Review of ESG Strategy
Governance Theme:
Alignment of Interests

Investment Committee, May 2016
Objectives

- Seek Investment Committee feedback on Environmental, Social, and Governance (ESG) Strategic Priorities with particular focus on the “G”

- Conduct an in-depth review of our proposed focus on alignment of interest

- Initiate discussion of potential key performance indicators (KPIs)
## Recommended Strategic Priorities: ESG

<table>
<thead>
<tr>
<th>E</th>
<th>S</th>
<th>G</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Climate Change</strong></td>
<td><strong>Human Capital</strong></td>
<td><strong>Alignment of Interest</strong></td>
</tr>
<tr>
<td>• Data and corporate reporting standards (includes water risk)</td>
<td>• Data and corporate reporting standards (includes human capital)</td>
<td>• Data and corporate reporting standards (focusing on the long-term)</td>
</tr>
<tr>
<td>• Manager Expectations Pilot (includes water risk)</td>
<td>• Manager Expectations Pilot</td>
<td>• Manager Expectations Pilot</td>
</tr>
</tbody>
</table>
| • Research  
  – Sustainable Investment Research Initiative (SIRI)  
  – Global Equity Strategies | • Research  
  – SIRI  
  – Diversity  
  – Income inequality | • Research  
  – Topics from Global Governance Principles Review |
| • Engage 80 PRI Montreal Pledge Companies (identify water risk candidates)  
• Carbon Footprinting – Total fund  
• Thermal Coal Companies – (SB185) | • Diversity and Inclusion  
• Responsible Contractor Program  
• Supply Chain Activities  
• Income Inequality (placeholder) | • Principles and Proxy Voting  
• Proxy Access  
• Majority Voting  
• Focus List  
• Private Equity Fee and Profit Sharing Transparency  
• Divestment: Mandates, Policy & Principles |

**Work through Partnerships to leverage resources and impact**
2016 Timeline for Developing a 3-5 Year Strategic Plan

**January 2016**
- Board Offsite

**February 2016**
- Investment Committee

**March 2016**
- Investment Committee
- Focus on Human Capital
- Discuss key performance indicators

**April 2016**
- Investment Committee
- Focus on Climate Change
- Discuss key performance indicators

**May 2016**
- Investment Committee

**June 2016**
- Investment Committee

**July 2016**
- Board Offsite

**August 2016**
- Investment Committee
- Adoption of Strategic Plan and key performance indicators

**Present current strategy with focus on ESG**
**Consider the market**
**Discuss integration**

- **2015 Q4 Proxy Voting Report**
- **2016 Proxy Voting Plan Description**

- **Focus on Alignment of Interest**
- **Discuss key performance indicators**

- Seek final guidance on the Global Governance 3-5 Year Strategic Plan and key performance indicators

- Finalize key performance indicators
- Review Initiatives based upon the Investment Committee’s feedback
- Divide initiatives and partnerships into strategic and core activity
Investment Beliefs

CalPERS’ Investment Beliefs frame our fiduciary approach to alignment of interest.

Investment Belief 2
A long time investment horizon is a responsibility and an advantage

- Long time horizon requires that CalPERS:
  - Consider the impact of its actions on future generations of members and taxpayers
  - Encourage investee companies and external managers to consider the long-term impact of their actions
  - 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
  - Advocate for public policies that promote fair, orderly and effectively regulated capital markets
Investment Beliefs

Investment Belief 3
CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

• In considering whether to engage on issues raised by stakeholders, CalPERS will use the following prioritization framework:
  – **Principles and Policy** – to what extent is the issue supported by CalPERS Investment Beliefs, Principles of Accountable Corporate Governance or other Investment Policy?
  – **Materiality** – does the issue have the potential for an impact on portfolio risk or return?
  – **Definition and Likelihood of Success** – is success likely, in that CalPERS action will influence an outcome which can be measured? Can we partner with others to achieve success or would someone else be more suited to carry the issue?
  – **Capacity** – does CalPERS have the expertise, resources and standing to influence an outcome?
Investment Beliefs

Investment Belief 4
Long-term value creation requires effective management of three forms of capital: financial, physical, and human.

- Strong governance, along with effective management of environmental and human capital factors, increases the likelihood that companies will perform over the long-term and manage risk effectively.

