

# Proxy Voting & Corporate Engagements Update

Simiso Nzima, Managing Investment Director – Global Equity

Investment Committee

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# Looking Ahead – 2022 Proxy Season Outlook

- **Proxy Voting & Corporate Engagements**

- ✓ Vote all public company proxies in a manner consistent with CalPERS' Governance & Sustainability Principles and CalPERS' Investment Beliefs
- ✓ Actively engage companies on executive and employee compensation, corporate board diversity, climate change, investor rights, human capital management, and other sustainability considerations to promote long-term value creation

- **Executive and Employee Compensation:** continue to engage companies on, and to hold compensation committees accountable for, misaligned pay and performance

- **Corporate Board Diversity:** continue to engage companies and hold directors accountable for failing to improve corporate board diversity. Staff may also use shareowner campaigns, including filing shareowner proposals, to bring about change where engagements are not productive

- **Climate Change:** continue to engage companies on climate change risks and opportunities as part of the Climate Action 100+ initiative and use proxy voting and shareholder campaigns, including filing proposals and running proxy solicitations, to effect change

- CalPERS will further consider board oversight of climate-related risks to help inform director votes

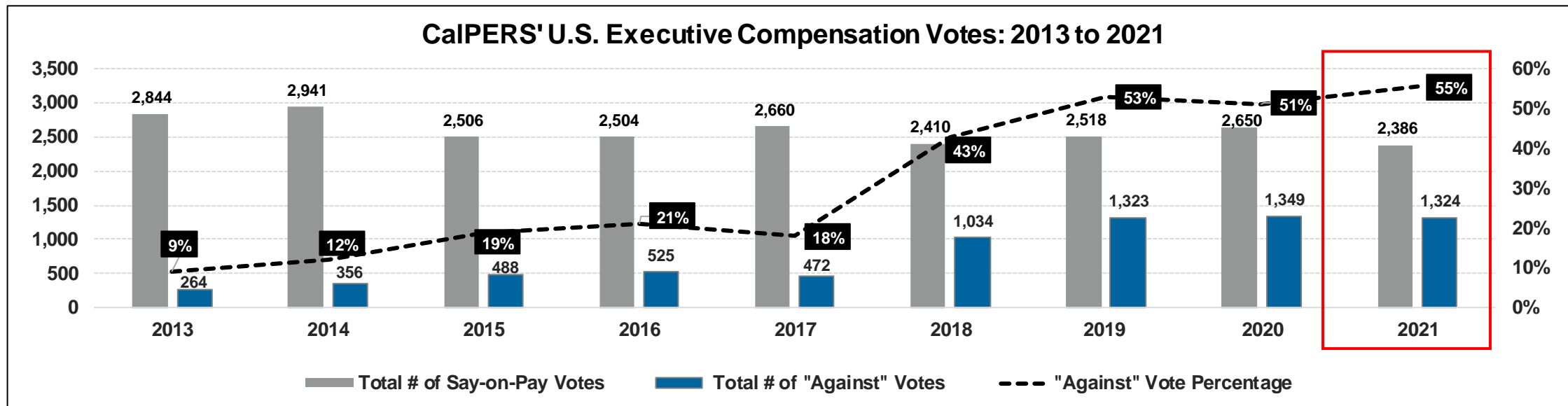
- **Investor Rights:** continue to engage companies to adopt proxy access and majority vote on director elections to facilitate shareowners' ability to hold boards accountable for oversight failures

# Looking Back – 2021 Proxy Season Outcomes

- **Proxy Voting & Corporate Engagements**
  - ✓ Voted 13,714 meetings covering 130,345 individual voting/ballot items
  - ✓ Engaged 700+ companies on executive compensation, corporate board diversity, climate change, investor rights, human capital management
- **Enhanced Executive Compensation Accountability**
  - ✓ Voted “against” 55% of management’s executive compensation proposals for poor pay-for-performance alignment (1,324 of 2,386 companies). By comparison, we voted “against” 51% of management’s executive compensation proposals in 2020 (1,349 of 2,650 companies)
  - ✓ Voted “against” 3,079 Compensation Committee members, holding them accountable for poor pay-for-performance alignment and poor compensation practices (by comparison, we voted “against” 3,402 Compensation Committee members in 2020)
- **Improved Corporate Board Diversity and Accountability**
  - ✓ 75% of companies engaged since July 2017 have since added at least one diverse director to their boards (597 of 800 companies). Excluding delisted, acquired and bankrupt companies, 83% of companies engaged have added a diverse director to their boards (553 of 665 companies)
  - ✓ Voted “against” 145 directors at companies where diversity engagements did not result in constructive outcomes. By comparison, we voted against 205 directors in 2020, 314 directors in 2019 and 468 directors in 2018. A decrease in the number of against votes over time is a sign of progress
- **Climate Risk Oversight**
  - ✓ CalPERS ran public proxy solicitation in support of board refreshment at Exxon – three new directors were elected
  - ✓ Over 2/3rds of the 167 CA100+ companies have now set a net-zero target or ambition
  - ✓ 17 of the 22 CA100+ companies that CalPERS is engaging have now set a net-zero by 2050 target or ambition
- **Enhanced Investor Rights**
  - ✓ Proxy Access: 50 companies adopted or committed to adopt proxy access per our request
  - ✓ Majority Vote for Director Elections: 8 companies adopted or committed to adopt majority vote
  - ✓ Staff will be engaging a new subset of 50 companies in 2022 requesting the adoption of proxy access

