Proxy Voting & Corporate Engagements Update

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Global Equity

Looking Ahead – 2020 Proxy Season Outlook

- **CalPERS casts votes at approximately 11,000 company meetings annually**
  - ✓ Staff cast votes in line with CalPERS' Governance & Sustainability Principles and Investment Beliefs
  - ✓ From March through June, staff will cast votes at approximately 8,000 meetings
  - ✓ Staff typically engages 2,000 unique companies a year on governance and sustainability topics
  - ✓ Priority engagements on climate change, corporate board diversity, and executive and employee compensation
  - ✓ Other engagements on deforestation, plastic waste, human capital management, and other topical issues

- **Climate Action 100+:** Engage portfolio companies to ensure that their strategies take into account the risks and opportunities arising from climate change through:
  - ✓ Improving governance of climate-related risks and opportunities
  - ✓ Curbing greenhouse gas (GHG) emissions, and
  - ✓ Strengthening climate-related financial disclosures

- **Corporate Board Diversity:** Engage companies to improve corporate board diversity
  - ✓ Use proxy voting and shareowner campaigns to bring about change where engagements have not led to positive outcomes

- **Executive and Employee Compensation:** Ensure that the design and practice of compensation at portfolio companies appropriately incentivizes management and employees to generate long-term sustainable returns in alignment with the interests of long-term investors

Looking Back – 2019 Proxy Season Outcomes

- **Made progress in engaging Climate Action 100+ companies**
  - ✓ CalPERS leading engagements at 22 companies including 6 Japanese companies
  - ✓ Engaging companies to implement measurable targets relating to the goals of the Paris Agreement
  - ✓ Results and progress of collaborative engagements are detailed in the Climate Action 100+ 2019 Progress Report (http://www.climateaction100.org/)
  - ✓ Notable successes include public commitments by some companies to be "net-zero by 2050," 70% of CA100+ companies setting long-term emissions reductions targets and commitments to provide TCFD-aligned reporting

- **Made progress in improving corporate board diversity**
  - ✓ 53% of companies engaged since July 2017 added a diverse director to their boards (389 of 733 companies)
  - ✓ Met 3-year KPI for all S&P 500 companies to have at least one female director on their board
  - ✓ Voted "against" 314 directors at companies where diversity engagements did not result in constructive outcomes (by comparison voted against 468 directors in 2018)

- **Enhanced executive compensation voting**
  - ✓ Voted "against" 53% of executive compensation proposals, up from 43% in 2018. The 5-year average prior to staff's January 2018 implementation of the enhanced compensation analysis framework was 16% "against"
  - ✓ Developed and implemented a new proprietary 5-year quantitative pay-for-performance model

Appendix

Climate Action 100+

CalPERS is playing a leading role in both strategy and implementation

- CalPERS convened the initiative following the carbon footprint of our global equity portfolio in 2015
  - ✓ Inaugural Chair of the initiative
  - ✓ Initiative now has over 370 signatories with over $35 trillion in assets under management
  - ✓ Signatories are engaging the 100 companies with the largest GHG emissions
- Member of the Steering Committee of the initiative and Chair of the Asia Advisory Group
  - ✓ CalPERS staff are also participating on multiple working committees
  - ✓ CA100+ notable successes at: Shell, Glencore, Xcel Energy, Maersk, Rio Tinto, HeildelbergCement, Duke Energy, Nestle, VW, and AES, PetroChina and PTT Public Company Limited

CalPERS is leading engagement on 22 portfolio companies globally

- Close collaboration amongst engagement, integration and policy & advocacy teams
  - ✓ All 22 company engagements underway, including 6 Japanese companies
  - ✓ Filed or co-filed climate risk proposals at 4 companies in 2019

Climate Action 100+| Engagement Goals

- **Investors signed on to Climate Action 100+** are requesting the boards and senior management of companies to:

  ✓ **Implement a strong governance framework** which clearly articulates the board's accountability and oversight of climate change risks and opportunities;

