Corporate Board Diversity Update

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Corporate Board Diversity Matters to us an Investor

- Studies continue to indicate: Greater board diversity can lead to lower volatility and better performance.\(^1\)
  - Utilizing 6 diversity elements, including age, gender, and ethnicity, Bernile et al found diverse boards fostered more efficient risk-taking, invested more in R&D and had greater innovation output per dollar invested\(^1\)
  - Credit Suisse found excess returns of 3.5% per year between 2005-2015 for companies with at least one woman on the board\(^2\).

➢ ESG Strategic Plan Objective: Enhance Total Fund Performance by Increasing Corporate Board Diversity

\(^1\) (GENNARO BERNILE, VINEET BHAGWAT, SCOTT YONKER, Board Diversity, Firm Risk, and Corporate Policies 588-612, J. of Financial Economics (2018))
\(^2\) CREDIT SUISSE RES. INST., The CS Gender 3000: The Reward for Change Report 12-16 (Sept. 2016) (Over 3000 international companies across industries were included)
Corporate Board Diversity: Where we are

- Engaged 500+ US companies in the Russell 3000 index regarding lack of diversity on their boards

<table>
<thead>
<tr>
<th>Tier 1</th>
<th>Added or in the process of adding a diverse director</th>
<th>93 Companies (18%)</th>
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<tbody>
<tr>
<td>Tier 2</td>
<td>Responded – Enhanced or in the process of enhancing diversity disclosure</td>
<td>155 Companies (31%)</td>
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<tr>
<td>Tier 3</td>
<td>Responded – Inadequate Response</td>
<td>7 Companies (1%)</td>
</tr>
<tr>
<td>Tier 4</td>
<td>No Response</td>
<td>249 Companies (50%)</td>
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- Adopted a Board Diversity & Inclusion voting enhancement to hold directors accountable at engaged companies that fail to improve diversity on their boards or diversity & inclusion disclosures
  - Withheld votes against 271 directors at 85 companies
  - Ran proxy solicitations at two D&I companies where diversity proposals were filed by other investors
    - Pilgrim’s Pride – 15% support (78% controlling shareowner)
    - First Hawaiian – 25% (62% controlling shareowner)
  - ~150 Annual General Meetings (AGMs) at D&I companies are still to occur (June to December timeframe)

- Transferred ownership of the Diverse Director DataSource (3D) to Equilar’s Diversity Network
  - Over 200 public companies have signed up to search 3D
  - 14 candidates within 3D have been appointed to public company boards
Corporate Board Diversity: Potential Additional Steps

- Enhanced data analytics platforms are needed from data vendors in order to scale up globally (10,000+ companies). Staff will explore additional analytics platforms.

- Mandatory diversity data disclosures are necessary in order to overcome the data integrity challenge, but improvements in analytics platforms may help bridge some of the gaps.

- Enhance D&I KPI to capture all forms of diversity:
  - From: All public companies in which CalPERS invests have a dimension of board diversity.
  - To: All public companies in which CalPERS invests have a level of board diversity that reflects each company’s business, workforce, customer base, and society in general.

- Enhanced KPI will enable staff to file majority vote proposals and vote against directors (Board Chairs, Nominating & Governance Committee members, and long-tenured directors) at US companies that lack diversity as broadly-defined.

- Collaborate with other asset owners and asset managers to explore developing market consensus around a strategy to improve corporate board diversity.
2018 Board Diversity & Inclusion Voting Enhancement

In 2018, as part of the CalPERS Diversity & Inclusion Initiative at engaged Russell 3000 companies, staff began holding directors accountable at companies that did not improve board diversity or that failed to improve diversity & inclusion disclosures

- Director Voting Strategy:
  - No response → “Withhold” vote from Board Chair and entire Nominating/Governance Committee (CalPERS will support nominees with tenure of 1 year or less)
  - Inadequate response → “Withhold” vote from entire Nominating/Governance Committee (CalPERS will support nominees with tenure of 1 year or less)
  - Consistent with CalPERS Governance & Sustainability Principles, staff will consider withholding from long-tenured directors (12 years or more) where there is insufficient disclosure of nominee independence
    - Votes based on independence could result in withhold votes from both board and key committee membership (applicable only for D&I Initiative)
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2018 CalPERS Board Diversity & Inclusion Voting Enhancement

D&I Initiative – Russell 3000 Workflow

- **July 2017: Initial Diversity Letter**
  - **Company Responded**
    - **Adequate Response** → **Continuously Monitor Board Refreshment and Disclosure Enhancement**
    - **Inadequate Response** → **2nd Letter (December 2017)**
      - **Letter highlighting inadequacy of response**
        - **See “Figure 1”**
      - **Adequate Response** → **Continuously Monitor Board Refreshment and Disclosure Enhancement**
      - **Inadequate Response** → **Figure 1**
        - **No Response** → **Withhold vote from NC/GC Committee and long-tenured directors**
        - **2nd Letter (December 2017)**
          - **Letter highlighting non-response**
            - **See “Figure 2”**
          - **Adequate Response** → **Continuously Monitor Board Refreshment and Disclosure Enhancement**
          - **Inadequate Response** → **Withhold vote from Board Chair, NC/GC Committee and long-tenured directors**
          - **No Response**