# Appendix

## CalPERS' U.S. Executive Compensation Votes: 2013 to 2021

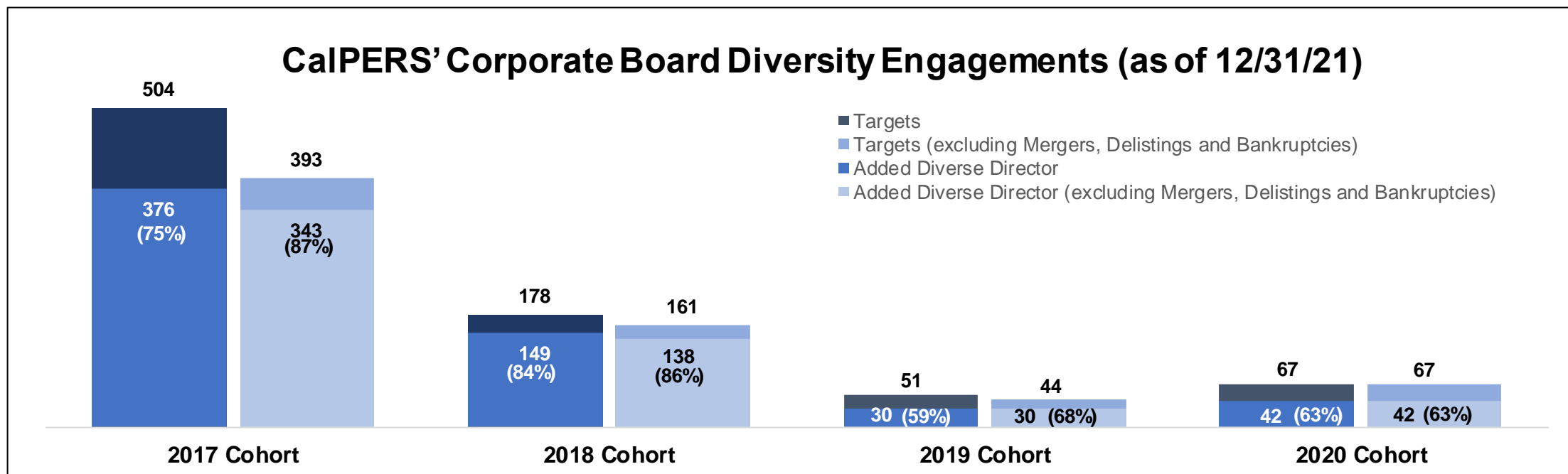


- ✓ 2017: Performed extensive research on executive compensation and pay-for-performance (P4P)
- ✓ 2018 proxy season: Implemented enhanced voting practices on executive compensation ("Say on Pay") proposals in the United States. Voted "against" 43% of SOP proposals
- ✓ 2019 proxy season: Developed and 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: Applied further enhancements to the executive compensation framework analysis to hold Compensation Committee members accountable for poor pay practices. Voted "against" 51% of SOP proposals and "against" 3,402 Compensation Committee members
- ✓ 2021 proxy season: Voted "against" 55% of SOP proposals and "against" 3,079 Compensation Committee members

# Corporate Board Diversity Engagements & Accountability

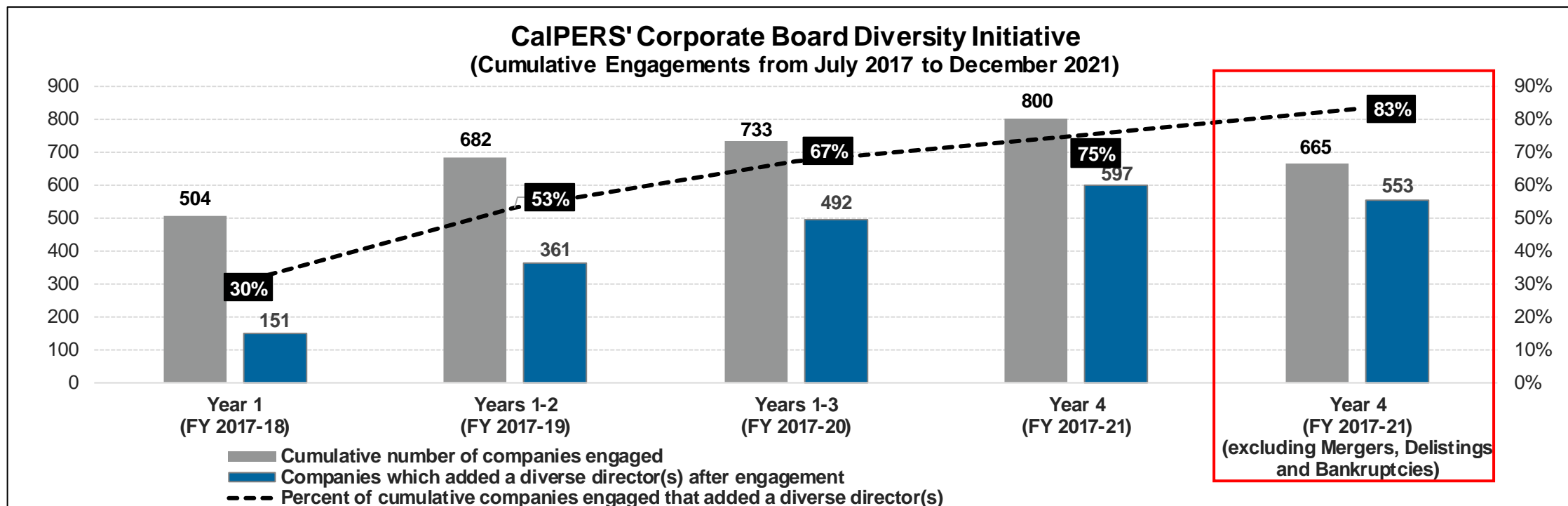
- 75% of companies engaged since July 2017 have since added at least one diverse director to their boards (597 of 800 companies). Excluding delisted, acquired and bankrupt companies, 83% of companies engaged have added a diverse director to their boards (553 of 665 companies)
- Voted “against” 145 directors at companies where diversity engagements did not result in constructive outcomes. By comparison, we voted against 205 in 2020, 314 directors in 2019 and 468 directors in 2018. A decrease in the number of against votes over time is a sign of progress
- CalPERS’ Diversity Director “Vote No” campaign targeting companies with multi-year unresponsiveness
  - ✓ 13 companies either added elements of diversity to their boards
  - ✓ Ran public “Vote No” campaigns with proxy solicitations at 3 companies and voted against 8 directors. 1 director received 30% opposition
- Board Diversity Shareowner Proposals
  - ✓ Filed and withdrew shareowner proposals at 2 companies based on commitment to add diverse directors
  - ✓ Ran 8 shareowner campaigns at non-responsive companies surrounding board diversity (5 Majority Vote / 3 Vote “No” Campaigns)
- Engaged 30 non-responsive companies surrounding majority for director elections
  - ✓ As of December 31, 2021, 17 companies added a diverse director to their board they didn’t previously have
  - ✓ Reached settlements at 8 companies that agreed to adopt majority vote for director elections
  - ✓ 5 shareowner campaigns at non-responsive companies
- Continued partnership with CalSTRS, LACERA and SFERS on the California Board Diversity Initiative to improve board diversity at S&P 500 companies surrounding underrepresented groups

