

# Global Governance

## Q2 2016 – Proxy Campaign Update

Investment Committee, August 2016

# Contents

## 2016 2<sup>nd</sup> Quarter Proxy Update:

- Market Review – Investor Rights

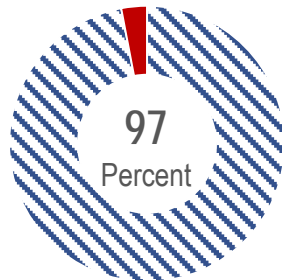
## 2016 Campaign Update:

- Proxy Access
- Majority Vote Initiative
- Climate Risk Reporting
  - Aiming for A
  - CERES Investor Network Climate Risk Proposals

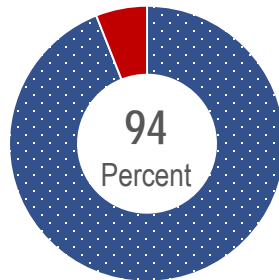
# Market Review | Investor Rights

Management proposals are increasingly common on the same issues that we've seen shareowners actively promote.

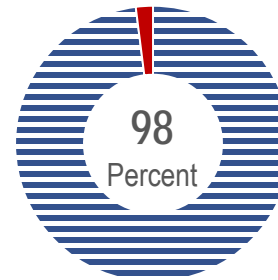
Declassify Board



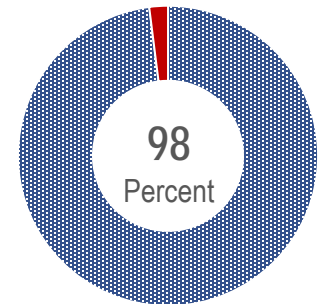
Provide Right to Call Special Meeting



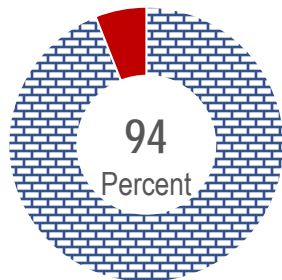
Implement Majority Vote for Director Election



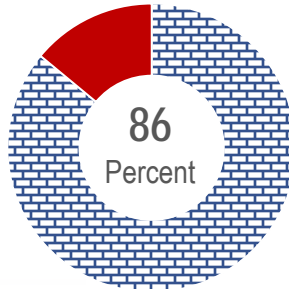
Eliminate Supermajority Vote Req.



