

# Global Governance 2016 Proxy Voting Priorities

February 16, 2016

# Objectives

## Looking Back – 2015 Review

- Proxy Voting is guided by CalPERS' Global Governance Principles and framed by the Investment Beliefs
- 2015 Global Proxy Voting Overview

## Looking Ahead – 2016 Global Proxy Voting Overview

- 2016 Proxy Voting Focus
- Proposal and Initiative Overview for 2016
- 2016 Environmental, Social, Governance “ESG” Shareowner Proposals (Alignment of Interest, Human Capital Management and Climate Risk)
- Emerging Issues | A Global Perspective

# 2015 Global Proxy Voting Overview

Issue	Outcome
Proxy Voting	<ul style="list-style-type: none"> <li>Successfully cast votes at over 11,000 company meetings in 47 markets consistent with CalPERS Global Governance Principles.</li> </ul>
2015 Proxy Voting Engagements	<ul style="list-style-type: none"> <li>Staff completed over 1,000 corporate engagements (via in-person meeting, conference call, or email) surrounding company and/or solicitor inquiries related to proxy voting.</li> </ul>
Statement of Investment Policy for Global Governance	<ul style="list-style-type: none"> <li>Developed the Global Governance Program Policy – integrated multiple policies (Proxy Voting, Director Nominations, and Emerging Markets) to one Statement of Investment Policy in alignment with the 2014-16 Investment Officer Roadmap and adopted for the total fund. Also, aligned Policy with CalPERS Investment Beliefs.</li> </ul>
Proxy Vote Disclosure	<ul style="list-style-type: none"> <li>Developed and implemented process to disclose proxy voting records in advance of the AGMs for all 11,000 publicly held companies on the CalPERS website. An expansion from previous process of the top 300 holdings.</li> </ul>
Global Governance Principles	<ul style="list-style-type: none"> <li>Ad Hoc Global Governance Subcommittee oversaw revisions and amendments for Principles: Reduced Principles in size from 100 pages to 39 pages while maintaining content, integration of CalPERS Investment Beliefs, and various Principle amendments.</li> </ul>
CalPERS' Proposals	Outcome
Old Republic	<ul style="list-style-type: none"> <li>Shareowner proposal on majority vote for director elections passed (received 78%) shareowner support.</li> </ul>
Kohl's Inc.	<ul style="list-style-type: none"> <li>Shareowner proposal on proxy access passed (received 74%) shareowner support.</li> </ul>
One Share-One Vote	<ul style="list-style-type: none"> <li>CalPERS co-filed proposals on one share – one vote with other funds at French companies <u>Vivendi</u> (passed w/ 53% support) and <u>Orange</u> (failed w/ 43% support).</li> </ul>

# 2015 Global Proxy Voting Overview

Shareholder Campaigns	Outcome
Majority Vote for Director Elections	<ul style="list-style-type: none"> <li>CalPERS engaged 50 companies surrounding the adoption of majority vote with 47 successful engagements. Since 2010 CalPERS has successfully engaged 247 companies over the adoption of majority voting.</li> <li>90% of the S&amp;P 500 now have Majority Vote for Director Elections.</li> </ul>
Climate Risk Reporting	<ul style="list-style-type: none"> <li>Supported campaigns requesting increased disclosure on climate change risk at <u>Royal Dutch Shell</u> and <u>BP Plc</u>. CalPERS efforts included proxy solicitations, filing shareowner letters and annual meeting attendance. Both resolutions were supported by management and received over 98% support.</li> </ul>
Proxy Access	<ul style="list-style-type: none"> <li>Assisted NYC Funds and other partners at 78 companies related to the adoption of proxy access.</li> <li>The companies selected align with CalPERS' core themes of climate change, board diversity and alignment of interest.</li> <li>90 Shareowner proposals went to vote (54 wins – 36 losses).</li> <li>16 companies voluntarily adopted proxy access.</li> </ul>

2015  
Focus

# 2015 Proxy Access | Strategic Priority

- 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 concluded proxy access 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 (3% ownership for 3 years).



