Global Governance Strategy Review

Objectives

• Review strategic and core initiatives with key performance indicators

• Seek Investment Committee’s approval of 5-year plan
Summary of the 5-year plan for Governance & Sustainability

<table>
<thead>
<tr>
<th>Environmental</th>
<th>Social</th>
<th>Governance</th>
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<tbody>
<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>
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<tr>
<td>• Manager Expectations (includes water risk)</td>
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<td>• Research</td>
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<td>– Sustainable Investment Research Initiative (SIRI)</td>
<td>– SIRI</td>
<td>– Topics from Global Governance Principles Review</td>
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<td>– Global Equity Strategies</td>
<td>– Diversity</td>
<td>– Supply Chain Activities</td>
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<td>• Engage 80 PRI Montreal Pledge Companies (identify water risk candidates)</td>
<td>• Diversity and Inclusion</td>
<td>• Private Equity Fee and Profit Sharing Transparency (including AB 2833)</td>
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<td>• Carbon Footprinting – Total fund</td>
<td>• Responsible Contractor Program</td>
<td>• Proxy Voting</td>
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<td>• Thermal Coal Companies – (SB185)</td>
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<td>• Shareowner Campaigns (Proxy Access/ Majority Voting)</td>
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<td>• Focus List</td>
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<td>• Divestment: Mandates, Policy &amp; Principles</td>
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Work through Partnerships to leverage resources and impact

- Corporate Engagements
- Federal and Legislative Guidelines
- Sustainability Report
- Response to Ad Hoc Media and Stakeholder Requests
2015 Timeline: Global Governance Principles Review

April
- Global Governance Policy Ad Hoc Subcommittee

May
- Global Governance Policy Ad Hoc Subcommittee

June
- Global Governance Policy Ad Hoc Subcommittee

July
- Board Offsite

September
- Global Governance Policy Ad Hoc Subcommittee

October
- Global Governance Policy Ad Hoc Subcommittee

November
- Global Governance Policy Ad Hoc Subcommittee

December
- Global Governance Policy Ad Hoc Subcommittee

- Review: Framework of the Program Core Issues of Global Governance Principles – Second Reading
- Revision of Global Governance Policy and Principles – Fourth Reading
- Discussion and Consideration of Establishing a Permanent Subcommittee

- Review: Draft of Global Governance Principles Alignment with Program Core Issues
- Review: Framework of the Program Core Issues of Global Governance Principles – Third Reading
- Review: Legislative and Policy Engagement Guidelines for Investments
- Discussion on CalPERS Board Representation on Third Party Organizations

- Review: Section A – Core Principles of Global Governance Principles

- Investment Committee: Establishment of Global Governance Ad Hoc Subcommittee

- Investment Beliefs
- Review of Implementation

- Election of Global Governance Ad Hoc Policy Subcommittee Chair and Vice Chair
- Review overall Structure of Statement of Investment Policy for Global Governance Principles
Proposed Timeline for Developing a 3-5 Year Strategic Plan

- **January 2016**
  - Board Offsite

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

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

- **April 2016**
  - Investment Committee
  - 2015 Q4 Proxy Voting Report
  - 2016 Proxy Voting Plan Description

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

- **June 2016**
  - Investment Committee
  - Seek final guidance on the Global Governance 3-5 Year Strategic Plan
  - Key performance indicators
  - Review key partnerships

- **July 2016**
  - Board Offsite
  - Finalize key performance indicators

- **August 2016**
  - Investment Committee
  - Focus on Alignment of Interest
  - Discuss key performance indicators

- **September 2016**
  - Focus on ESG
  - Consider the market
  - Discuss integration
Strategy on ESG Integration

- Environmental
- Social
- Governance

Our approach utilizes three channels supported by partnerships.
Global Governance Strategy Review

ESG Strategy Timeline

2017
- Complete SRI Refresh
- Develop work plan for each of the six strategic priorities
- Engage companies on supply chain activities
- Conduct income inequality research

2019
- Review of progress
- Conclude Global ESG strategies review

2018
- Engage 20 Montreal Pledge companies
- Engage companies on supply chain activities

2019
- All S&P 500 firms have a measure of diversity on their boards
- Engage 20 Montreal Pledge companies
- Engage companies on supply chain activities

2020
- Engage 20 Montreal Pledge companies
- Review voluntary standards
- Complete research on Principles review

2021
- Engage companies on supply chain activities
- Montreal Pledge engagement achieves 50% emissions targets in line with Paris COP21
- 90% of all private equity partnerships report on ILFA Framework

2026
- Mandatory corporate reporting standards adopted globally
- 10% of all holdings have a measure of board diversity
- 100% of Private Equity managers report via ILFA framework

January 2018
- SB 1385 engagement of thermal coal companies ends

2015
- Proxy voting
- Shareholder campaigns

2018
- Proxy voting
- Shareholder campaigns

2019
- Conduct carbon footprinting: Real Assets
- Sustainability Report
- Proxy voting
- Shareholder campaigns