## CaIPERS' Corporate Board Diversity Engagements (2017 to 2020 Cohorts)



- ✓ 75% of the 2017 corporate board diversity cohort have since added a diverse director to their boards following CaIPERS' engagement. Excluding delisted, acquired and bankrupt companies, 87% have added a diverse director. Engagements started in July 2017
- ✓ 84% of the 2018 corporate board diversity cohort have since added a diverse director to their boards following CaIPERS' engagement. Excluding delisted, acquired and bankrupt companies, 86% have added a diverse director. Engagements started in October 2018
- ✓ 59% of the 2019 corporate board diversity cohort have since added a diverse director to their boards following CaIPERS' engagement. Excluding delisted, acquired and bankrupt companies, 68% have added a diverse director. Engagements started in July 2019
- ✓ 63% of the 2020 corporate board diversity cohort have since added a diverse director to their boards following CaIPERS' engagement. Excluding delisted, acquired and bankrupt companies, 63% have added a diverse director. Engagements started in July 2020

## CalPERS' Corporate Board Diversity Cumulative Engagements (July 2017 to December 2021)



- Market-wide improvements in corporate board diversity**

- ✓ 97% of Russell 3000 companies now have at least one female director compared to 78% in Q2 2017 (Q3 2021 Equilar data)
- ✓ 26.1% of Russell 3000 board seats are now held by women compared to 16% in Q2 2017 (Q3 2021 Equilar data)
- ✓ 100% of S&P 500 companies now have at least one female director on their boards (ISS Diversity Data – January 2022)
- ✓ S&P 500: In 2021, 47% of new independent directors were racial/ethnically diverse vs. 22% in 2020 (2021 Spencer Stuart Board Index)





# 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

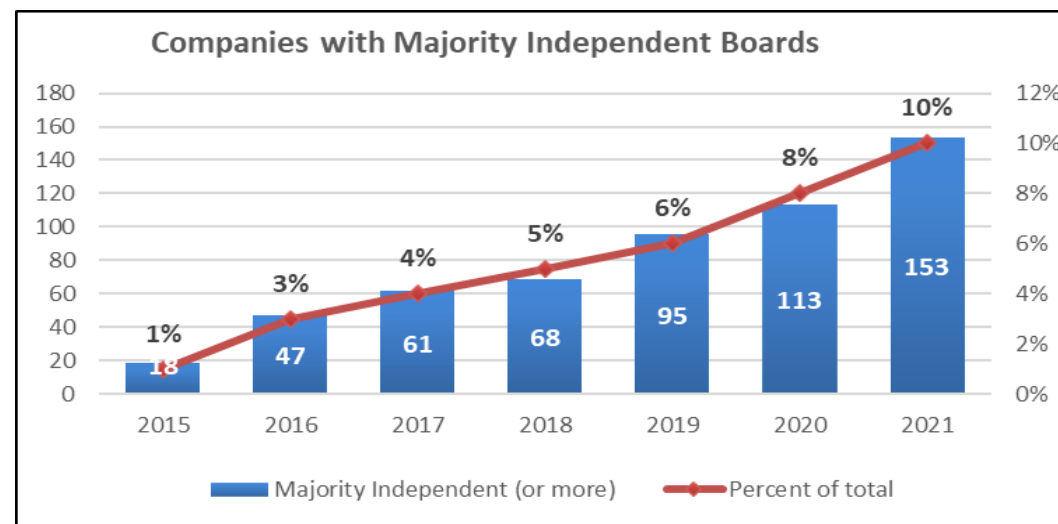
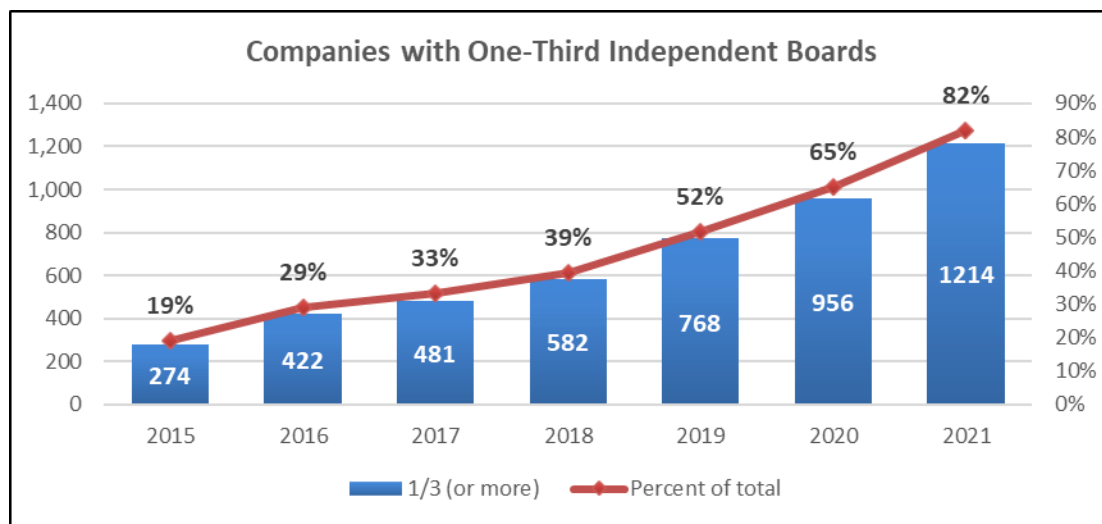
[1] The [Global Investor Coalition on Climate Change](#) Investor Expectations on Climate Change sector guides cover [oil and gas](#), [mining](#), [utilities](#) and [auto manufacturers](#) and provide additional sector specific disclosure recommendations, particularly regarding the oversight of public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

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

# CalPERS' Japan Board Independence Initiative

Objective: Increase board independence at Japanese portfolio companies and market overall