## 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 Proxy Access | Strategic Priority

- 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 shareholder 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 Proxy Access | Strategic Priority

- Voted “for” proxy access shareowner proposals at 90 companies.
- Worked in partnership with NYC Funds and others at 78 companies related to the adoption of proxy access. Company selection was based upon the following core issues:
  - Energy sector – Climate Change
  - Diversity issues – Human Capital Management
  - Governance issues – Alignment of Interest
- Ran proxy solicitation campaigns at 78 companies. This included engaging companies, top investors, filing exempt solicitation letters with the SEC.
- Attended 22 annual general meetings to formally present shareowner proposals.
- Other efforts included engagement of regulators, proxy advisory firms, and participation on webinars for the Council of Institutional Investors and other groups.

## Notable 2015 proxy access wins

 Bank of America

 Boeing

 Chevron

 Citigroup

 Duke Energy

 General Electric

 Kohl's

 McDonald's

 McKesson

 Occidental

 PayPal

 Pfizer

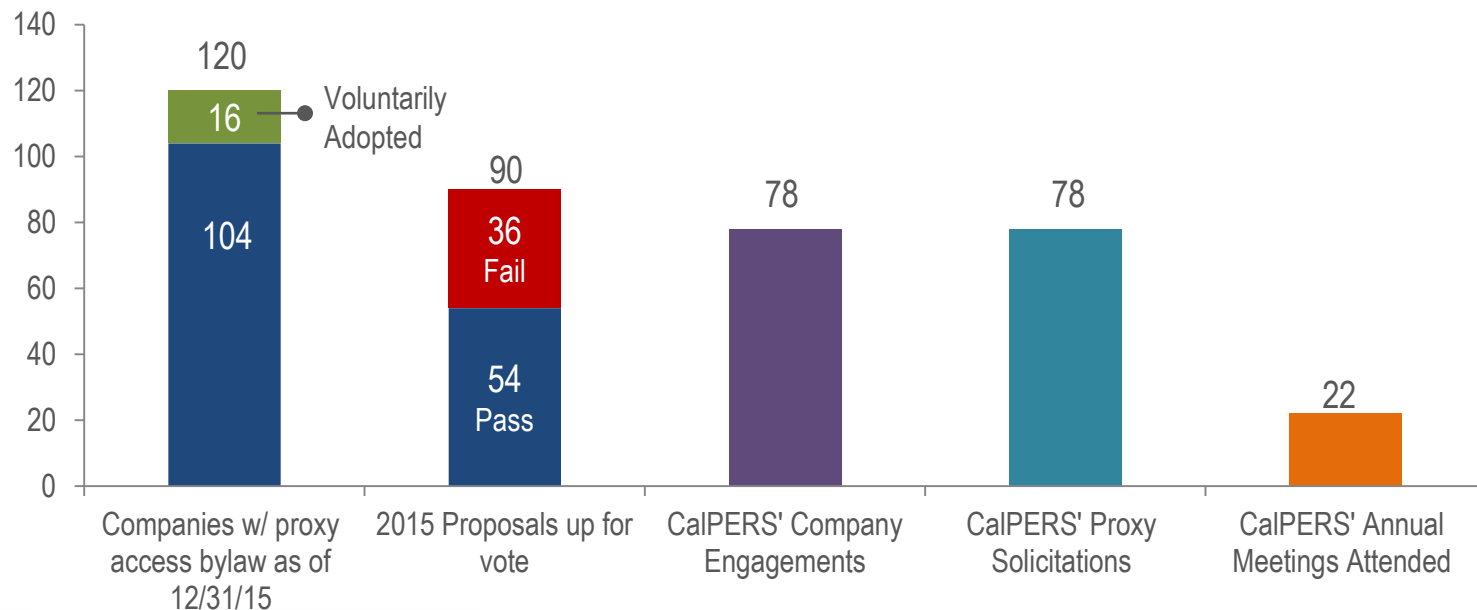
 Staples

 Target

# 2015 Proxy Access Results

## 2015 Proxy Access Trends:

- Average proposal support level: 54%
- 21% of the S&P 500 now has a proxy access bylaw
- 120 companies have implemented a proxy access bylaw (compared to only 14 between 2003-2014).
- 90 shareowner proposals went to vote in 2015: 60% passed (compared to only 30% in 2014)





# Looking Ahead – 2016 Global Proxy Voting Overview

# Global Governance Strategy

Our current strategy on ESG is driven by the Investment Beliefs. The issues we are focused on reflect CalPERS' Beliefs, Principles and Policies, are potentially material, are where we have capacity and can work with others to achieve a positive and timely outcome.