- CalPERS may engage investee companies and external managers on their governance and sustainability issues, including:
  - Governance practices, including but not limited to alignment of interests
  - Risk Management practices
  - Human Capital practices, including but not limited to fair labor practices, health and safety, responsible contracting and diversity
  - Environmental practices, including but not limited to climate change and natural resource availability
Review of ESG Strategy – Alignment of Interest

Investment Beliefs

Investment Belief 7
CalPERS will take risk only where we have a strong belief we will be rewarded for it.

- An expectation of a return premium is required to take risks; CalPERS aims to maximize return for the risk taken.
- Markets are not perfectly efficient, but inefficiencies are difficult to exploit after costs.

Investment Belief 8
Costs matter and need to be effectively managed.

- CalPERS will balance risk, return and cost when choosing and evaluating investment managers and investment strategies.
Investment Beliefs

Investment Belief 9
Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

- CalPERS shall develop a broad set of investment and actuarial risk measures and clear processes for managing risk.
- As a long-term investor, CalPERS must consider risk factors, for example climate change and natural resource availability that emerge slowly over long time periods, but could have a material impact on company or portfolio returns.

Investment Belief 10
Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

- Diversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important.
Current Strategy on ESG

- **Environmental**  
  Climate Risk

- **Social**  
  Human Capital

- **Governance**  
  Alignment of Interest

Our approach utilizes three channels supported by partnerships:

1. **Integration**
2. **Engagement**
3. **Advocacy**
4. **Partnerships**
Alignment of Interest | Overview

To fulfill CalPERS’ fiduciary duty by:

- Understanding and managing investment risks and value drivers related to alignment of interest that contribute to long-term sustainable returns.

<table>
<thead>
<tr>
<th>Advocacy</th>
<th>Engagement</th>
<th>Integration</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Data and Corporate Reporting standards (focusing on the long-term, e.g. regulators and stock exchanges)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Federal and Legislative Guidelines</td>
<td>• Focus List</td>
<td>• Manager Expectations</td>
</tr>
<tr>
<td>- CalPERS SEC Priorities</td>
<td>• Proxy Access Initiative</td>
<td>• Private Equity Fee and Profit Sharing</td>
</tr>
<tr>
<td>- Disclosure Effectiveness Initiative</td>
<td>• Majority Voting initiative</td>
<td>Transparency</td>
</tr>
<tr>
<td>- Asset Class Regulatory Priorities (Credit Round Table, Private Equity, Derivatives, etc.)</td>
<td>• Principles and Proxy Voting</td>
<td>• Principles Review</td>
</tr>
<tr>
<td></td>
<td>• Topics From Principles Review</td>
<td>• Divestment: Mandates, Policy &amp; Principles</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Iran/Sudan</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Coal</td>
</tr>
<tr>
<td></td>
<td></td>
<td>- Divestment Policy Review</td>
</tr>
</tbody>
</table>

To fulfill CalPERS' fiduciary duty by understanding and managing investment risks and value drivers related to alignment of interest that contribute to long-term sustainable returns.

- Federal and Legislative Guidelines
- CalPERS SEC Priorities
- Disclosure Effectiveness Initiative
- Asset Class Regulatory Priorities (Credit Round Table, Private Equity, Derivatives, etc.)

Focus List
- Proxy Access Initiative
- Majority Voting initiative
- Principles and Proxy Voting
- Topics From Principles Review

Manager Expectations
- Private Equity Fee and Profit Sharing Transparency
- Principles Review
- Divestment: Mandates, Policy & Principles
  - Iran/Sudan
  - Coal
  - Divestment Policy Review
“The directors of such [joint-stock] companies, however, being the managers rather of other people's money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own.... Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company.”

Adam Smith, “The Wealth of Nations” (1776)

“Collectively, the evidence suggests that performance improves in those Japanese companies that improve governance.”


“Asset owners need to lead the way in encouraging the companies they own to shift time and energy away from issuing quarterly guidance. Instead they should focus on communicating the metrics that are truly material to the company’s long-term value creation and most useful for investors.”

Focusing Capital on the Long Term (February 2014), Harvard Business Review

“…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.”

CFA Institute, “Proxy Access in the United States: Revisiting the Proposed SEC Rule” (August 2014)
Advocacy | Data & Corporate Reporting Standards

Objective

- Advocate for global high quality accounting, auditing, and integrated corporate reporting standards to promote true and fair disclosure.