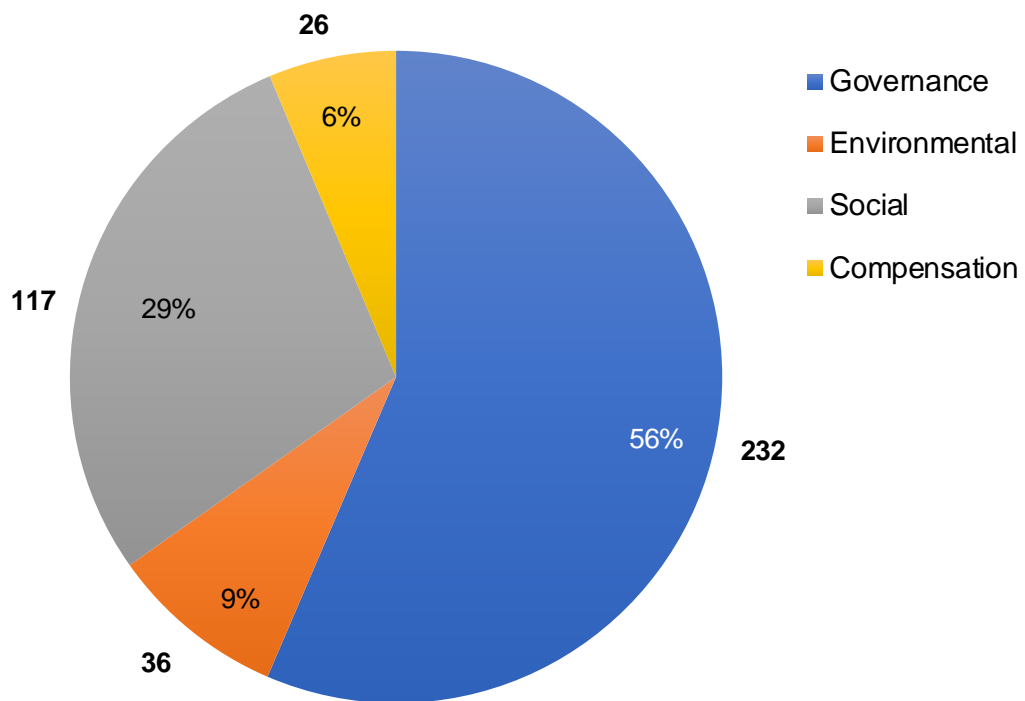
- ✓ In 2017, Staff amended the proxy voting practice for Japan to vote “against” non-independent directors when board independence is less than 1/3. CalPERS communicated the change through the local Japanese media ahead of the 2017 proxy season
- ✓ In 2017 and 2018, Staff wrote letters to companies (with less than 1/3 board independence) to communicate voting rationale
- ✓ From 2017 to 2021, companies with 1/3 board independence nearly doubled, from 33% to 82%
- ✓ CalPERS continues to engage Japanese companies to encourage increased board independence



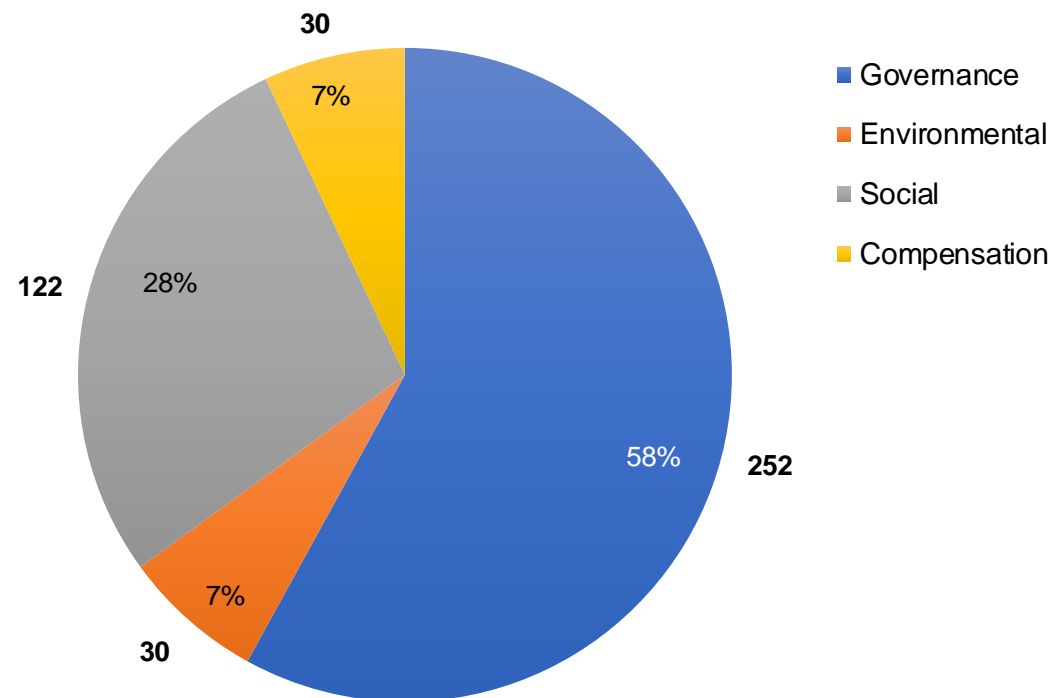
Source: IR Japan; Universe: Tokyo Stock Exchange 1<sup>st</sup> Section as of June 30, 2021

