

2023 Proxy Season Wrap-Up



Proxy Season Wrap-Up: 2023

Overview

For proxy season 2023, CalPERS continued to focus on director accountability as we increased votes against director elections primarily because of oversight of climate-related risk and board recruitment and refreshment, as reflected in our updated proxy voting guidelines. Furthermore, in alignment with our global proxy guidelines, we increased the board independence threshold in Japan to majority from one-third. Additional details on our proxy voting approach can be found on our [website](#).

This report highlights some summary statistics and proxy vote trends, including the following:

- A decrease in our support for directors
- A steady percent of votes against compensation
- A lower support for shareowner resolutions in the U.S.

How We Voted and Voting Trends

Below are the summary statistics on how we voted and trends for some common proposal categories. Additional information of our proxy votes is available at our [website](#).

Director Votes

The support level for the global director votes, which consisted of both US and non-US director votes, was noticeably less than the prior fiscal year, as shown in Figure 1. Our support of directors decreased from approximately 67% to 58%.

Why it matters: Voting in uncontested election of directors is the most important voting item for asset owners. We believe that high quality corporate boards should be comprised of mostly independent directors and be diverse with an appropriate balance of skills, expertise, and tenure.

By the numbers: We voted on 31,998 global director elections, including 8,959 director elections in the U.S. Our decline in support focused on the following key reasons:

- Holding directors accountable for **climate-related risks** (focused on highest emitters in our equity portfolio)
- Increased efforts to seek improved **board composition**
- Increased **Japan board independence** threshold to majority from one-third
- Continued opposition to **compensation committee members** where we observed pay issues

Reality check: When we vote against a director in an uncontested election, it is not for the purpose of removing that director; rather, it's a signal to the board that there is some aspect of governance or board oversight that we believe needs improving. These board signals generally lead to productive engagements with improvement over time.

Figure 1. Global Director Votes

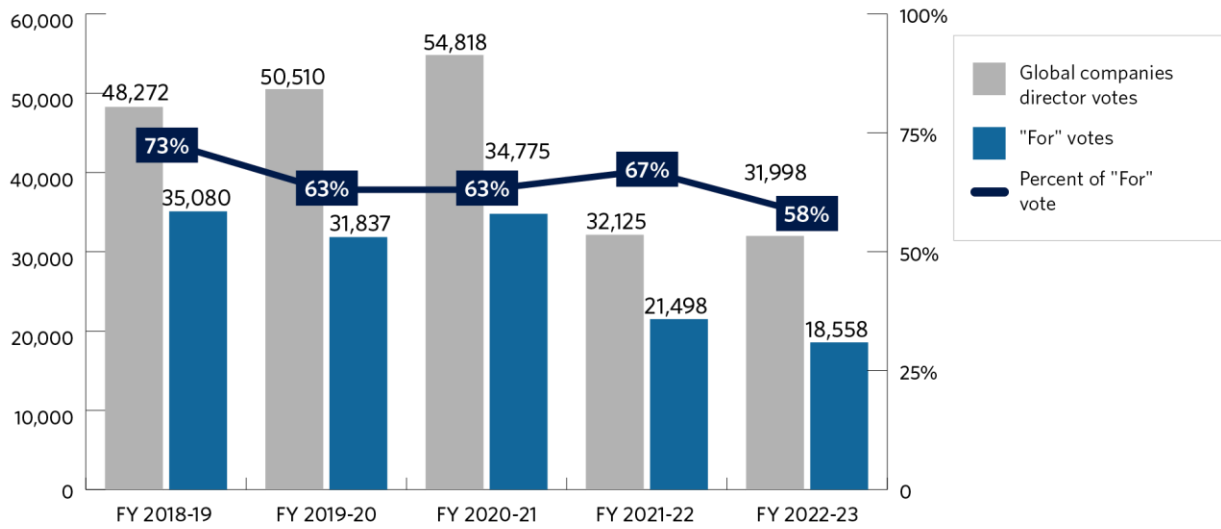
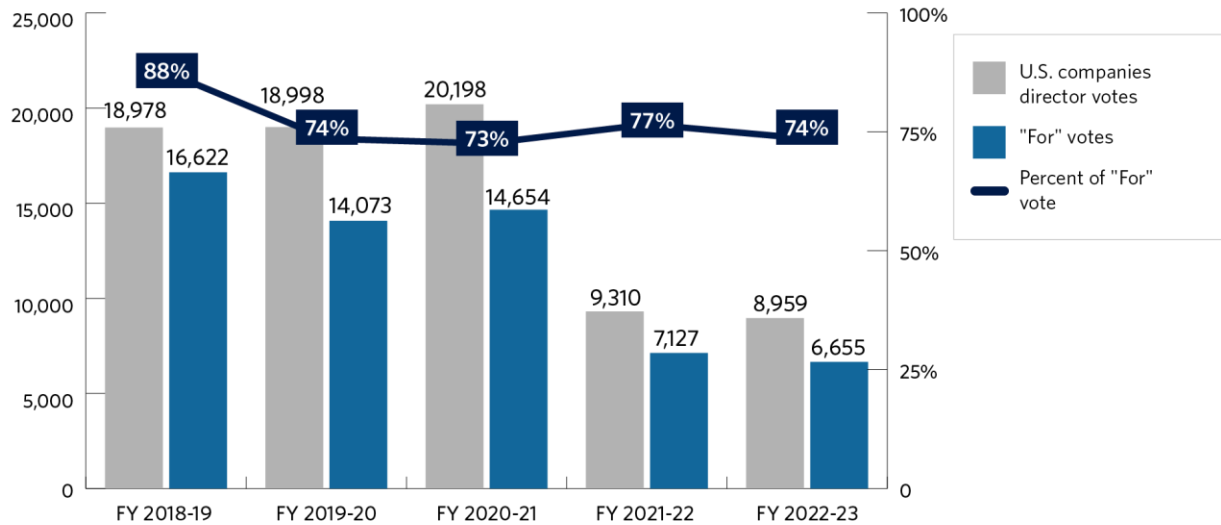