Initiative

- Reduce use of pro-forma financial reporting
- Enhance audit and audit committee reports
- Actively comment throughout SEC’s Disclosure Effectiveness Initiative
- Move to integrated corporate reporting

Potential Key Performance Indicator

- Reduce use of pro-forma financial reporting
- Measureable enhancements in integrated corporate reporting standards
Review of ESG Strategy – Alignment of Interest

Proposed Timeline | Advocacy

Year 1

• Continue active responses within the SEC Disclosure Effectiveness initiative focused on alignment of interest including response to concept release and follow-on

Year 2

• Support the development of integrated reporting initiatives
• Continue work on SEC Disclosure Effectiveness focused on alignment of interest

Year 3

• Continue advocacy for enhanced data and corporate reporting and disclosures around non-GAAP reporting
• Continue work on SEC Disclosure Effectiveness focused on alignment of interest
• Advocate for standards on board tenure

Years 4-5

• Review and develop plans for next advocacy phase
• Execute on plans developed in year 4

Agenda Item 8a, Attachment 1, Page 15 of 42
Engagement | Focus List

Objective

- Improve company governance practices and drive positive long-term economic returns through active engagement.

Initiative

- Engage companies from Global Equity Aggregate top investment position over weights as the primary screening universe.
- Collaborate with external manager partners and other investors to leverage expertise for global engagement.
- Currently focused on the Japanese investment market.
- Engage portfolio companies to ensure alignment with CalPERS’ core issues:
  - Investor Rights
  - Board Quality & Diversity
  - Compensation
  - Capital Allocation
  - Human Capital Management & Environmental Practices
  - Corporate Reporting

Potential Key Performance Indicator

- Measurable governance reforms post engagement
Engagement | Proxy Access

Objective
- Achieve proxy access as a market standard in the U.S.

Initiative
- Engage U.S. portfolio companies to adopt proxy access consistent with the vacated SEC Rule.
- Screen companies based on the following section criteria:
  - Investment Exposure
  - Energy sector: Climate risk reporting
  - Diversity issues: Board quality
  - Governance issues: Compensation and other issues

Potential Key Performance Indicators
- Companies adopt proxy access consistent with vacated SEC Rule.
Engagement | Majority Voting

Objective
• Achieve majority voting as a market standard in the U.S.

Initiative
• Engage U.S. portfolio companies to adopt of majority for director elections.
• Screen companies based on the following selection criteria:
  – Presence of a plurality vote standard
  – Investment exposure
  – Ownership structure/base

Potential Key Performance Indicators
• Companies adopt majority voting for director elections.
Review of ESG Strategy – Alignment of Interest

Proposed Timeline | Engagement

Year 1
- Continue with collaborative Enhanced Focus List strategy in Japan
- Continue Proxy Access Initiative
- Continue Majority Vote Initiative
- Use proxy access in partnership with others to enhance board quality

Year 2
- Continue with collaborative Enhanced Focus List strategy in Japan
- Continue Proxy Access Initiative
- Continue Majority Vote Initiative

Year 3
- Continue with collaborative Enhanced Focus List strategy in Japan
- Continue Proxy Access Initiative
- Continue Majority Vote Initiative

Years 4-5
- Consider additional investment markets for Enhanced Focus List strategy
- Re-evaluate Proxy Access Initiative and market presence
- Re-evaluate Majority Vote Initiative and market standards
Integration | Topics from Principles Review

Objective

- Further develop the Global Governance Principles

Initiative

- Review topics from the Global Governance Policy Ad Hoc Subcommittee
- Themes include:
  - Capital Allocation
  - Compensation
  - Environment and Climate Change
  - Human Capital Management
  - Investor Rights
  - Total Fund Emphasis
  - Vote Disclosure Language

(see full list in appendix - slide 27)
Integration | Manager Expectations

Each asset class has draft Sustainable Investment Practice Guidelines (Guidelines) which include descriptions of how staff are expected to approach ESG considerations in contracting.

Objective

• Use governance to align interests between CalPERS and Managers regarding ESG.

Initiative

• All asset classes seek to promote greater alignment of interest with external managers by establishing, where possible, relevant and effective, the following items in contracts:
  – Managers have, or will commit to have, an investment process which incorporates an assessment of relevant long-term Sustainable Investment or ESG factors;
  – Managers will incorporate relevant ESG factors and Sustainable Investment activities into reporting.