Permit Action by Written Consent



Proxy Access



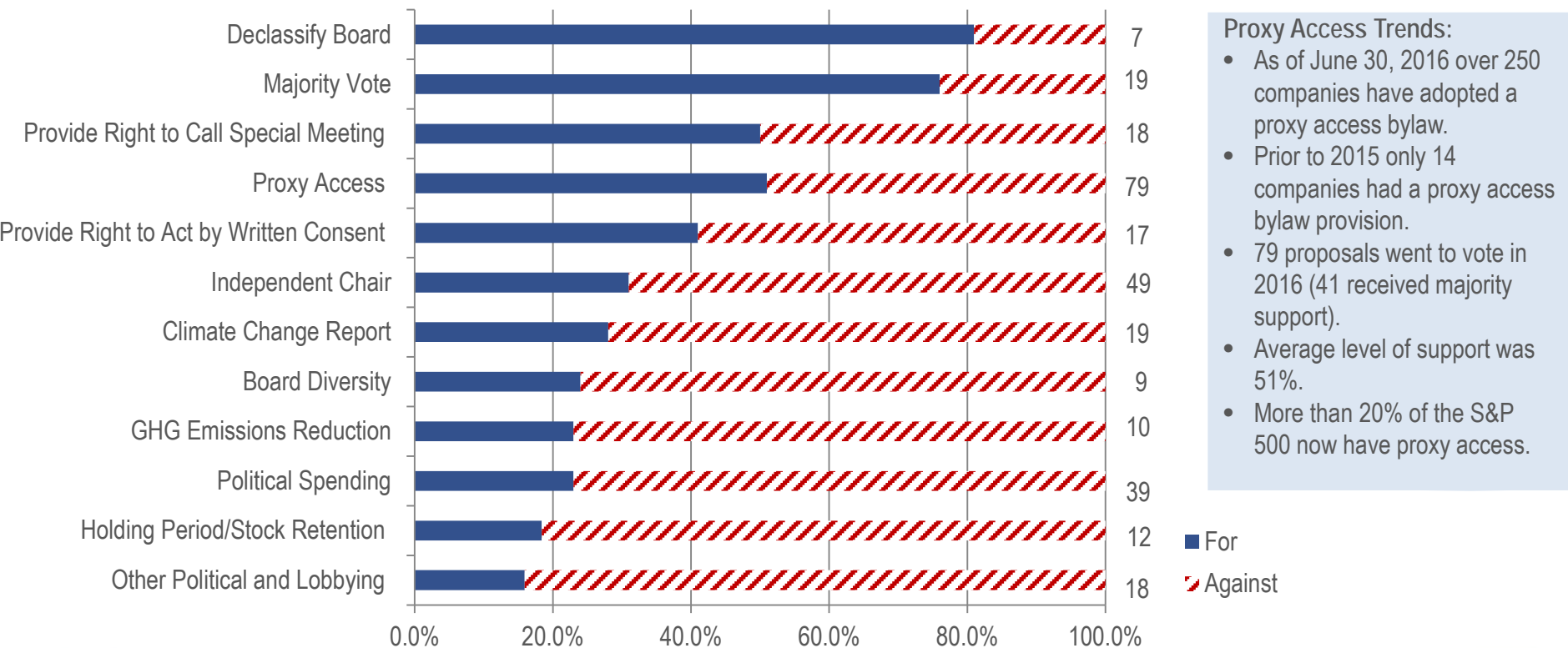
Management resolutions to declassify boards far outpaced the number of shareowner resolutions on ballots, which fell by 70% from 2015.

Alliance Advisors – 2016 Proxy Review

Universe: Russell 3000

# Market Review | Investor Rights

2016 continued to be active on a wide range of corporate governance issues through shareowner proposal filings. Below is a listing of the most prevalent shareowner proposals over the period with corresponding average levels of support.



**Proxy Access Trends:**

- As of June 30, 2016 over 250 companies have adopted a proxy access bylaw.
- Prior to 2015 only 14 companies had a proxy access bylaw provision.
- 79 proposals went to vote in 2016 (41 received majority support).
- Average level of support was 51%.
- More than 20% of the S&P 500 now have proxy access.

■ For  
 ▨ Against

## 2016 Campaign Update | Proxy Access – Example

### Old Republic International Corporation (ORI)

- CalPERS filed a proxy access shareowner proposal at ORI that went to vote at the company's May 27, 2016 annual meeting.
- The proposal received 74% shareowner support.
- CalPERS also withheld vote from Nominating and Governance Committee member John Dixon for failing to address a majority passed shareowner resolution in 2015 – Mr. Dixon received 60% opposition.
- CalPERS will continue to engage the company into 2017.

### Old Republic: continued engagement over corporate governance best practice
















- In 2015 CalPERS began engaging Old Republic over the adoption of majority voting for director elections.
- A settlement couldn't be reached so CalPERS filed a majority vote shareowner proposal that would go to vote at the company's May 22, 2015 annual meeting.
- The majority vote proposal received overwhelming shareowner support and passed with 79% of the votes cast.
- Leading into the fall of 2015 the company continued to ignore the result of the previously passed shareowner proposal. Ultimately, CalPERS would file a proxy access shareowner proposal for the 2016 annual meeting stemming from the company's lack of accountability to shareowners.

