engagement list, where staff invested in each company in late August and early September of 2012. This "monetization" effort was carried forward into 2013, where staff continued to build out the Focus List Portfolio by making additional investments into all five companies identified by the 2013 engagement list. The monetization efforts were wound down in February of 2015, so the performance presented below essentially encapsulates the entire monetization effort. The table below and the chart next page represent Wilshire-calculated time-weighted since-inception performance of this Focus List Portfolio (12 securities total) in which CalPERS has invested. These results are presented relative to the CalPERS FTSE TMI 1000 index, which is similar to the Russell 1000 but is customized for CalPERS.

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Time-weighted Return Comparison As of February 28, 2015						
	3-Month	YTD	1-Year	3-Year	Cumulative Since Inception	Inception Date
CalPERS Focus List Portfolio	-0.25%	0.85%	9.61%	-	57.91%	10/1/2012
CalPERS FTSE TMI 1000	2.43%	2.75%	14.64%	-	55.56%	10/1/2012
Excess	-2.68%	-1.90%	-5.03%	-	2.35%	10/1/2012

Cumulative Time-weighted Return Comparison  
As of February 28, 2015



As shown by the table, recent performance of the Focus List Portfolio has seen some softness, showing minor losses of -0.25% for the three-month period ending February 2015, although it does hold a gain of 9.61% over the past 12-month period. The CalPERS custom FTSE TMI 1000 Index returned 2.43% and 14.64% for the same time periods. More importantly, the portfolio has outperformed since inception, with a cumulative gain of 57.91% from the past 29 months representing 2.35% outperformance. Wilshire will continue to update the Investment Committee with respect to this new aspect of the engagement process in these annual studies.

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## Conclusion

In aggregate the corporate governance program has accomplished its goal of engaging with companies in order to drive positive long term shareholder value. CalPERS has a long history of active involvement and discussion of the best practices in this area, and the data supports the contention that engagement has improved investment results. Furthermore, this analysis supports CalPERS' private engagement approach as the returns to private engagement have consistently been higher than those associated with public engagement.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,

A handwritten signature in black ink, appearing to read "Andrew Junkin". The signature is fluid and cursive, with the first name "Andrew" written in a larger, more prominent script than the last name "Junkin".

Andrew Junkin, CFA, CAIA

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**All Companies Engaged**

	1999			2000			2001			2002			2003			2004			2005		
	Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM
1-Yr	-11.95%	-21.35%	-24.94%	-2.48%	14.22%	24.43%	-18.52%	1.45%	-1.93%	55.63%	25.35%	33.23%	13.27%	5.22%	5.34%	10.06%	1.32%	-0.32%	24.85%	7.53%	8.21%
3-Yr	7.06%	25.78%	37.97%	14.30%	26.48%	40.11%	17.52%	6.83%	1.96%	92.71%	50.66%	47.99%	54.84%	17.79%	18.41%	67.35%	22.97%	20.43%	-24.81%	-6.23%	-9.98%
5-Yr	49.11%	42.65%	56.79%	61.84%	56.86%	73.62%	47.05%	9.97%	2.82%	81.91%	-0.10%	-5.44%	25.20%	7.21%	13.58%	10.88%	-0.78%	-1.87%	-3.30%	-9.12%	-11.58%
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM
1-Yr	-11.95%	-21.35%	-24.94%	-2.48%	14.22%	24.43%	-18.52%	1.45%	-1.93%	55.63%	25.35%	33.23%	13.27%	5.22%	5.34%	10.06%	1.32%	-0.32%	24.85%	7.53%	8.21%
3-Yr	2.30%	7.95%	11.33%	4.56%	8.15%	11.90%	5.53%	2.23%	0.65%	24.44%	14.64%	13.96%	15.69%	5.61%	5.79%	18.72%	7.14%	6.39%	-9.07%	-2.12%	-3.44%
5-Yr	8.32%	7.36%	9.41%	10.11%	9.42%	11.67%	8.02%	1.92%	0.56%	12.71%	-0.02%	-1.11%	4.60%	1.40%	2.58%	2.09%	-0.16%	-0.38%	-0.67%	-1.89%	-2.43%
	2006			2007			2008			2009			2011			2012			2013		
	Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM
1-Yr	5.83%	-8.04%	-9.85%	-36.44%	-17.43%	-22.60%	-9.64%	-0.31%	-0.80%	19.56%	9.30%	10.19%	-6.57%	-16.26%	-16.28%	24.56%	4.25%	2.62%	21.34%	3.70%	6.33%
3-Yr	19.90%	27.06%	29.14%	-43.01%	-17.03%	-25.18%	22.29%	10.87%	15.27%	35.97%	-12.58%	-11.91%	27.88%	-14.59%	-21.39%	-	-	-	-	-	-
5-Yr	39.11%	30.44%	36.18%	-26.30%	-23.05%	-34.43%	80.11%	0.48%	23.04%	99.07%	-16.58%	-11.82%	-	-	-	-	-	-	-	-	-
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM
1-Yr	5.83%	-8.04%	-9.85%	-36.44%	-17.43%	-22.60%	-9.64%	-0.31%	-0.80%	19.56%	9.30%	10.19%	-6.57%	-16.26%	-16.28%	24.56%	4.25%	2.62%	21.34%	3.70%	6.33%
3-Yr	6.24%	8.31%	8.90%	-17.09%	-6.04%	-9.22%	6.94%	3.50%	4.85%	10.78%	-4.38%	-4.14%	8.54%	-5.12%	-7.71%	-	-	-	-	-	-
5-Yr	6.82%	5.46%	6.37%	-5.92%	-5.11%	-8.09%	12.49%	0.10%	4.23%	14.76%	-3.56%	-2.48%	-	-	-	-	-	-	-	-	-