Figure 2. United States Director Votes



Executive Compensation

CalPERS level of opposition for advisory votes on executive compensation (also known as Say-on-Pay), was slightly higher in 2023 at 49%, versus 48% in the prior year, as shown in Figure 3.

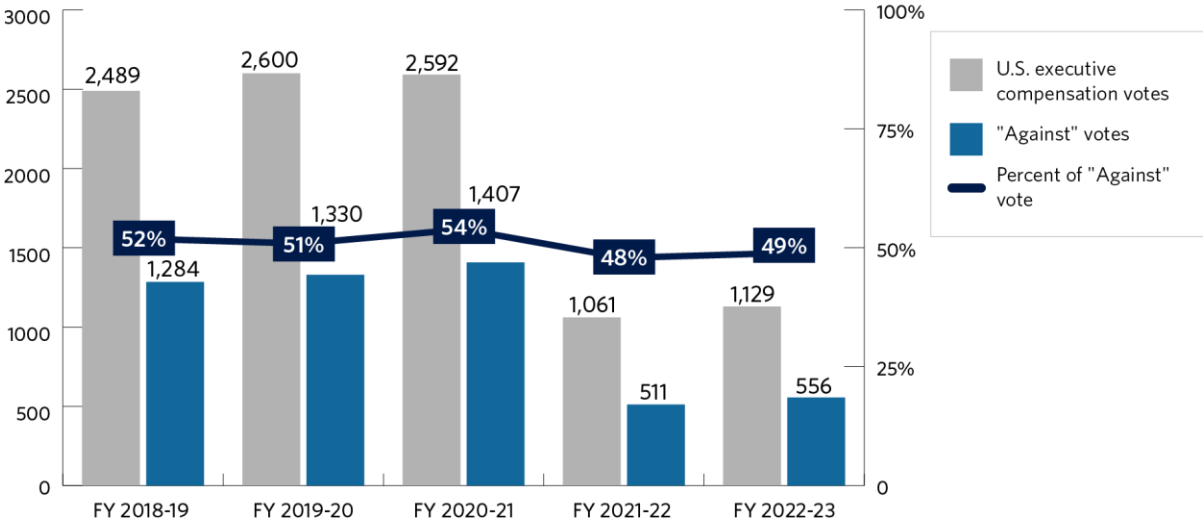
Why it matters: Well-designed compensation programs can be a powerful and effective tool to reward value-creating executives and appropriately align their interests with shareowners to achieve sustainable, long-term investment returns.

