CalPERS' Commitment to Japan's Stewardship Code

The Japan Stewardship Code was launched in February 2014, and is aimed at promoting medium to long-term growth at companies through encouraging investor engagement. CalPERS is responsible for investing a global portfolio of over $440 billion (as of 31 December 2020). Japan represents CalPERS' second largest equity market. CalPERS supports the Japanese Stewardship Code and seeks to comply in full. The Code is aligned with CalPERS' Investment Beliefs, and Governance & Sustainability Principles. We also support the Japan Corporate Governance Code directed at companies. We are grateful to the local market constituents for their hard work and leadership that has been put into the corporate governance reforms in Japan. We continue to support their ongoing efforts.

We share the view that constructive engagement between investors and companies will foster sustainable growth. For over 30 years, CalPERS has been actively engaging portfolio companies to promote good governance practices. We believe that strengthening governance will ensure that our interests are aligned across the portfolio to enhance long-term, risk adjusted returns and will grow our portfolio in a way that ensures we meet our commitments to our beneficiaries over the long-term.

In March 2017, CalPERS revised its proxy voting practice for Japan to apply a minimum threshold of one-third independence for the board of directors. CalPERS' Governance & Sustainability Principles generally suggest a majority independence level for the board of directors. However, we believe that a one-third independence level for the board of directors for Japan is reasonable over the near-term as the market-wide governance reform efforts continue.

For more information, please refer to CalPERS' Corporate Governance website.

Principle 1

Institutional investors should have a clear policy on how they fulfill their stewardship responsibilities, and publicly disclose it.

In October 2013, the CalPERS Board of Administration adopted a set of ten Investment Beliefs intended to guide our decision making, facilitate the management of our portfolio and enhance consistency. The Investment Beliefs are also available on our website in both English and Japanese. The Investment Beliefs create a framework for the strategic management of the investment portfolio and inform organizational priorities. They also ensure alignment with our external managers. Investment Belief 4 states that "CalPERS may engage investee companies and external managers on their governance and sustainability issues…"

Our views are further grounded by CalPERS' Governance & Sustainability Principles that set out best practice on five core issues: (1) Investor Rights, (2) Board Quality: Diversity, Independence and Competence, (3) Executive, Director and Employee Compensation, (4) Corporate Reporting, and; (5) Regulatory Effectiveness. These Principles guide CalPERS' engagement and proxy voting decisions which span more than 5,000 companies globally.

We expect all internal and external managers of CalPERS' capital to integrate the Principles into investment decision making consistent with our fiduciary duty. We recognize that countries and companies are in different developmental stages and that CalPERS' investment managers will need to exercise prudent judgment after taking all relevant factors, principles, and trends into account.

Over the years, CalPERS has been instrumental in the creation of leading international governance organizations such as the International Corporate Governance Network (ICGN) and the Asian Corporate Governance Association (ACGA). CalPERS is also a founding member of the Climate Action 100+ initiative and one of the founding signatories to the UN-supported Principles for Responsible Investment (PRI), which provides a framework for investors to give appropriate consideration to environmental, social and governance (ESG) issues.

Principle 2

Institutional investors should have a clear policy on how they manage conflicts of interest in fulfilling their stewardship responsibilities and publicly disclose it.

CalPERS' Investment Belief 3 addresses our responsibilities to ensure that beneficiaries are paramount and provides a framework for prioritizing requests from third parties which may lead to potential conflicts of interest:

CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

- As a public agency, CalPERS has many stakeholders who express opinions on investment strategy or ask CalPERS to engage on an issue. CalPERS preferred means of responding to issues raised by stakeholders is engagement.
- CalPERS primary stakeholders are members/beneficiaries, employers, and California taxpayers as these stakeholders bear the economic consequences of CalPERS investment decisions.
- In considering whether to engage on issues raised by stakeholders, CalPERS will use the following prioritization framework:

Principles and Policy	To what extent is the issue supported by CalPERS Investment Beliefs, Governance & Sustainability Principles or other Investment Policy?
Materiality	Does the issue have the potential for an impact on portfolio risk or return?
Definition and Likelihood of Success	Is success likely, in that CalPERS action will influence an outcome which can be measured? Can we partner with others to achieve success or would someone else be more suited to carry the issue?
Capacity	Does CalPERS have the expertise, resources and standing to influence an outcome?