- **Environmental**  
Climate Risk
- **Social**  
Human Capital
- **Governance**  
Alignment of Interest

We have four channels to drive these priorities

Engagement  
\*Proxy Voting\*

Advocacy

Partnerships

Integration

# 2016 Global Proxy Voting Overview

Engagement	Issue
Governance - Alignment of Interest	
Proxy Voting	<ul style="list-style-type: none"> <li>CalPERS will vote on approximately 11,000 company meetings in 47 markets in line with the Global Governance Principles.</li> </ul>
2016 CalPERS Shareowner Proposals	<ul style="list-style-type: none"> <li>Proxy Access – focus on governance (failed votes)</li> <li>Majority Vote for Director Elections</li> </ul>
Investor Rights	<ul style="list-style-type: none"> <li>Support investor rights proposals consistent with CalPERS Global Governance Principles.</li> </ul>
Compensation	<ul style="list-style-type: none"> <li>Support well designed compensation structures (Say-on-Pay) that are aligned with shareowner interests.</li> </ul>
Regulatory Effectiveness	<ul style="list-style-type: none"> <li>Dodd – Frank disclosure requirements.</li> </ul>
Environmental - Climate Change	
2016 CalPERS Shareowner Proposals	<ul style="list-style-type: none"> <li>Climate Risk Reporting – co-filing and solicitations on shareholder proposals in line with the Global Governance Principles</li> <li>Proxy Access – energy companies</li> </ul>
Social - Human Capital	
Board Quality & Diversity	<ul style="list-style-type: none"> <li>Director Voting – focus on diversity, competence, independence and accountability.</li> <li>Proxy Access – board diversity</li> </ul>

# Alignment of Interest | Proxy Voting

## Investor Rights

Proxy Access: Consistent with the CalPERS Global Governance Principles, staff will vote “for” proposals giving shareowners access to the director nomination process.

- CalPERS Proxy Access Proposal:
  - CalPERS has filed one shareowner proposal on proxy access at Old Republic (ORI). In connection with this proposal staff will engage top investors, proxy advisory firms, file a shareowner letter with the SEC, attending the annual meeting, and hire a proxy solicitor
- 2016 Proxy Access Campaign:
  - Partner funds have filed shareowner proposals at approximately 60 companies where there are concerns over diversity, climate risk, or governance. CalPERS will provide support by engaging companies, top investors, proxy advisory firms, filing shareowner letters with the SEC, attending annual meetings, and hiring proxy solicitors.
- Other Proxy Access Proposals:
  - In 2016 CalPERS will continue supporting proposals relating to proxy access and will vote “for” proposals consistent with the vacated SEC rule (3% ownership for 3 years).
  - Staff will monitor company implementation of majority passed proxy access resolutions from 2015 to ensure shareowner friendly bylaws are put in place. If companies implement provisions that restrict or limit the use of proxy access staff will issue adverse votes for director nominees.
  - Staff anticipates over 100 shareowner proposals to be filed this year.

# Alignment of Interest | Proxy Voting

## Compensation – Failed Votes:

The following 56 companies in the S&P 500 failed to receive majority support for Say on Pay (SOP) proposals in 2015. If compensation concerns remain in 2016 staff will continue to vote “against” SOP proposals and vote “against” members of the Compensation Committee.

### 2015 Failed Say-on-Pay Companies

1. Acacia Research Corporation	10. Biglari Holdings Inc.	18. Hospira, Inc.	27. Monster Worldwide, Inc.	42. Restoration Hardware Holdings, Inc.	51. TiVo Inc.
2. Actua Corp.	11. Carriage Services, Inc.	19. ICU Medical, Inc.	35. Natural Gas Services Inc.	43. Schnitzer Steel Industries, Inc.	52. Tutor Perini
3. Allegheny Tech	12. Celadon Group, Inc.	20. Imation Corp.	36. Nuance Inc.	44. Shutterfly, Inc.	53. Ultratech, Inc
4. Argan, Inc.	13. Checkpoint Systems, Inc.	21. Insulet Corp.	37. Oracle Corporation	45. Spectrum Pharm Inc.	54. United Therapeutics
5. Astoria Financial Corp	14. Cogent Communications	22. InvenSense, Inc.	38. Palo Alto Networks, Inc.	46. SPX Corp	55. Vertex
6. B/E Aerospace, Inc.	15. Cornerstone Inc.	27. K12 Inc.	39. PICO Holdings, Inc.	47. Superior Industries	56. W.R. Berkley
7. BankUnited, Inc.	16. Darling Inc.	28. Kate Spade Co.	40. RBC Bearings Incorporated	48. Synergy Resources	57. Walter Energy
8. Basic Energy Services, Inc.	17. Dex Media, Inc.	29. Knoll, Inc.	41. Resolute Energy Corp	49. TCF Financial	
9. BBCN Bancorp, Inc.	18. Eagle Bancorp, Inc.	30. Luminex Corp.		50. The Hain Celestial Group	
10. Bed Bath & Beyond Inc.	19. Fidelity Financial Inc.	31. Mack-Cali Realty Corp.			
		32. Masimo Corp.			
		33. MedAssets, Inc.			

