

Global Equity Annual Program Review: Corporate Governance Business Model

Simiso Nzima, Investment Director
James Andrus, Investment Manager

September 18, 2017

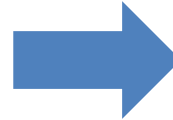
Global Governance Integration



- Governance Architecture
 - Governance & Sustainability Principles (Board-approved)
 - ESG Strategic Plan (Board-approved)
 - Governance and Sustainability Subcommittee (GSS)
 - Proxy Voting Working Group (membership: INVO asset classes & enterprise)
- Global Equity Corporate Governance partners and collaborates with Sustainable Investments

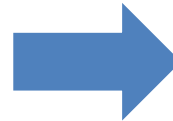
Corporate Governance Integration into Global Equity

Staff cross-trained to execute both proxy voting and corporate engagement duties



- Create redundancies and adequate backups
- Develop deeper bench strength for succession planning
- Provide career development opportunities

Conducted a business model review to determine:



- Robustness of business model
 - Repeatable
 - Scalable
 - Systematic
- Structure to best execute ESG Strategic Plan
- Resources and resource allocation

Investment Belief 3

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

Investment Belief 10

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

Corporate Governance Organizational Structure

Eliminated Functional Structure

- No bifurcation between Proxy Voting and Corporate Engagement
- Integrated Corporate Governance roles: "One Team, One Mission"

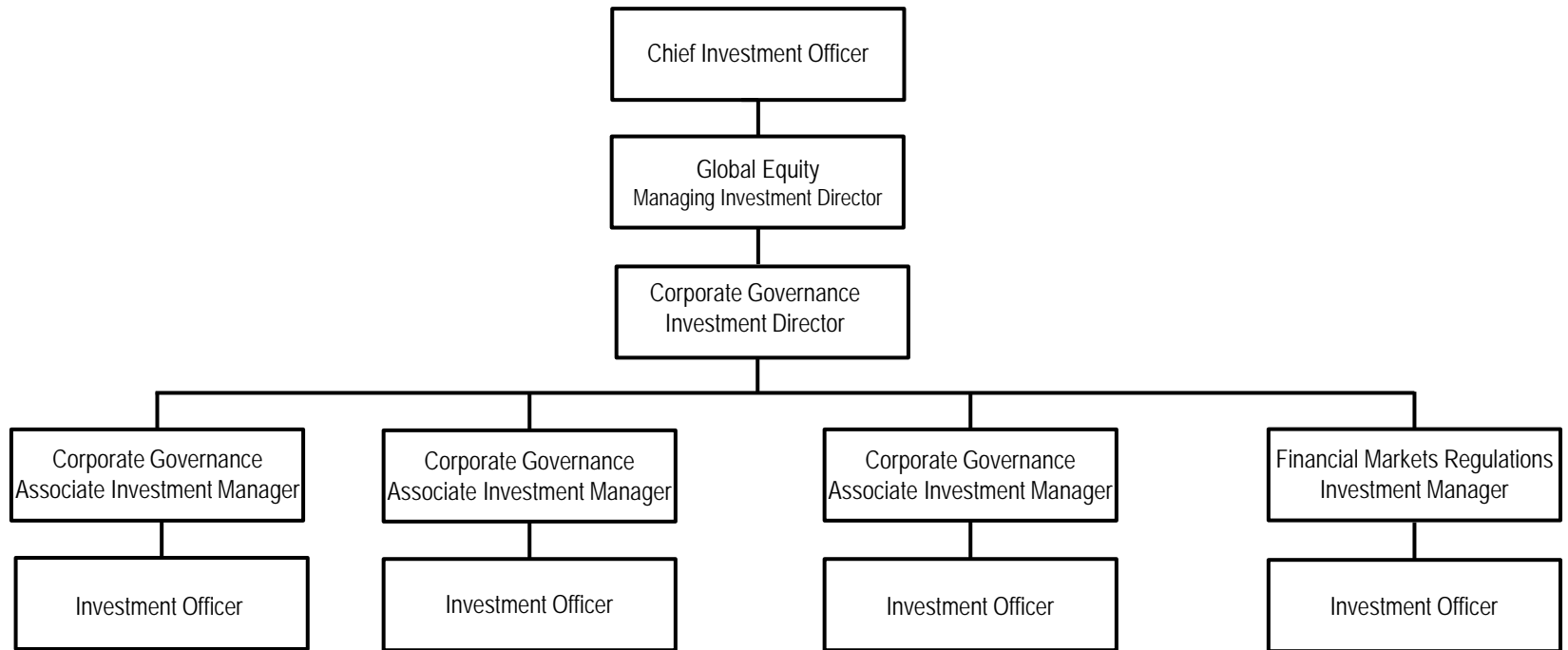
Introduced Sector-Based Structure

- Enhanced depth of sector knowledge and sector-specific issues
- Aligned with wider investment management industry research roles
- Aligned with CalPERS Global Fixed Income research

Three Associate Investment Manager (AIM) Positions

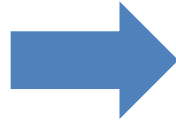
- Two AIM positions granted as part of Global Governance realignment
- One AIM position added within existing budget and headcount
- Recruitments for all three AIM positions currently underway
- Sector coverage to be assigned to AIMs and Investment Officers
- Sector coverage duties include proxy voting, corporate engagement, and regulatory topics

Prospective GE Corporate Governance Org Structure



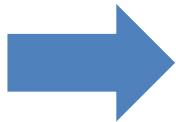
Corporate Governance Implementation Strategy

Grounded in Economics and
Fiduciary Duty



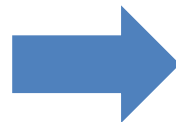
- Evidence-based, applying CalPERS Investment Beliefs and Governance & Sustainability Principles
- Mosaic of factors to enhance corporate sustainability

Prioritized by CalPERS
Board-approved ESG
Strategic Plan



- Strategic and Core initiatives have primacy of utilization of resources
- Stakeholder input and flagging of issues welcome

Leverages Strategic
Partnerships



- Partnerships are critical to executing ESG Strategic Plan
 - Stronger partnerships with asset managers are needed
 - Maintain and enhance existing partnerships with stakeholders
- Private and confidential engagements are essential to effectiveness

Investment Belief 3

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