2020
- Conduct carbon footprinting: Private Equity strategic partners
- Proxy voting
- Shareholder campaigns

2021
- Sustainability Report
- Proxy voting
- Shareholder campaigns

2022
- 20 Years
- Engage companies on supply chain activities

2023
- 30 Years
- Engage companies on supply chain activities

2024
- Paris Agreement
- Engage companies on supply chain activities

2025
- Engage companies on supply chain activities

2026
- Engage companies on supply chain activities

2027
- Engage companies on supply chain activities

2028
- Engage companies on supply chain activities

2029
- Engage companies on supply chain activities

2030
- Engage companies on supply chain activities
Strategic Initiatives
1. Data & Corporate Reporting Standards

Objectives

- Initial voluntary corporate reporting including enhanced disclosure of ESG considerations in periodic filings globally
- Adoption of enhanced mandatory reporting of ESG in periodic filings globally

Key Performance Indicators

- Benchmark and track the progress of integrated reporting globally
- Mandatory standards adopted globally

Timeline:

- Review voluntary standards: 5 years
- Mandatory standards to be adopted globally: 20 years
2. Engage UN PRI Montreal Pledge Companies

Objective

• Manage climate risk and opportunity by engaging 80 Montreal Pledge companies

Key Performance Indicators for 80 Montreal Pledge Companies

• All 80 companies establish a carbon reduction target consistent with Paris COP 21

• Measure and report reduction in carbon footprint

• Track financial performance of companies with established reduction targets

Timeline:

- Emissions reduction targets for portfolio companies generating half of the emissions: 30 years

- Engage 20 companies: each of years 2, 3, 4, 5 of the 5-year plan
3. Diversity & Inclusion

Objective

• Enhance Total Fund performance by increasing corporate board diversity

Key Performance Indicators

• All public companies in which CalPERS invests have a dimension of board diversity

• Track financial performance of companies with diverse boards

Timeline:

- Board diversity: 3 years for the S&P 500; 20 years for all 10,000+ holdings in public equity

1Diversity: Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership. – Source: Global Governance Principles, Section B.9.

4. Manager Expectations

Objective

• Manager Expectations that allow CalPERS to better understand and manage ESG investment risk and opportunity across the portfolio

Key Performance Indicators

• All managers have policies and procedures for including ESG information in decision making

• Asset classes establish and implement documented procedures for due diligence, contracting, and monitoring activities

Timeline:

- All managers to have policies and procedures for including ESG information: 5 Years
- Asset classes to establish and implement documented procedures: 2 Years
- Pilot report to IC December 2016
5. Research

Objective

- Strengthen understanding of ESG factors relevant to risk and return specific to CalPERS’ investment objectives

Key Performance Indicators

- Complete evidence review
  - SIRI refresh (inclusive of diversity and income inequality)
  - Global Equity strategies
  - Research companies most exposed to water risk to inform engagement
  - Topics from Global Governance Principles review, including supply chain issues

- Integrate relevant research findings into investment decision making

Timeline:
- Complete SIRI refresh: 1 year
- Global Equity strategies: 2 years
- Present findings of income inequality research and action plan if warranted: 2 years
- Principles review topics: 5 years
- Efforts to integrate ESG research: Ongoing
6. Private Equity Fee & Profit Sharing Transparency

Objective

• Industry adoption of the Institutional Limited Partners Association (ILPA) framework for transparency of fees and profit sharing

Key Performance Indicators

• Ensure 100% of CalPERS' strategic private equity partnerships complete the ILPA fee reporting template and provide profit sharing information

• Target 100% of CalPERS private equity strategic partnerships complete the ILPA fee reporting template and provide profit sharing information

• Track and report industry ILPA adoption
  – Partnerships completing the ILPA fee reporting template and providing profit sharing information
  – Limited partners requiring such information from their general partners

Timeline:

- 90% of all partnerships: 5 years
- 100% of all partnerships: 20 years
Core Initiatives
Investment Committee Reporting on Core Activities

Annual Reporting (January – December):

Q1: Report on Work Plan for upcoming year for:
   - Proxy Voting
   - Shareowner Campaigns
   - Corporate Engagements
   - Global Governance Principles
   - Legislative Guidelines

Q2: Report on:
   - Responsible Contractor Policy
   - Partnerships

Q3: Report on results for:
   - Proxy Voting
   - Shareowner Campaigns
   - Corporate Engagements
   - Focus List

Q4: Report on results of:
   - Carbon Footprinting
   - Divestment: Mandates, Policy and Principles, including Thermal coal companies SB 185

Bi-Annual Reporting:
   - Sustainability Report
Global Governance Current Org Structure

Total cost for current positions
$1,958,000
New Organizational Alignment – Sustainable Investment

Total cost for added positions
$660,000

New positions in red
New Organizational Alignment – Global Equity

Total cost for added positions
$1,204,000
Additional Organizational Alignment

- New Function
- Position to be transferred from other INVO area

Diagram:

- Chief Operating Investment Officer
  - Investment Compliance and Operational Risk (Divestment Compliance)
    - Investment Director
      - Investment Manager
        - Investment Officer I
  - Manager Evaluation and Engagement (Manager Expectations)
    - Investment Director
      - Investment Manager
        - Investment Officer II
Appendix:
Partnerships
Partnerships | Key to Strategy

- Many relationships, but certain partnerships are key to implementing ESG strategy
- Share experiences and best practices
- Leverage resources
- Enhance impact

**Estimated annual cost:**
- Membership Fees: $106,000
- Related Expenses: $80,000
Key Partnerships

Environmental

Ceres – Investor Network on Climate Risk
U.S. coalition to address sustainability challenges, such as global climate change.