# Alignment of Interest | Proxy Voting

## Regulatory Effectiveness

Upcoming disclosure requirements that will have an impact on company proxy disclosures:

**Dodd-Frank Compensation-Related Rulemaking:** During 2015, the US Securities and Exchange Commission (SEC) responded to mandates under the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank) involving compensation-related matters:

- Final pay ratio disclosure rule (required by 2018)
- Clawback standards\*
- Pay versus performance disclosure\*
- Hedging disclosure rule\*

\*Clawback, Pay versus performance, and Hedging remain in the proposal stage. None of these initiatives are likely to require additional disclosures in proxy statements during the 2016 season, although it is possible that the SEC could finalize the pay versus performance and/or hedging disclosure rules in time to implement them for the upcoming 2016 season.

# Climate Risk | Proxy Voting

## Climate Change and Risk

Consistent with the CalPERS Global Governance Principles, staff will vote “for” proposals related to climate change and support related engagements in 2016.

- Shareowner Proposal on Climate Risk (“Aiming for A”):
  - CalPERS is co-filing shareowner proposals at 3 energy companies requesting disclosure on climate change risk and opportunities. This effort will include shareowner solicitation campaigns requiring engagement of top shareowners and proxy advisors, filing shareowner letters with the SEC, attending annual meetings, and hiring proxy solicitors.
- CalPERS Solicitations on Climate Change Shareowner Proposals:
  - In 2016 staff expects approximately 18 shareowner proposals to be filed requesting climate change impact assessments. Staff will vote “for” these resolutions and run proxy solicitations to support the vote. These solicitations may include: engaging companies, top investors, proxy advisory firms, filing shareowner letters with the SEC, attending annual meetings, and hiring proxy solicitors
- Proxy Access and Climate Change:
  - Partner funds have filed approximately 17 proxy access proposals at companies with climate change related concerns. CalPERS will provide support by engaging companies, top investors, proxy advisory firms, filing shareowner letters with the SEC, attending annual meetings, and hiring proxy solicitors.
- Other Climate Change and Risk Shareowner Proposals:
  - CalPERS will vote “for” routine proposals requesting increased disclosure surrounding climate change.

# Human Capital | Proxy Voting

## Board Quality and Diversity

Failed (“Zombie”) Directors: The directors listed below did not receive majority shareowner support in 2015 and still remain the board – in 2016 staff will vote “against” these directors. Additionally, staff will consider voting “against” Nominating/Governance Committee members who fail to address this.

### 2015 Failed Director Votes

Airgas, Inc. – D. Stout – J. Hove – P. Sneed	HCI Group – M. Traber	Hooker Furniture Corporation – L. Ryder	Orbitz Worldwide – K. Esterow
BankUnited Inc – T. Blanca	Healthcare Services – D. McCartney – D. Casey – D. Ottaviano – J. McFadden	Interface, Inc. – D. Kohler	Senior Housing Properties Trust – B. Portnoy
Capital Bank Financial Corp. – M. Oken	– J. Briggs – M. McBryan – R. Moss – R. Frome – T. Wahl	Nabors Industries – H. Wolf – J. R. Crane – J. Yearwood – M. Linn	Spectrum Pharmaceuticals – D. Vyas – L. Lenaz – S. Krassner
Dex Media, Inc. – T. Gardner – T. Rogers	HomeTrust Bancshares Inc. – L. McDevitt	Netflix, Inc. – R. Barton	STAAR Surgical – M. Logan
Evercore Partners – R. Millard			



# Human Capital | Proxy Voting

## Board Quality and Diversity

Consistent with the CalPERS Global Governance Principles, staff will vote “for” diversity related proposals and support related engagements in 2016.