By the numbers: We voted 1,129 Say-on-Pay proposals and opposed 556 (or 49%). Our votes “against” these proposals stemmed primarily from the following key reasons:

- Pay and performance misalignment
- Short performance and/or vesting periods for long-term incentives
- One-time awards without sufficient justification or performance periods
- Lack of comprehensive disclosure

Reality check: Voting against a say-on-pay proposal is not intended as a signal to pay the CEO nothing; rather it’s a signal to the board and compensation committee that we have identified issues with some aspect of the pay design or relative quantum to peers through the performance lens. Executive compensation is a key focus for the CalPERS engagement program. In contrast to other managers and owners our votes against may seem high. That said, we believe there are many structural issues in U.S. pay compensation plans, like short vesting for equity awards, that could be improved in the U.S. market.

Figure 3. United States Executive Compensation Votes



ESG Shareowner Proposals

In 2023 we voted 589 ESG shareowner proposals, supporting 403, or approximately 68% (Figure 4).

Why it matters: The shareowner proposal process is an important mechanism giving investors the ability to recommend a company take a specific action on a variety of ESG topics. We analyze and vote shareowner proposals consistent with the interests of our beneficiaries and consistent with the CalPERS Governance & Sustainability Principles.

Behind the numbers: Over the past five fiscal years, the total number of ESG shareowner proposals increased from 483 in fiscal 2018-19, to a high-water mark of 589 in 2022-23 (an increase of approximately 22%), as shown in Figure 5.

Our overall support was down in 2023 from prior years (Figures 6, 7, and 8). The decrease in support was largely attributed to the following:

- Proposal request(s) not being aligned with our Governance & Sustainability Principles and Proxy Voting Guidelines
- Proposal topics crossed into ordinary business, were too restrictive, or had already been substantially implemented by the company
- Low levels of overall investor support could signal the quality of the proposal filed

Reality Check: Some shareowner resolutions are binary, like a typical governance related proposal to declassify the board, where we typically support. However, many proposals highlight some potential risk to a company where a report or additional disclosures can aid shareowners in better understanding that risk. We support shareowner proposals on their merit, which are typically high-quality, well-targeted, resolutions asking for additional disclosure where we deem that disclosure pertinent to our enhanced understanding of potential risks to the company (Tables 1-3).

Figure 4: United States ESG Shareowner Proposals in Fiscal Year 2022-2023

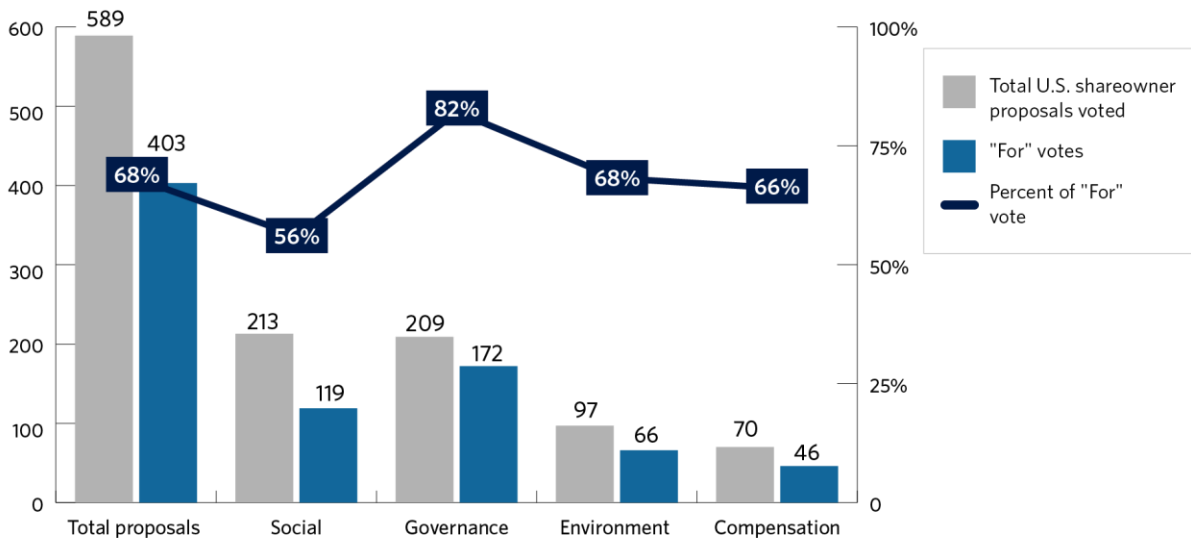


Figure 5: United States Environmental, Social, And Governance (ESG) Shareowner Proposals (Fiscal Year 2018-2019 to Fiscal Year 2022-2023)