Potential Key Performance Indicator

• Develop metrics to track implementation of the Guidelines in contracting (For example, percentage of new contracts with ESG requirements).
Integration | PE Fee & Profit Sharing Transparency

Objective

• Increase transparency of fees and profit sharing distributed to private equity managers within the industry by working in partnership with Institutional Limited Partners Association (ILPA), as well as directly with CalPERS.

Initiatives

• Require private equity managers to complete the ILPA Fee Reporting Template for all future commitments

• Seek disclosure of profit sharing for all existing commitments

• Work with ILPA to continue to improve transparency of fees and profit sharing in private equity, including reporting fees charged at the individual portfolio company level

• Encourage the SEC to secure sufficient resources for both Examination and Enforcement Divisions
Review of ESG Strategy – Alignment of Interest (continued)

• Continue to monitor activities of the SEC as it relates to exams, enforcement, and Form ADV disclosure

• Work collaboratively with Legislative Affairs with respect to any legislation introduced impacting private equity asset class (e.g.: transparency and disclosure of private equity fees)

• Review PE Policy to determine if any changes related to transparency are appropriate as a part of the Annual Program Review
Potential Key Performance Indicators

- Number of private equity managers completing the ILPA Fee Reporting Template
- Number of private equity managers providing profit sharing information
- Continued engagement with both GPs and LPs to encourage industry adoption of the ILPA Fee Reporting Template
Integration | Divestment: Mandates, Policy & Principles

Objective
- Fulfill divestment mandates, policy and principles

Initiative
- **Thermal Coal**: Senate Bill 185 requires CalPERS to constructively engage and potentially divest from portfolio companies that generate 50 percent or more of their revenue from mining thermal coal.
- **Iran**: Assembly Bill 1151 requires CalPERS to engage and potentially divest from portfolio companies that have business ties to Iran.
- **Sudan**: Assembly Bills 2941 require CalPERS to engage and potentially divest from portfolio companies that have business ties to Sudan.

Potential Key Performance Indicators
- Adherence to divestment mandates, policy and principles
Review of ESG Strategy – Alignment of Interest

Proposed Timeline | Integration

**Year 1**
- Pilot Manager Expectations
- Effective January 1, 2016, require future private equity managers to complete the ILPA Fee Reporting Template together with several CalPERS specific requirements
- Request pre-2016 managers to complete the ILPA Fee Reporting Template as well as CalPERS specific requirements
- Topics from Principles review

**Year 2**
- Present results of Pilot Manager Expectations to Investment Committee
- INVO and Legislation Affairs will work collaboratively with respect to any legislation introduced impacting transparency and disclosure of PE fees
- PE Policy Review
- Topics from Principles review

**Year 3**
- Release public version of Manager Expectations to CalPERS website
- Each asset class to integrate Sustainability Investment Practices Guidelines into procedures manuals
- Continue to prioritize the completion of the ILPA Fee Reporting Template and other CalPERS specific reporting requirements
- Continue to engage with ILPA as appropriate
- Topics from Principles review

**Years 4 - 5**
- Manager Expectations evolve over time
- Continue to prioritize the completion of the ILPA Fee Reporting Template and other CalPERS specific reporting requirements
- Continue to engage with ILPA as appropriate
- Topics from Principles review

---

*CalPERS Investment Office Global Governance*
Appendix:

1. Focus List Program
2. Proxy Access Initiative
3. Topics for review: Global Governance Principles
4. Institutional Limited Partners Association ("ILPA")
5. CalPERS Legislative & Policy Engagement (Investment) Guidelines
1. Focus List Program

About the Program

• Current strategy approved by the Investment Committee in November 2014

• Engage companies from Global Equity Aggregate top ~100 investment position over weights as the primary screening universe with flexibility to expand across the total fund based on relative and absolute dollar investment.

• Collaborate with external manager partners and other investors to leverage expertise for global engagement.

• Engage on the alignment of CalPERS’ core issues at global portfolio companies: investor rights, board quality and diversity, executive compensation, and corporate reporting. Inform the Investment Committee on Focus List Program strategy enhancements and accomplishments.
1. Focus List Program

Recent Developments

- Staff engaged with executive management and directors at Japanese portfolio companies.
- CalPERS signed on to Japan’s Stewardship Code in March 2016.

Why Japan?

