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Council of Institutional Investors
1717 Pennsylvania Avenue, NW Suite 350
Washington DC, 20006

Via Email: Comments@CII.org

April 23, 2019

Subject: Solicitation for Comment – Council of Institutional Investors' Revised Version of a General Update to CII's Member-approved Policies on Executive Compensation

Dear CII Policy Committee,

On behalf of the California Public Employees' Retirement System (CalPERS), I write in support of the Council of Institutional Investors' (CII) ongoing efforts to update and enhance its executive compensation policies. We provide the following comments for CII policy committee's review and consideration.

CalPERS manages approximately \$360 billion in global assets on behalf of more than 1.9 million public employees, retirees, and beneficiaries. Our fiduciary duty requires that we proactively assess whether the companies that we hold in our portfolio are effectively managing their financial, physical, and human capital. Therefore, as the nation's largest defined benefit plan pension fund and long-time member and proponent of CII, we have a deep interest in a wide range of corporate governance issues that we view as critical to long-term performance and sustainability. As highlighted by CII, the compensation landscape continues to evolve with expectation that it is used as a vehicle to drive long-term outcomes, and we wholeheartedly agree.

Executive compensation plays a key role in rewarding and aligning the users of our capital with our objectives to achieve sustainable, long-term investment returns. Accordingly, a well-designed compensation program is material to a company's long-term performance and sustainability. Likewise, clearly articulated executive compensation disclosures are material to shareowners' ability to hold management accountable for performance. For these reasons, we advocate for improved disclosure and enhanced compensation committee accountability for compensation.

We support CII in calling for simplicity, alignment, and flexibility around compensation design and disclosures. We share similar concerns as CII with executive compensation practices such as misaligned incentives with company performance, overly complex compensation structures, lack of a long-term view, and opportunistic peer group selection. So, we commend CII's Policies Committee for the substantial progress it has already made to its executive compensation policies such as removing overly prescriptive formulaic policies, simplifying language, improving presentation and organization, as well as expanding the scope of the executive compensation policy to cover compensation design and disclosure.

Since incentives can help or harm shareowner value, there continues to be a growing acceptance around the use of executive compensation as a mechanism to motivate, retain, and hold responsible directors and executives accountable for excessive risk taking. Correspondingly, CII's draft language under consideration for the March 2019 revised version of its member-approved policy on executive compensation tackles eight compensation fundamentals: (1) Core objectives of pay; (2) Governance; (3) Transparency; (4) Peers; (5) Elements of Compensation; (6) Stock ownership guidelines, (7) Recovery, and (8) Poor pay practices. The proposed updates on these fundamentals support a robust quantitative and qualitative assessment of compensation alignment with the interests and experience of long-term shareowners. Furthermore, the proposed draft language reflects the current landscape and market expectations for greater simplicity, transparency, and alignment with long-term shareowner value.

Upon reviewing the revised version of CII's member-approved policy on executive compensation, we are delighted to see that many of the proposed policy revisions are aligned with our recent efforts around enhancing CalPERS' internal approach to Say on Pay. In January 2018, following staff review of the CalPERS executive compensation voting practices, the CalPERS Corporate Governance team implemented a voting enhancement on the evaluation of Say on Pay proposals. The voting enhancement largely centered on a deeper analysis of a company's pay and performance practices which resulted in our opposing approximately 43% of compensation plans for failure to align pay with performance as the primary reason. We have also revised and improved our Principles on executive compensation. In addition, CalPERS has engaged a wide range of our portfolio companies on the issue of executive compensation with positive results. We will continue to review and assess our approach to executive compensation in our Principles and voting practices as we look to harmonize our voting practices globally.

While we do not attempt to address every proposed change within CII's executive compensation policy, we highlight the following points:

Core Objectives of Executive Pay

We agree that the overall design and implementation of a compensation program should appropriately align the interests of the company with the interests of shareowners to achieve sustainable, long-term value creation. We also believe that companies should have flexibility in designing and structuring their compensation plans.

Governance

We support the view that an appropriately structured executive compensation plan including overall plan design, implementation, monitoring, and evaluation is a key responsibility of the compensation committee. The compensation committee must be independent to allow for well-informed and conflict-free decision-making.

Transparency

We agree with CII's view that compensation programs should be transparent and provide clear, comprehensive, and relevant disclosures necessary to allow shareowners to evaluate a company's compensation practices. Proper and full disclosure is essential for shareowners to assess the degree of pay for performance inherent in plans. As highlighted by our Governance and Sustainability Principles (Principles), compensation programs should provide a clear and well-articulated philosophy that links compensation metrics to the company's long-term business strategy.

Peers

CalPERS believes that companies should disclose the companies in peer groups used for benchmarking or other comparisons as this provides shareowners with a better understanding of a company's historical performance relative to its peers. We believe that companies should not use peer groups to ratchet up pay unrelated to company performance. Furthermore, the choice of peers should be consistent.

Elements of Compensation

CalPERS supports compensation structures that provide incentives by aligning their performance and economic interest with those of the shareowners. So, we support CII's draft language which highlights the expectation for clear disclosure to investors on the elements of pay and why the compensation committee determined to structure pay in a particular way, as well as a greater focus on long-term incentive and alignment.

Stock Ownership Guidelines

Companies should fully disclose stock ownership guidelines and holding requirements to shareowners. Furthermore, to demonstrate alignment with shareowners, stock subject to ownership requirements should not be pledged or otherwise encumbered.

Recovery

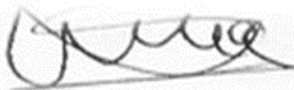
As highlighted by our Principles, companies should develop and disclose policies to recoup compensation made to executives during periods of fraudulent activity, inadequate oversight, misconduct, including harassment of any kind, which has impacted or is reasonably expected to impact financial results or cause reputational harm.

Poor Pay Practices

We believe that excise tax gross-ups should not be permitted in compensation programs and if used, companies should disclose and provide justification. Any other provisions for compensation around employment contracts, severance, and change-of-control payments should also be fully and clearly disclosed to allow shareowners to better assess the extent of use.

Thank you for considering our comments. We welcome the opportunity to share details of the evolution of our Say on Pay vote practices and work in partnership with you on executive compensation. If you have any questions or wish to engage further on this issue, please contact Simiso Nzima at (916) 795-0672 or Engagements@calpers.ca.gov.

Sincerely,



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