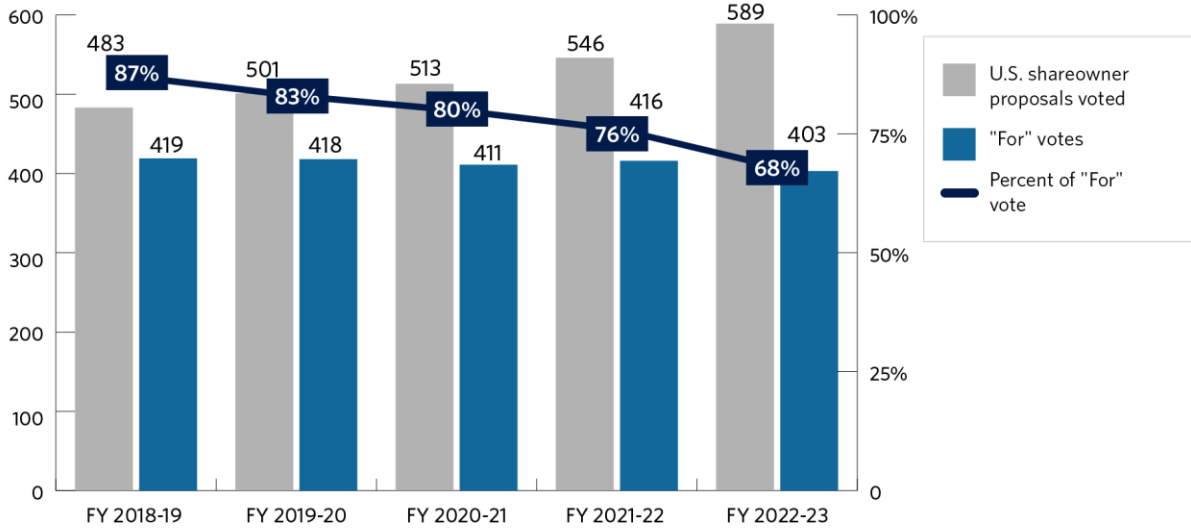


Figure 6: United States Environment Shareowner Proposals (Fiscal Year 2021-2022 and Fiscal Year 2022-2023)

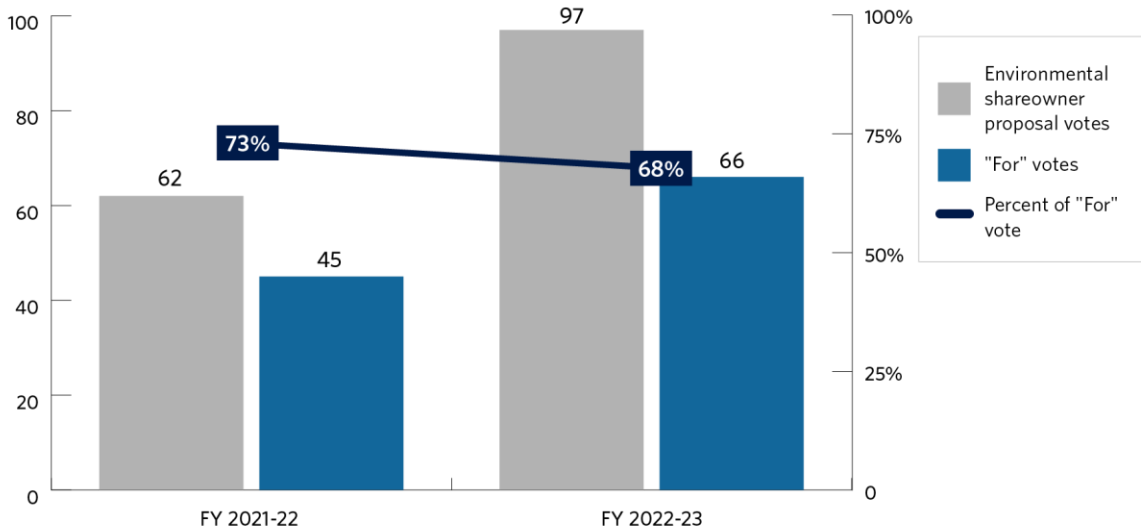


Figure 7: United States Governance Shareowner Proposals (Fiscal Year 2021-2022 and Fiscal Year 2022-2023)