# Shareowner Proposal Types – 2021 and 2020

**2021 ESG Shareowner Proposals (total of 411)**

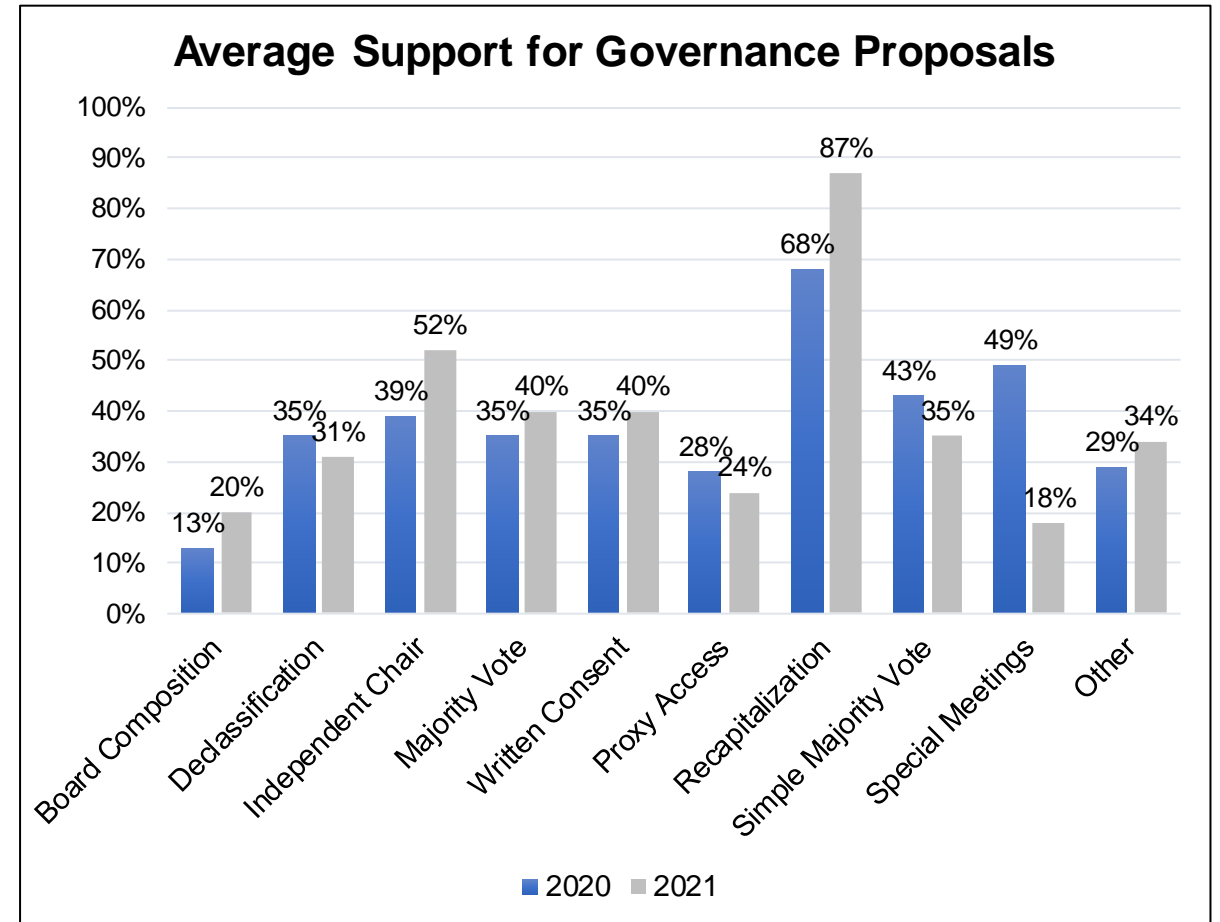
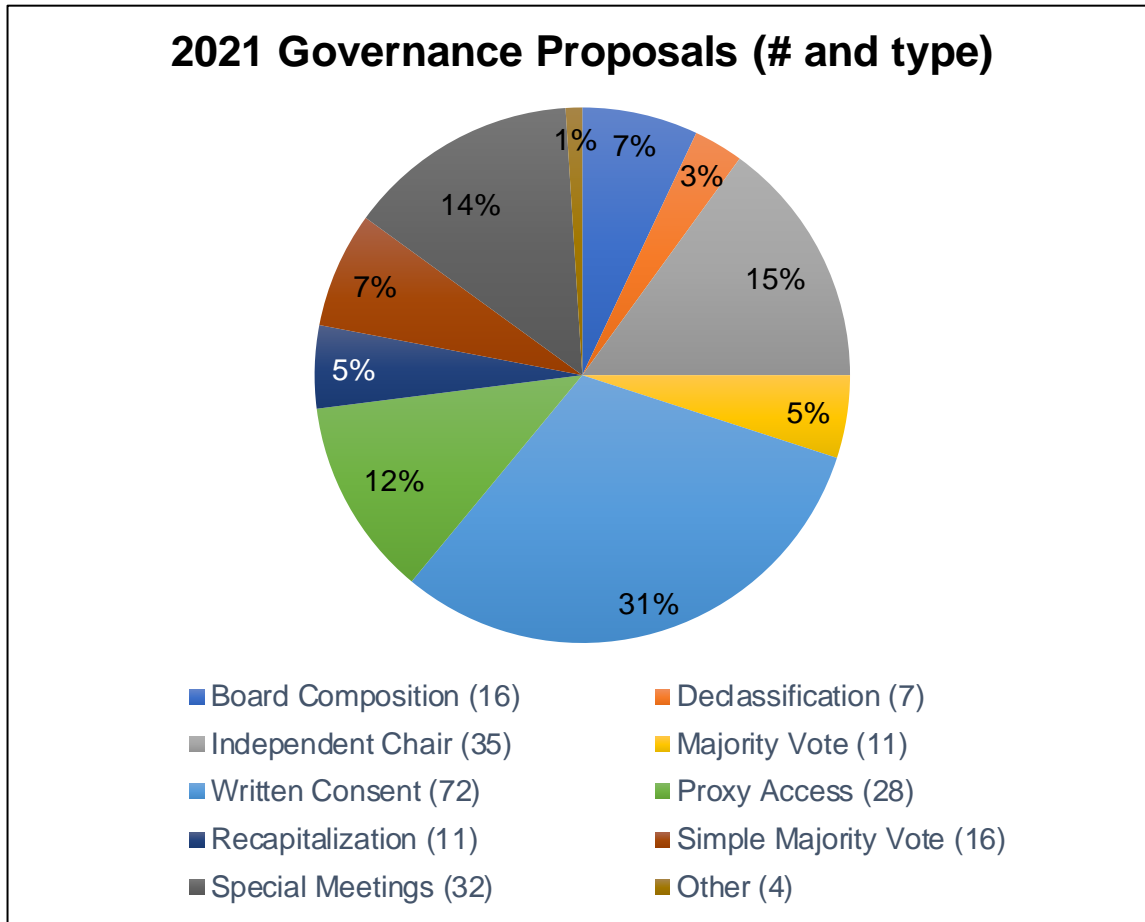