# 2016 Campaign Update | Proxy Access

## CalPERS partnership with NYC Funds on the Proxy Access Board Accountability Project.

- Staff partnered with NYC Funds surrounding the adoption of proxy access at companies where 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 18 companies. This included engaging companies, top investors, media briefings and filing exempt solicitation letters with the SEC.
  - Proposals by core issue – Diversity (7), Climate (6), and Governance (5).
    - 13 proposals passed with greater than 50% support
    - 5 proposals did not receive majority support.
  - Staff attended 4 annual general meetings to formally present shareowner proposals.

### 2016 Proxy Access Campaign Wins:

 <small>Their power to change the world.</small>	NRG Energy → 94%
	O'Reilly Automotive → 65%
	WEC Energy Group Inc. → 75%
	Consol Energy → 52%
	Chipotle Mexican Grill → 57%
	SBA Communications → 67%
	Urban Outfitters → 63%
	ExxonMobil Corp → 61%
	Nabors Industries → 60%
 <small>New York Community Bank Member FDIC</small>	NYC Community Bancorp → 67%
	FleetCor Technologies → 62%
	Netflix → 71%
	Bed Bath & Beyond → 62%

# 2016 Campaign Update | Majority Vote Initiative

## Majority Vote for Director Elections Campaign

- Since 2010, CalPERS has engaged 300 major U.S. companies regarding the adoption of majority vote for director elections. 278 of the 300 companies have adopted or agreed to the CalPERS' request.
- Staff is currently in various stages of engagement with the remaining 22 companies.
- Moving into 2017 staff will select a new subset of 50 companies to engage.



# 2016 Campaign Update | Climate Risk Reporting

## “Aiming for A” – Climate Change Risk Proposals

- CalPERS co-filed climate risk reporting proposals with partner fund CCLA at 3 international oil and gas companies.
- The proposal requested annual reporting and information on five key areas:
  - i. Operational emissions management;
  - ii. Asset portfolio resilience to post 2035 scenarios;
  - iii. Low-carbon energy R&D and investment strategies;
  - iv. Relevant strategic KPI’s and executive incentives;
  - v. Public policy position related to climate change.
- In support of each proposal CalPERS engaged the companies, top investors, filed SEC shareowner letters, conducted media briefings and conducted proxy solicitations.
- Each proposal was management supported and passed with overwhelming shareowner support.
- Individual company vote results:
  - Glencore plc. → Passed with 98% shareowner support.
  - Anglo American → Passed with 96% shareowner support.
  - Rio Tinto plc. & Rio Tinto Ltd. → Passed with 99% shareowner support.

**GLENCORE**  
INTERNATIONAL plc



**Rio Tinto**



# 2016 Campaign Update | Climate Risk Reporting

## Climate Risk Proposals – CERES Investor Network

- As a continuation of the CERES led Carbon Asset Risk Initiative and the Paris Agreement CalPERS committed to publicly support climate risk proposals at 11 U.S. companies in 2016.
- CalPERS ran proxy solicitations which included engaging companies, top investors, media briefings, and filing exempt solicitation letters with the SEC.
- Proposals at ConocoPhillips and Marathon Oil were withdrawn due to implementation.
- At companies (9) where proposals went to vote results ranged from 20% to 42%. See chart to the right with individual results.
  - Staff notes a subset of companies had a significantly high level of “abstain” votes cast: Anadarko 8%, Occidental 7%, AES 6%.
- The importance of climate risk reporting is becoming evident and reflected in voting trends. In 2016 the average support level was 35% opposed to 21% in 2015.

### 2016 Climate Risk Reporting Support



Noble Energy Inc. → 20%



FirstEnergy → 30%



Southern Co. → 33%



Anadarko → 34% (w/o abstentions 42%)



Devon Energy → 35%



AES → 36% (w/o abstentions 42%)



ExxonMobil → 37%



Chevron → 38%



Occidental → 42% (w/o abstentions 49%)



Marathon Oil → Voluntary Adoption



ConocoPhillips → Voluntary Adoption