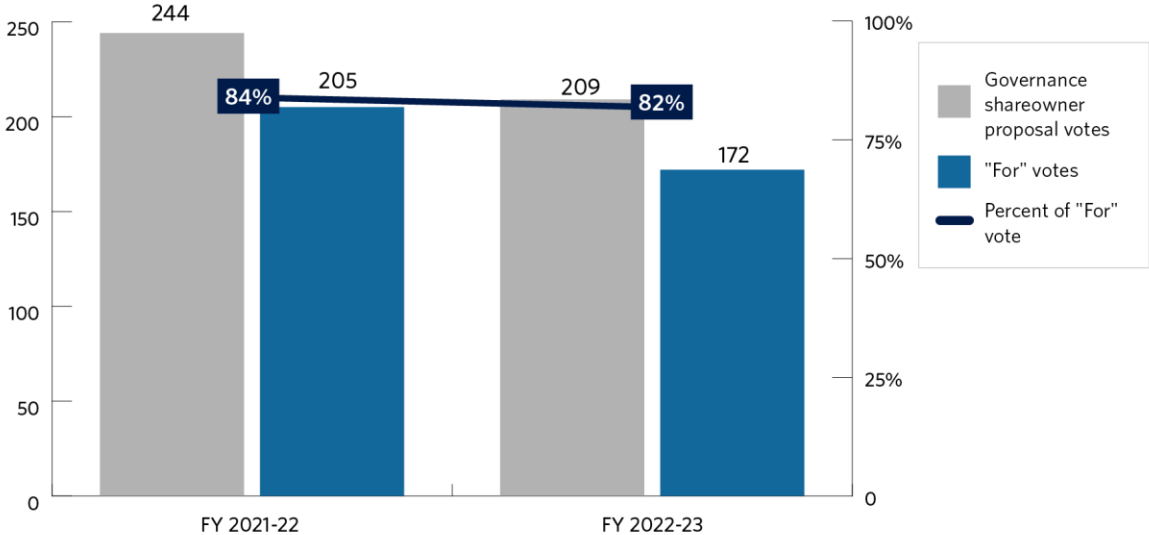


Figure 8: United States Social Shareowner Proposals (Fiscal Year 2021-2022 and Fiscal Year 2022-2023)

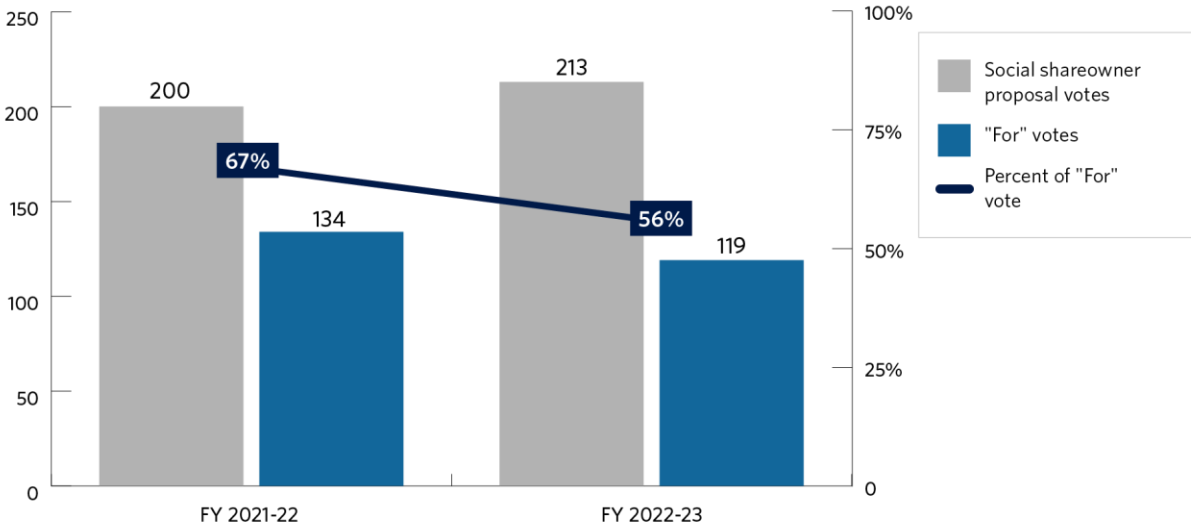


Table 1: Most Common United States Social Shareowner Proposals in Fiscal Year 2022-2023