**2020 ESG Shareowner Proposals (total of 434)**



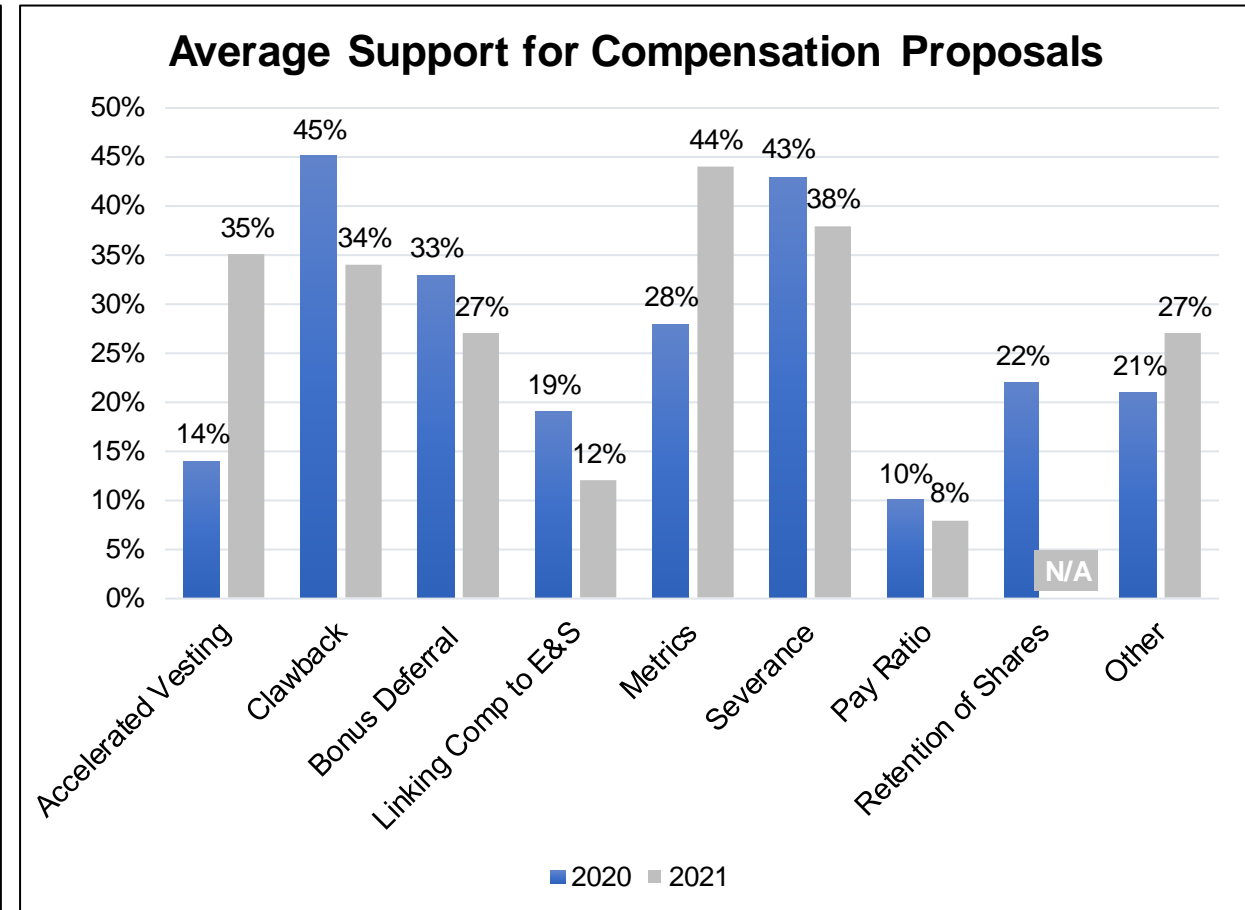
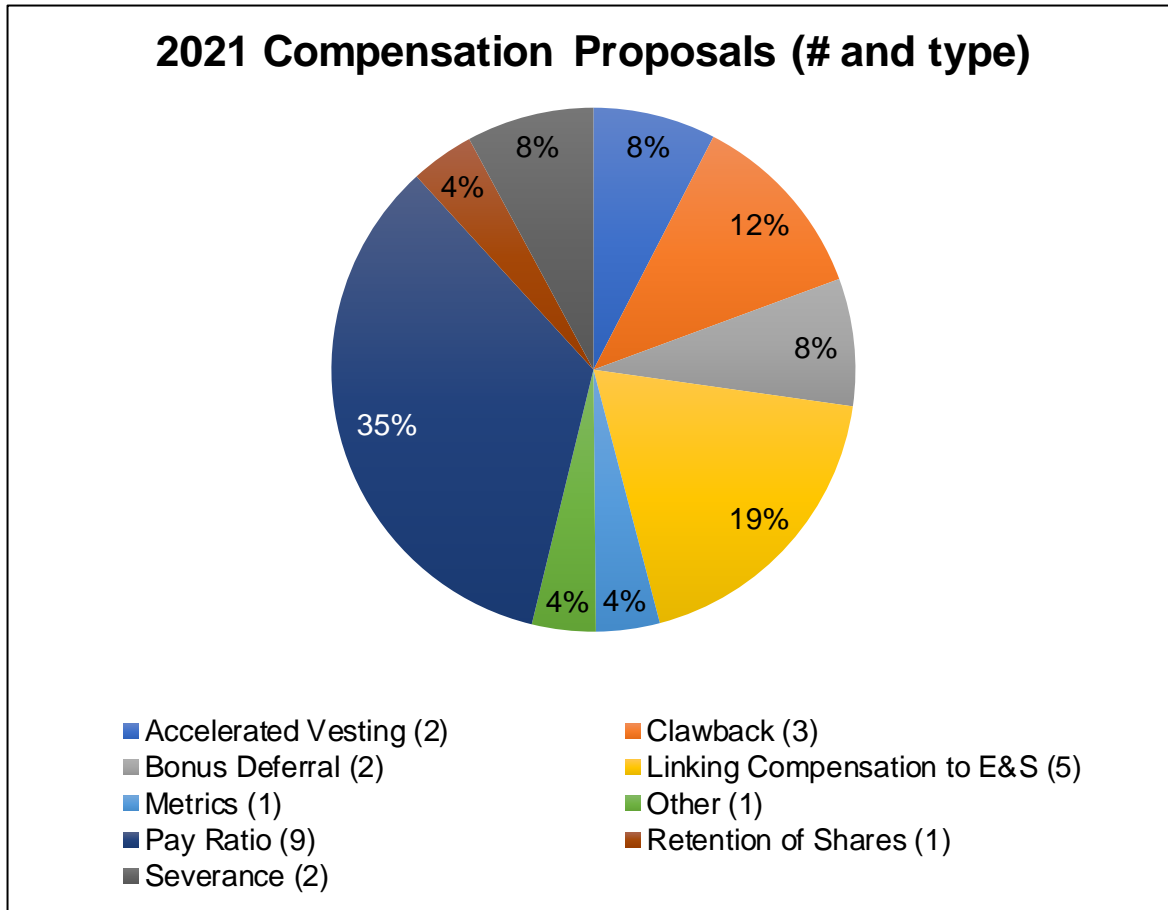
Source: Glass Lewis: 2021 Proxy Season Review