- Investment Exposure: Second largest market in our global equity portfolio.
- Opportunity: Staff identified numerous governance issues systemic to the Japanese market: traditionally poor capital efficiency and low valuation relative to other developed markets.
- Timing: Significant market push within Japan for governance reforms, and companies more receptive to shareholder engagement due to increasing foreign ownership.
- Impact: Concentrated market engagement has the potential for greater market-wide impact.
- Efficiency: Focus on a single market to make efficient use of staff resources and travel expenditures.
1. Focus List Program | Measuring Impact

Japanese Companies with Two or More Independent Directors*

*Represents approximately 1900 companies included in the Tokyo Stock Price Index (TOPIX 1st Section)

Source: Tokyo Stock Exchange
2. Proxy Access Initiative | Background

History

- Proxy Access provides shareowners in the U.S. with 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 that proxy access will contribute to improved corporate performance.
- In 2011, the SEC issued a universal proxy access rule. However, the US Chamber of Commerce and Business Roundtable filed suit to challenge the rule and won in court.
- In 2012, the SEC ruled that shareowners could file shareowner proposals requesting proxy access (also known as Private Ordering).
- CalPERS is a firm supporter of shareowner proposals modeled under the vacated SEC rule (3 percent ownership for 3 years).

Trends

- In November 2014, only 6 U.S. companies had proxy access. As of March 2016, 210 companies had adopted a bylaw (consistent with the vacated SEC rule).
- In 2015, 90 shareowner proposals went to vote and achieved average support of 54%. Note that 54 of the 90 proposals (or 60%) were approved with majority shareowner support.
2. Proxy Access | Strategic Priority

Proxy Access is a top priority for CalPERS – we have filed proposals, engaged companies, attended Annual General Meetings, filed exempt solicitation shareowner letters with the SEC and ran proxy solicitations to gain support on the issue.

- Board Accountability Project – worked in partnership with New York City Funds to actively support proxy access shareowner proposals (modeled after the SEC rule at 3% ownership for 3 years). We have also supported partner funds with their individual proxy campaigns. Companies have been selected based upon:
  - Energy sector: Climate risk reporting
  - Diversity issues: Board quality
  - Governance issues: Compensation and other issues

- CalPERS and others continue to support proxy access by engaging regulators, companies, fellow investors, and proxy advisory firms.
3. Topics for review | Principles

Specific Areas for Development: From the Global Governance Policy Ad Hoc Subcommittee review

Capital Allocation
- Share buybacks and dividends
- Address what is meant by “excessive debt leverage”

Compensation
- Employee Compensation (Sullivan Principle) – Income Inequality for future development following review of staff research. Consideration of retirement security and fair wages.
- Share buybacks and executive compensation
- Review of performance metrics linked to equity awards
- Review stock option weaknesses and short-term focus

Environment and Climate Change
- Water related issues
- Clean Air
- Review best practices following COP 21 Paris Climate Agreement
3. Topics for review | Principles (continued)

Human Capital Management
• Review and develop supply chain principle

Investor Rights
• Related Party Transactions
• Judicial Forum – Loser Pays (fee shifting)
• Further consider joint ventures
• Proxy Access – “minimum” standards (beyond SEC) for nominee disclosure
• Board Turnover/Refreshment – Explore options and concepts for independent director refreshment
• Interlocking Directorships

Total Fund Emphasis
• Principles in the current form have a bias to equity (make reference to “investors” where appropriate)
• Explore how to incorporate other asset classes

Vote Disclosure Language
• Develop post-AGM proxy vote disclosure language
4. Institutional Limited Partners Association ("ILPA")

- The Institutional Limited Partners Association (ILPA) was founded in the early 1990s and now is an organization with over 300 institutional investors as members representing over $1 trillion of private equity assets. ILPA is dedicated to advancing the interests of Limited Partners (LP) through best practices, global collaboration, education and research.

- The goal of the ILPA is to continue to evolve the organization’s research and education platforms and build out best practice tools for use by industry professionals. Under the research platform, the ILPA addresses key issues that impact private equity, including regulatory reform, risk management, and the amount of capital circulating in the industry.

- CalPERS supports ILPA by participating on the Board and Committees. The ILPA Fee Reporting Template, the ILPA Capital Call and Distribution Template, and the ILPA Private Equity Principles are examples of ILPA driven initiatives where CalPERS provided input through CalPERS’ ILPA Board and Committee activities.
4. ILPA Fee Reporting Template

- The ILPA Fee Reporting Template (the “Template”) captures greater detail on fees, expenses and profit sharing (carried interest) paid to private equity managers and their affiliates by the funds they manage and sometimes the underlying portfolio companies.