**Total Composite**

	Cumulative		Annualized	
	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM
1-Yr	1.24%	1.61%	1.24%	1.61%
3-Yr	13.36%	13.89%	4.27%	4.43%
5-Yr	8.90%	12.27%	1.72%	2.34%

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**Publicly Engaged Companies**

	1999			2000			2001			2002			2003			2004			2005		
	Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM
1-Yr	-23.15%	-30.73%	-36.14%	-22.39%	-14.31%	5.03%	-64.59%	-34.66%	-47.99%	49.93%	12.12%	27.19%	3.58%	-12.80%	-4.35%	-18.86%	-25.30%	-28.99%	39.86%	23.35%	23.21%
3-Yr	7.00%	28.26%	40.78%	-18.73%	-16.34%	7.75%	-42.23%	-45.27%	-54.77%	91.90%	43.72%	44.54%	38.25%	-12.44%	1.04%	2.71%	-41.87%	-42.65%	-29.49%	-9.43%	-17.94%
5-Yr	60.30%	54.23%	69.95%	38.00%	23.08%	51.69%	-41.55%	-69.69%	-78.79%	75.31%	-17.50%	-16.57%	13.98%	-7.93%	6.67%	-37.71%	-42.85%	-47.71%	-18.80%	-14.57%	-23.95%
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM
1-Yr	-23.15%	-30.73%	-36.14%	-22.39%	-14.31%	5.03%	-64.59%	-34.66%	-47.99%	49.93%	12.12%	27.19%	3.58%	-12.80%	-4.35%	-18.86%	-25.30%	-28.99%	39.86%	23.35%	23.21%
3-Yr	2.28%	8.65%	12.08%	-6.68%	-5.77%	2.52%	-16.72%	-18.20%	-23.24%	24.27%	12.85%	13.07%	11.40%	-4.33%	0.35%	0.89%	-16.54%	-16.92%	-11.00%	-3.25%	-6.38%
5-Yr	9.90%	9.05%	11.19%	6.65%	4.24%	8.69%	-10.18%	-21.24%	-26.67%	11.88%	-3.77%	-3.56%	2.65%	-1.64%	1.30%	-9.03%	-10.59%	-12.16%	-4.08%	-3.10%	-5.33%
	2006			2007			2008			2009			2011			2012			Total Composite		
	Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative			Cumulative		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM
1-Yr	0.78%	-13.76%	-14.90%	-15.45%	-1.22%	-1.60%	-12.62%	-3.15%	-3.78%	-	-	-	-	-	-	-	-	-	-11.07%	-9.88%	-
3-Yr	13.18%	17.43%	22.12%	-10.78%	3.22%	7.14%	18.71%	21.15%	14.55%	-	-	-	-	-	-	-	-	-	2.78%	6.87%	-
5-Yr	31.00%	19.02%	27.99%	12.44%	-5.90%	6.80%	47.64%	7.54%	7.08%	-	-	-	-	-	-	-	-	-	0.32%	6.82%	-
	Annualized			Annualized			Annualized			Annualized			Annualized			Annualized			Annualized		
	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM	Absolute	Excess vs Sector	Excess vs BM
1-Yr	0.78%	-13.76%	-14.90%	-15.45%	-1.22%	-1.60%	-12.62%	-3.15%	-3.78%	-	-	-	-	-	-	-	-	-	-11.07%	-9.88%	-
3-Yr	4.21%	5.50%	6.89%	-3.73%	1.06%	2.33%	5.88%	6.60%	4.63%	-	-	-	-	-	-	-	-	-	0.92%	2.24%	-
5-Yr	5.55%	3.54%	5.06%	2.37%	-1.21%	1.32%	8.10%	1.46%	1.38%	-	-	-	-	-	-	-	-	-	0.06%	1.33%	-