# Governance Shareowner Proposals



Source: Glass Lewis: 2021 Proxy Season Review

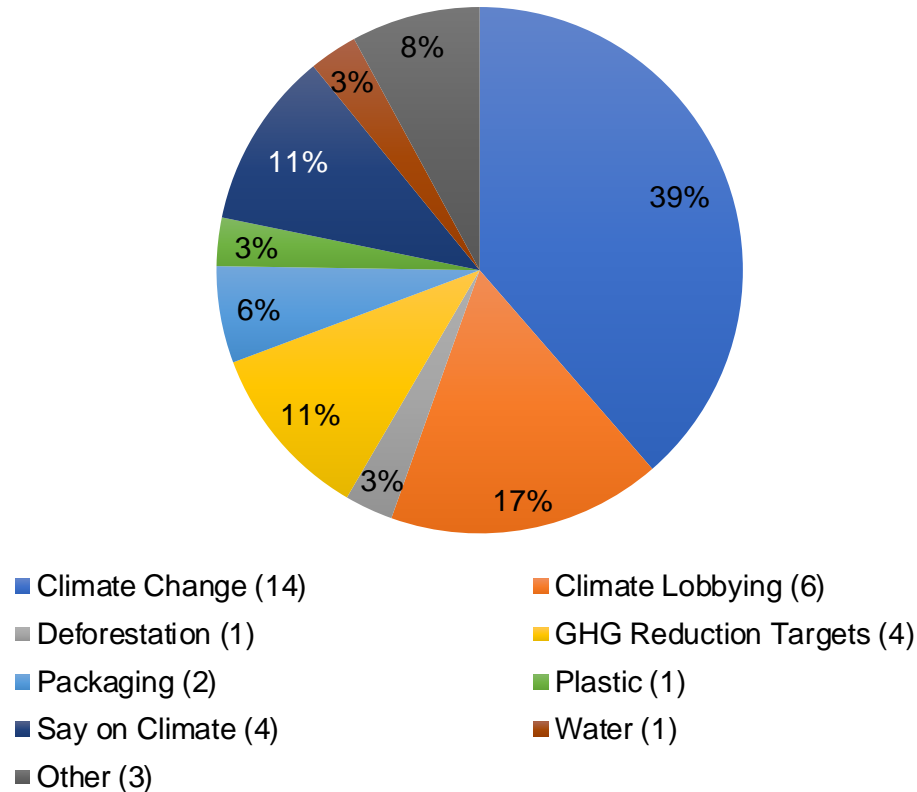
# Compensation Shareowner Proposals



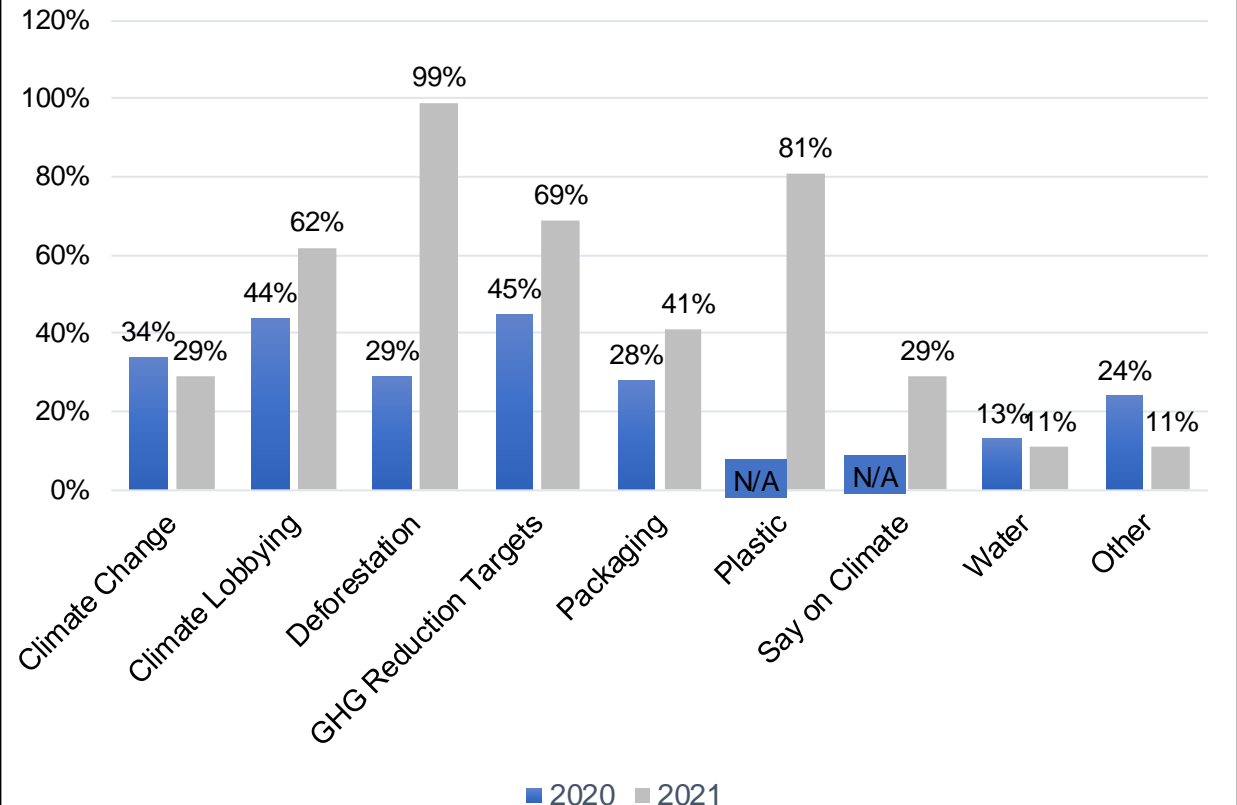
Source: Glass Lewis: 2021 Proxy Season Review