Proposal	Proposals (count)	Votes For (count)	Votes For (percent)
Reviewing Political Spending or Lobbying	54	44	81%
Human Capital Management	30	16	45%
Racial Equity Audit	22	10	45%
Reporting on Company's Compliance with International Human Rights Standards	22	19	86%
Drug Pricing/Distribution	11	5	45%
Animal Welfare	10	4	40%

Table 2: Most Common United States Governance Shareowner Proposals in Fiscal Year 2022-2023

Proposal	Proposals (count)	Votes For (count)	Votes For (percent)
Independent Board Chairman/Separation of Chair and CEO	80	73	91%
Right to Call a Special Meeting	36	32	89%
Eliminating Supermajority Provisions	13	13	100%

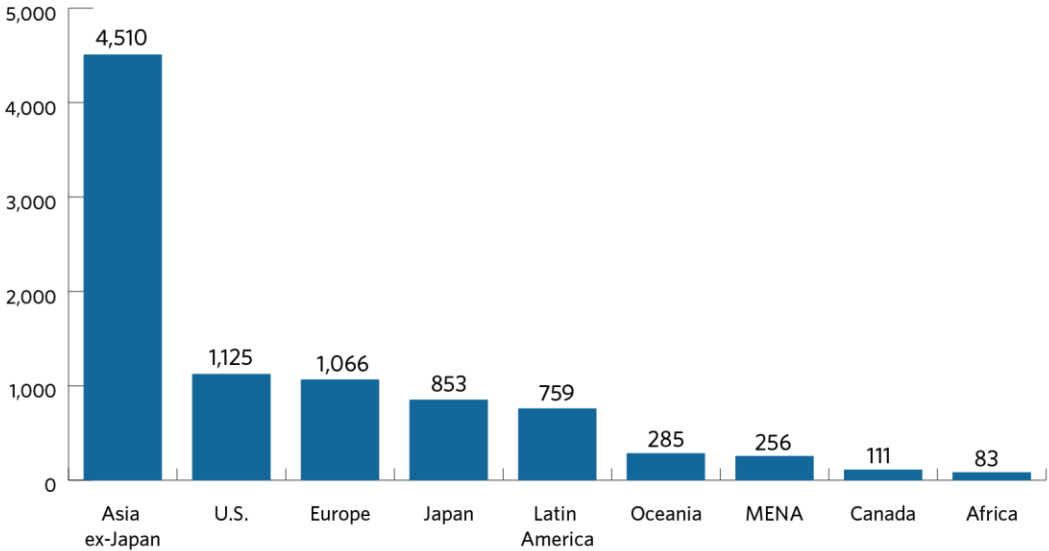
Table 3: Most Common United States Environment Shareowner Proposals in Fiscal Year 2022-2023

Proposal	Proposals (count)	Votes For (count)	Votes For (percent)
Report/Action on Climate Change	32	15	47%
Reporting and Reducing Greenhouse Gas Emissions	28	28	100%
Environmental Report	14	10	71%
Climate Lobbying	11	11	100%

Meetings Voted

In fiscal year 2022-2023, we voted 1,125 U.S. meetings and 9,048 meeting globally. Figure 9 shows a breakdown of the meetings by region. Approximately half of the voted meetings were from the Asia ex-Japan region. The number of U.S. and global resolutions voted were 13,063 and 88,924, respectively, in fiscal year 2022-23. The number of meetings and resolutions voted, either globally or domestically, did not significantly differ compared to the prior fiscal year.

Figure 9: Meetings by Region in Fiscal Year 2022-2023



Additional Information

As a long-term shareowner, we view proxy voting as one of the primary tools to influence a company's corporate governance practices. For additional information on our [proxy voting approach](#) and [vote results](#), refer to our [Governance & Sustainability Principles](#) and [Proxy Voting Guidelines](#) as well as our [website](#).