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**Privately Engaged Companies**

	1999			2000			2001			2002			2003			2004			2005		
	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM
1-Yr	8.20%	-4.46%	-4.79%	7.47%	28.49%	34.13%	7.07%	21.51%	23.67%	58.74%	32.57%	36.52%	16.25%	10.77%	8.33%	23.21%	13.42%	12.71%	15.85%	-1.97%	-0.80%
3-Yr	7.19%	21.32%	32.91%	30.82%	47.89%	56.29%	50.71%	35.78%	33.48%	93.16%	54.44%	49.87%	59.94%	27.09%	23.75%	96.73%	52.44%	49.10%	-22.00%	-4.30%	-5.21%
5-Yr	28.97%	21.79%	33.12%	73.76%	73.75%	84.59%	96.28%	54.22%	48.16%	85.50%	9.39%	0.64%	28.65%	11.86%	15.71%	32.96%	18.35%	18.96%	6.00%	-5.85%	-4.16%
	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM
1-Yr	8.20%	-4.46%	-4.79%	7.47%	28.49%	34.13%	7.07%	21.51%	23.67%	58.74%	32.57%	36.52%	16.25%	10.77%	8.33%	23.21%	13.42%	12.71%	15.85%	-1.97%	-0.80%
3-Yr	2.34%	6.65%	9.95%	9.37%	13.93%	16.05%	14.65%	10.73%	10.10%	24.54%	15.59%	14.44%	16.95%	8.32%	7.36%	25.30%	15.09%	14.24%	-7.95%	-1.45%	-1.77%
5-Yr	5.22%	4.02%	5.89%	11.68%	11.68%	13.04%	14.44%	9.05%	8.18%	13.15%	1.81%	0.13%	5.17%	2.27%	2.96%	5.86%	3.43%	3.53%	1.17%	-1.20%	-0.85%

	2006			2007			2008			2009			2011			2012			2013		
	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM	Cumulative Absolute	Excess vs Sector	Excess vs BM
1-Yr	13.75%	0.96%	-1.93%	-45.99%	-24.80%	-32.14%	-8.65%	0.64%	0.19%	19.56%	9.30%	10.19%	-6.57%	-16.26%	-16.28%	24.56%	4.25%	2.62%	21.34%	3.70%	6.33%
3-Yr	30.45%	42.20%	40.16%	-57.66%	-26.24%	-39.86%	23.48%	7.45%	15.51%	35.97%	-12.58%	-11.91%	27.88%	-14.59%	-21.39%	-	-	-	-	-	-
5-Yr	51.86%	48.39%	49.04%	-43.92%	-30.85%	-53.17%	90.93%	-1.88%	28.36%	99.07%	-16.58%	-11.82%	-	-	-	-	-	-	-	-	-
	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM	Annualized Absolute	Excess vs Sector	Excess vs BM
1-Yr	13.75%	0.96%	-1.93%	-45.99%	-24.80%	-32.14%	-8.65%	0.64%	0.19%	19.56%	9.30%	10.19%	-6.57%	-16.26%	-16.28%	24.56%	4.25%	2.62%	21.34%	3.70%	6.33%
3-Yr	9.27%	12.45%	11.91%	-24.91%	-9.65%	-15.59%	7.28%	2.42%	4.92%	10.78%	-4.38%	-4.14%	8.54%	-5.12%	-7.71%	-	-	-	-	-	-
5-Yr	8.71%	8.21%	8.31%	-10.92%	-7.11%	-14.08%	13.81%	-0.38%	5.12%	14.76%	-3.56%	-2.48%	-	-	-	-	-	-	-	-	-

**Total Composite**

	Cumulative		Annualized	
	Excess vs Sector	Excess vs BM	Excess vs Sector	Excess vs BM
1-Yr	6.87%	6.86%	6.87%	6.86%
3-Yr	18.70%	17.43%	5.88%	5.50%
5-Yr	13.51%	15.19%	2.57%	2.87%