- The Template covers both funds and fund-of-funds. Version 1.0 of the Template was issued in January 2016.

- The Template includes (not limited to) the following information:
  - LP-level fees and offset amounts
  - LP-level partnership expenses
  - Sources of General Partnership (GP)/related party/affiliate revenue, both subject and not subject to offset, sourced from LPs and portfolio companies
  - Detail on carried interest paid and accrued by period
  - Clarity on common fee and expense definitions
5. CalPERS Legislative & Policy Engagement Guidelines

These guidelines are intended to summarize CalPERS' perspectives on various policy issues that impact the long-term sustainability and effectiveness of its programs as well as ensure consistent promotion of CalPERS' positions to state and federal policymakers. The investment sections states:

II. INVESTMENT GUIDELINES:
Approved March 18, 2015 / Revised November 18, 2015

A. INVESTOR INDEPENDENCE

1. Support proposals that preserve and enhance both the independent fiduciary authority of institutional investors, as well as, the investment authority of plan trustees to act for the exclusive benefit of plan participants and beneficiaries.

2. Oppose proposals that impose investment mandates or restrictions as well as proposals that direct investment options and decision-making.

3. To not oppose federal investment restrictions, provided that any restrictions be imposed consistently among all U.S. investors, in the event that the federal government determines that an investment is not in the national interest of the United States of America.
5. CalPERS Legislative & Policy Engagement Guidelines

B. CORPORATE ACCOUNTABILITY

1. Support proposals that advance the corporate governance goals and objectives expressed in CalPERS’ Investment Beliefs and Global Governance Principles, including but not limited to, proposals that:
   
a. Enhance shareowner rights and protections and encourage corporate accountability.

b. Promote the effective management of financial, physical, and human capital to create long-term value.

c. Promote the transparency of operating, financial, and governance information about companies.

d. Promote high quality global accounting standards, integration of relevant ESG performance factors, and rigorous independent audit.
5. CalPERS Legislative & Policy Engagement Guidelines

(continued)

e. Promote the effective management, evaluation, and mitigation of risk.

f. Provide shareowners with effective access to the director nomination process (proxy access).

g. Provide shareowners with an effective mechanism to ensure executive compensation programs align management with the long-term economic interests of shareowners.

h. Promote strong human capital practices, including fair labor practices, responsible contracting, workplace and board diversity, and healthy and safe working conditions.

i. Promote rulemaking to require full transparency in corporate expenditures, including reporting charitable and political contributions.
5. CalPERS Legislative & Policy Engagement Guidelines

C. FINANCIAL MARKETS

1. Support proposals that advance the financial markets goals and objectives expressed in CalPERS’ Investment Beliefs and Global Governance Principles, including but not limited to, proposals that:

   a. Foster fair, orderly, and effectively regulated capital markets.

   b. Promote earlier identification of issues that give rise to overall market risks and foster action that mitigates those risks.

   c. Promote full disclosure so that markets provide incentives that price risk and opportunity.

   d. Foster alignment of interests and protect investor rights and the independence of regulators.
5. CalPERS Legislative & Policy Engagement Guidelines

D. SUSTAINABILITY

1. Support proposals that foster a strong and durable global economy and advance the sustainability goals and objectives expressed in CalPERS’ Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that:
   a. Encourage capital deployment at scale to finance the transition to a low carbon economy and encourage investment in climate change adaptation.
   b. Provide stable, reliable, and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge.
   c. Phase out subsidies for fossil fuels.
   d. Promote the alignment of energy and transportation policies to stimulate new technologies that will enhance competitiveness and innovation leading to meaningful greenhouse gas reductions.

2. Support proposals that foster a healthy and diverse California economy with strong companies, solid infrastructure for commerce, robust business development, and fair labor practices and employment.

3. Support proposals that promote the cultivation of the next generation of external portfolio management talent consistent with the CalPERS Emerging Manager Five-Year Plan.
5. CalPERS Legislative & Policy Engagement Guidelines

E. DIVERSITY

1. Support proposals that recognize diversity and inclusion as an important business issue that enhances competitiveness and innovation.

2. Support proposals that encourage corporate boards to establish and disclose a diverse mix of director attributes, experiences, perspectives, and skill sets that are most appropriate for effectively overseeing management’s execution of the company’s long-term business strategy.