# Environmental Shareowner Proposals

2021 Environmental Proposals (# and type)



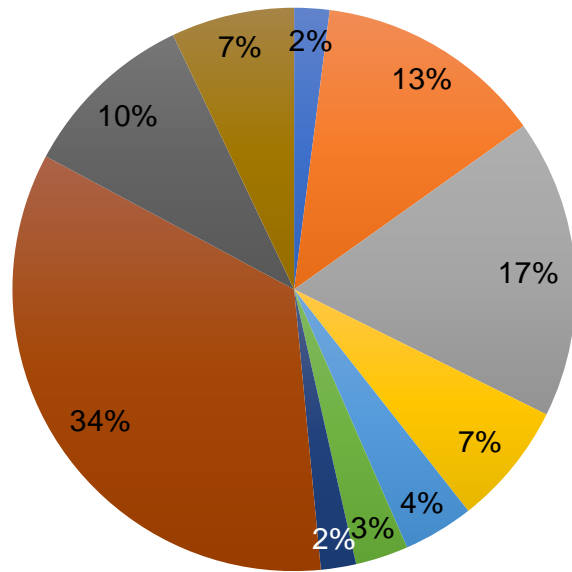
Average Support for Environmental Proposals



Source: Glass Lewis: 2021 Proxy Season Review

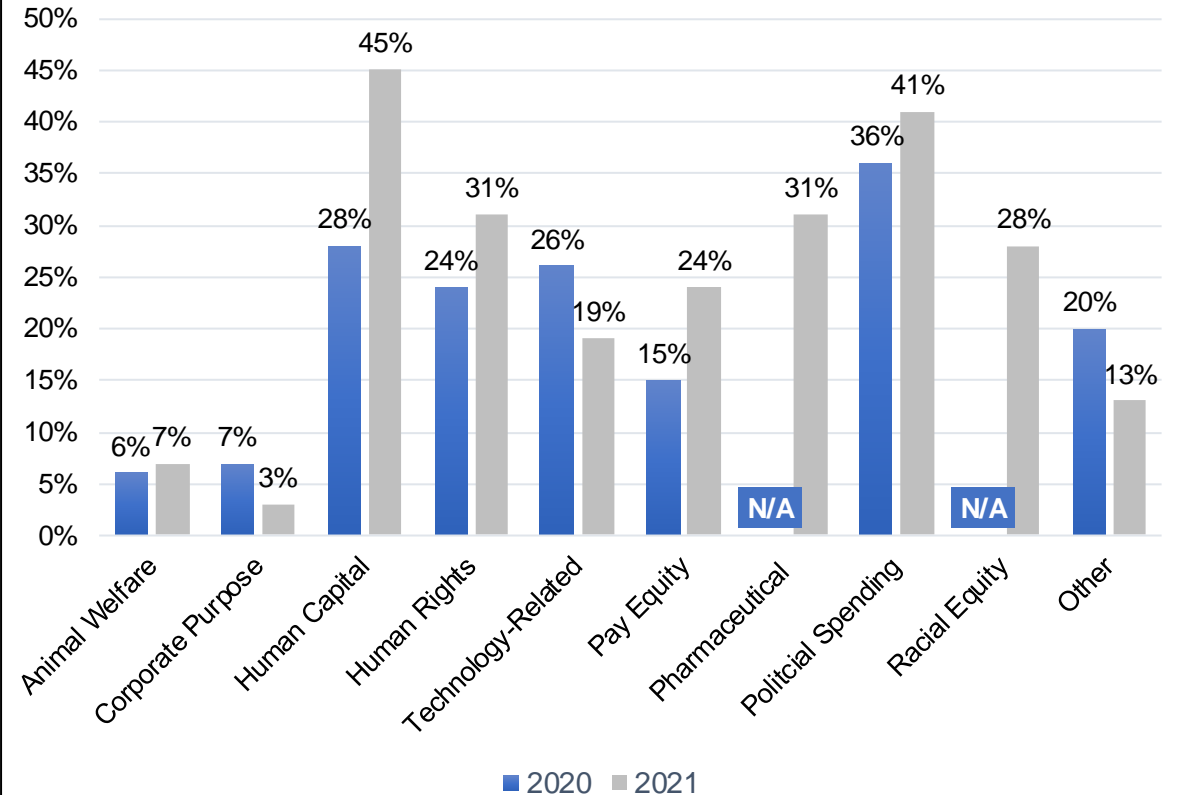
# Social Shareowner Proposals

2021 Social Proposals (# and type)



- Animal Welfare (2)
- Corporate Purpose (15)
- Human Capital (20)
- Human Rights (8)
- Technology-Related (5)
- Pay Equity (4)
- Pharmaceutical (3)
- Political Spending (40)
- Racial Equity (12)
- Other (8)

Average Support for Social Proposals



Source: Glass Lewis: 2021 Proxy Season Review



# CalPERS Corporate Governance Resources

## CalPERS Corporate Governance Website:

<https://www.calpers.ca.gov/page/investments/corporate-governance>

- **Corporate Engagements**
  - ✓ Board Diversity
  - ✓ Climate Action 100+
  - ✓ Executive Compensation
  - ✓ Japan Board Independence
  - ✓ Majority Vote
  - ✓ Proxy Access
  
- **Proxy Voting**
  - ✓ Governance and Sustainability Principles
  - ✓ Proxy Voting Guidelines
  - ✓ Notable Proxy Votes
  - ✓ Global Proxy Voting Decisions
  - ✓ Executive Compensation Analysis Framework
  - ✓ Executive Analysis Framework: Frequently Asked Questions