UN Global Compact
Supports companies to align their strategies and operations with Ten Principles on human rights, labor, environment, and anti-corruption and the Sustainable Development Goals.

Global Peer Exchange*
(CalPERS Founder)
Group of the world’s largest asset owners to collaborate on the integration of sustainable investment practices.

Principles for Responsible Investment (PRI)
(CalPERS Founding Signatory) Network to incorporate ESG issues into decision making and ownership practices.

Sustainable Accounting Standards Board (SASB)
Aims to develop and maintain industry-based sustainability standards to guide US corporations for risk reporting.

*APG Asset Management, Australian Super, BT Pension Scheme, CalSTRS, Florida State Board of Administration, Government Employee Pension Fund (South Africa), New York City, Norges Bank Investment Management, Ontario Teachers’ Retirement System, PGGM, PREVI (Brazil), TIAA-CREF, Universities Superannuation Scheme, and RPMI (UK).
Key Partnerships

Council of Institutional Investors (CII)
(Calendar PERS Co-Founder) U.S. corporate governance advocacy organization of public, labor and corporate pension funds.

Global Peer Exchange*
(Calendar PERS Founder) Group of the world's largest asset owners to collaborate on the integration of sustainable investment practices.

ICGN
(Calendar PERS Co-Founder) Global membership whose mission is to raise standards of corporate governance worldwide.

Sustainable Accounting Standards Board (SASB)
Aims to develop and maintain industry-based sustainability standards to guide US corporations for risk reporting.

UN Global Compact
Supports companies to align their strategies and operations with Ten Principles on human rights, labor, environment, and anti-corruption and the Sustainable Development Goals.

The Robert Toigo Foundation (Toigo)
Foundation fostering the advancement and leadership of underrepresented talent.

Robert F. Kennedy Center for Justice & Human Rights
Compass Program
Advocates for sustainable fiduciary investments.

*APG Asset Management, Australian Super, BT Pension Scheme, CalSTRS, Florida State Board of Administration, Government Employee Pension Fund (South Africa), New York City, Norges Bank Investment Management, Ontario Teachers' Retirement System, PGGM, PREVI (Brazil), TIAA-CREF, Universities Superannuation Scheme, and RPMI (UK).
Global Governance Strategy Review

Key Partnerships | Governance

- **SEC Investor Advisory Committee**
  Advises SEC on initiatives to protect investor interests.

- **Council of Institutional Investors (CII)**
  (CalPERS Co-Founder) U.S. corporate governance advocacy organization of public, labor and corporate pension funds.

- **The Credit Roundtable**
  Fixed income manager group seeking to enhance investment grade bondholder protection.

- **ICGN**
  (CalPERS Co-Founder) Global membership whose mission is to raise standards of corporate governance worldwide.

- **The Institute of International Finance (IIF)**
  Leading voice for the financial services industry on global regulatory issues.

- **International Financial Reporting Standards (Advisory Council)**
  Develop a single set of high quality, understandable, enforceable and globally accepted reporting standards.

- **ICGN**
  Global membership whose mission is to raise standards of corporate governance worldwide.

- **Global Peer Exchange**
  (CalPERS Founder) Group of the world's largest asset owners to collaborate on the integration of sustainable investment practices.

- **Financial Accounting Standards Board (FASB)**
  Financial accounting and reporting standards for public and private companies that follow GAAP.

- **International Limited Partners Association (ILPA)**
  Leading global, organization dedicated to advancing the interests of private equity Limited Partners.

- **The Credit Roundtable**
  Fixed income manager group seeking to enhance investment grade bondholder protection.

- **Pacific Pension & Investment Institute**
  Global organization centered on a common interest in helping asset owners and managers understand, learn and gain perspective.

- **Public Company Accounting Oversight Board (PCAOB)**
  Oversees the audits of U.S. public companies in order to protect investors.

- **International Financial Reporting Standards (Advisory Council)**
  Develop a single set of high quality, understandable, enforceable and globally accepted reporting standards.

- **Pacific Pension & Investment Institute**
  Global organization centered on a common interest in helping asset owners and managers understand, learn and gain perspective.

*APG Asset Management, Australian Super, BT Pension Scheme, CalSTRS, Florida State Board of Administration, Government Employee Pension Fund (South Africa), New York City, Norges Bank Investment Management, Ontario Teachers’ Retirement System, PGGM, PREVI (Brazil), TIAA-CREF, Universities Superannuation Scheme, and RPMI (UK).