  ✓ **Take action to reduce greenhouse gas emissions across the value chain,** consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial level; and

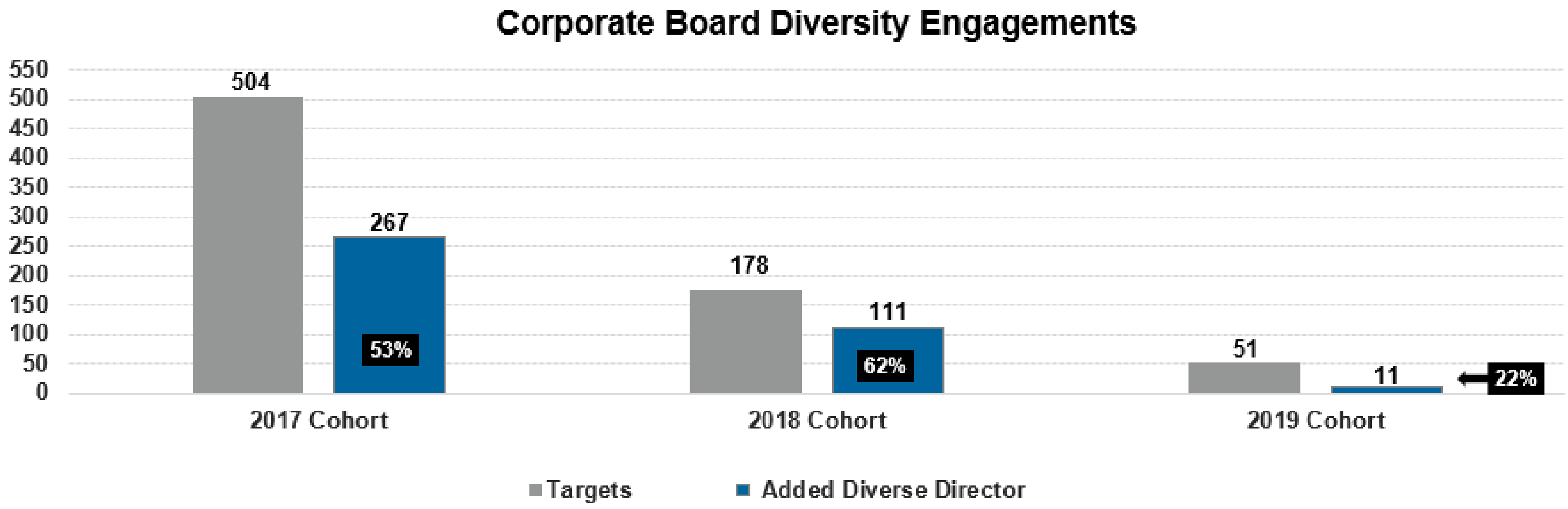
  ✓ **Provide enhanced corporate disclosure** in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and, when applicable, sector-specific Global Investor Coalition on Climate Change Investor Expectations on Climate Change [1] to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2-degrees Celsius, and improve investment decision-making.

- Engagement goals include "net zero by 2050" and alignment of lobbying activities and executive compensation with a transition to a low-carbon economy

[1] The Global Investor Coalition on Climate Change Investor Expectations on Climate Change sector guides cover oil and gas, mining, utilities and auto manufacturers and provide additional sector specific disclosure recommendations, particularly regarding the oversight of public policy positions.