- Diversity related Shareowner Proposals:
  - In 2016 staff expects 22 shareowner proposals to be filed at companies requesting inclusion of diversity language within companies governing documents. Staff will vote “for” these proposals in-line with CalPERS Principles.
- Proxy Access and Diversity:
  - Partner funds has filed approximately 23 proxy access proposals at companies with diversity concerns. CalPERS will provide support by engaging companies, top investors, proxy advisory firms, filing shareowner letters with the SEC, attending annual meetings, and hiring proxy solicitors.
- Other diversity and inclusion shareowner proposals:
  - CalPERS will support routine proposals requesting greater diversity and a review of diversity policies.

# Emerging Issues | A Global Perspective

## Social – Human Capital

USA



22 shareowner proposals filed in 2016 requesting inclusion of diversity language within companies' governing documents.  
23 proxy access proposals filed at companies with diversity concerns.

UK



In 2011 a target was set that women should comprise at least 25 percent of FTSE 100 board positions by the end of 2015 – that has now been reached. Data shows that as of July 31, 2015 women accounted for 25.6 percent of FTSE 100 board positions (19.2 percent in the FTSE 250).

Belgium



The Belgium legislature established that each gender should represent at least one-third of the members of the board by the end of 2016. If the number of underrepresented directors of a particular gender is not met – the next appointed director should be of that gender.

Germany



The German Corporate Governance Code was amended to reflect a 30 percent gender quota that will be mandatory for supervisory boards at 100 largest German companies.

# Emerging Issues | A Global Perspective

## Governance – Alignment of Interest

USA



Proxy Access – Will continue to be the most filed proposal in 2016 with more than 100 proposals filed to date.

- The first proxy access proposal of 2016 was voted at Johnson Controls on January 27.

Climate Change – To date, 83 proposals have been filed. Specific proposal types include:

- 18 proposals have been filed on Climate Change Impact Assessments/ (INCR/Ceres).
- Other proposals: Reducing GHG emissions, Increasing investments in clean technology, Stranded Carbon Assets (Oil & Gas), and Renewable Energy/Efficiency.

UK



Voting Requirements for Companies with a Controlling Shareowner – New rule regarding the election of independent directors at companies where there is a controlling shareowner (30 percent or more) will require two vote calculations:

- Votes of all shareowners
- Votes of all shareowners “excluding” the controlling shareowner

Japan



Corporate Governance Code Development – Encourages companies to appoint at least two independent outside directors based on criteria from the Tokyo Stock Exchange (TSE). The recently updated code also requires companies without outside directors to disclose why there have been no appointments.

France



Florange Act – Under this provision registered shares for two years will automatically acquire double-voting rights at French companies. This is contrary to the best practice and the CalPERS principle related to one share – one vote. French listed companies have until March 31, 2016 to amend their bylaws to remove double voting and retain one share – one vote.

Italy



Governance Improvements to Minority Shareowner Rights – Last year there was an increase in shareowner proposal activity primarily based on better disclosure. In previous years, the content of proposals was provided only at the meeting, impeding shareowner votes via proxy. Therefore, better and more timely disclosure about these proposals is a positive move towards minority shareholder rights in 2016.

# Emerging Issues | A Global Perspective

## Governance – Alignment of Interest

USA



### Share Buybacks and Compensation

To date, six proposals have been filed:

- Amalgamated Bank filing proposals requesting companies adopt a policy that the board “will not utilize earnings per share or financial return ratio in determining executive compensation, unless they exclude the effect of share buybacks that may have occurred.
- AFL-CIO Equity Index Fund filed shareowner proposals regarding share buybacks at Illinois Tool Works, 3M, and Xerox. The proposal requests companies exclude the impact of stock buybacks from compensation formulas.
- UAW Retiree Benefits and AFL-CIO co filed a shareowner proposal at IBM regarding share buybacks.

UK



### Executive Remuneration (Binding Vote)

## Environment – Climate Change

USA



Climate Change – To date, 83 proposals have been filed. Specific proposal types include:

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- Other proposals: Reducing GHG emissions, Increasing investments in clean technology, Stranded Carbon Assets (Oil & Gas), and Renewable Energy/Efficiency.