Source: http://www.climateaction100.org/

Corporate Board Diversity Cohorts: 2017, 2018, 2019



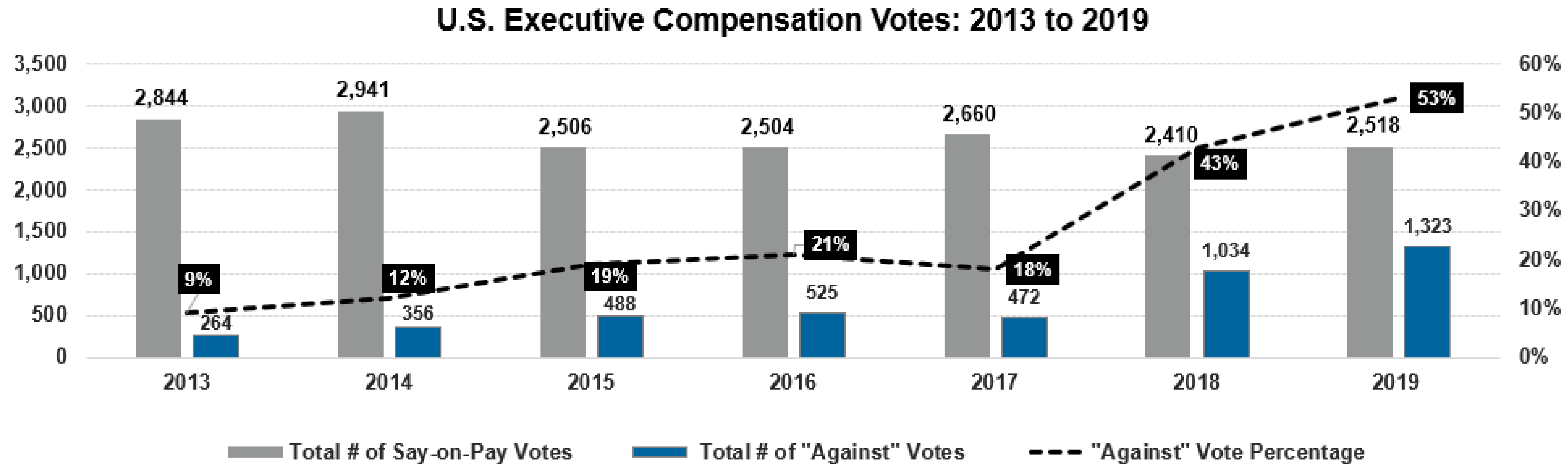
- ✓ 53% of the 2017 corporate board diversity cohort have since added a diverse director to their boards following staff's engagements (267 of 504 companies). Engagements started in July 2017
- ✓ 62% of the 2018 corporate board diversity cohort have since added a diverse director to their boards following staff's engagements (111 of 178 companies). Engagements started in October 2018
- ✓ 22% of the 2019 corporate board diversity cohort have since added a diverse director to their boards following staff's engagements (11 of 51 companies). Engagements started in July 2019

Corporate Board Diversity Continued

- 2019 proxy season
  - ✓ Filed 121 majority vote shareowner proposals at non-responding diversity companies that did not have majority voting for director elections
    - ➢ As of December 31, 2019 – 48 of the 121 had added a diverse director to their boards
    - ➢ Reached settlements with 67 companies that committed to adopt majority vote
    - ➢ 19 proposals went to vote, 7 passed with >50%
  - ✓ Withheld votes from 314 directors at companies where engagements where not constructive

- 2020 proxy season
  - ✓ Engage current and new portfolio companies lacking board diversity
  - ✓ Continue to file majority vote shareowner proposals at non-responding companies that do not have majority voting for director elections
  - ✓ Continue to withhold votes against directors where engagements are not constructive
  - ✓ Continue to partner with CalSTRS and LACERA on the California Diversity Initiative to improve board diversity at CA headquartered companies

U.S. Executive Compensation Votes: 2013 to 2019



- ✓ 2017: Staff carried out extensive research on executive compensation and pay-for-performance (P4P)
- ✓ 2018 proxy season: Implemented enhanced voting practices on executive compensation ("Say on Pay") proposals in the United States. Voted "against" 43% of SOP proposals
- ✓ 2019 proxy season: Developed and implemented a new proprietary 5-year quantitative model as part of the enhancement of the CalPERS Executive Compensation Analysis Framework to review SOP proposals. Voted "against" 53% of SOP proposals
- ✓ 2020 proxy season: apply further enhancements to the executive compensation framework analysis
  - ➢ Implement the CalPERS P4P Scorecard developed in August 2019
  - ➢ Vote "against" Compensation Committee members when voting "against" compensation plans