Principle 3

Institutional investors should monitor investee companies so that they can appropriately fulfill their stewardship responsibilities with an orientation towards the sustainable growth of the companies.

CalPERS corporate engagement program is underpinned by Investment Belief 4, which states: "Long-term value creation requires effective management of three forms of capital: financial, physical, and human."

We believe that improved alignment of interest between long-term shareowners and companies will enable CalPERS to fulfill its fiduciary duty to achieve sustainable risk-adjusted returns. Our engagement activities are global and generally involve principles-based engagement initiatives.

We also carry out ad-hoc company engagements to address strategic, financial and capital allocation related concerns to improve long-term sustainable returns.

The corporate engagement program is focused on 5 core issues:

Investor Rights	CalPERS is a provider of capital to corporations, external managers, and investment vehicles in both public and private markets
Board Quality: Diversity, Independence, & Competence	Corporate boards of companies, investment vehicles and external managers are accountable for overseeing the use of our capital
Executive, Director & Employee Compensation	CalPERS expects fair, accurate, and timely reporting on how financial, human, and physical capital are employed to generate sustainable economic returns
Corporate Reporting	Well-designed incentives reward and align the users of our capital with CalPERS' objective to achieve sustainable, long-term investment returns
Regulatory Effectiveness	Regulation to protect CalPERS as an investor from externalities, maintain fair, orderly, efficient financial markets, and facilitate capital formation.

Principle 4

Institutional investors should seek to arrive at an understanding in common with investee companies and work to solve problems through constructive engagement with investee companies.

CalPERS engagement approach is to establish a positive relationship with portfolio companies by building trust through confidential discussions. We seek to exchange views through honest dialogue and work to solve problems through constructive engagement.

The spectrum of engagement activities varies, depending on the size of our investment and nature of a concern. In situations where our engagement objectives are not met, we may consider escalating our concerns through alternative strategies such as collaborating with other large shareowners to seek a positive resolution to the satisfaction of all parties.

Our preference is to engage on publically disclosed information. However, in rare situations, we may seek to become an insider in order to facilitate a more effective outcome. CalPERS has formal procedures to ensure we comply with regulations on receipt of material non-public information.

Principle 5

Institutional investors should have a clear policy on voting and disclosure of voting activity. The policy on voting should not be comprised only of a mechanical checklist: it should be designed to contribute to sustainable growth of investee companies.

As a long-term shareowner, we see our proxy voting responsibility as a critical component to corporate engagement. We vote all shares in all markets. We subscribe to a variety of external services to assist in our process; however we make our voting decisions based on a full understanding of the information presented to us and in line with our Governance & Sustainability Principles. The exception would be in the unlikely event that unless such action may result in long-term harm to the company that outweighs all reasonably likely long-term benefit; or, unless such a vote is contrary to the interests of the beneficiaries of CalPERS.

Our global proxy voting decisions are available in full on our website at: CalPERS Proxy Voting

Principle 6

Institutional investors in principle should report periodically on how they fulfill their stewardship responsibilities, including their voting responsibilities, to their clients and beneficiaries.

The Investment Committee of the CalPERS Board of Administration oversees our governance initiatives including an annual review of the Governance & Sustainability Principles. CalPERS Corporate Governance staff provide the Investment Committee with periodic updates of our proxy voting activities and stewardship responsibilities in public "Open" session. CalPERS board meetings allow for public comment and open sessions are webcast. Our Proxy Voting Guidelines are available on the CalPERS' Corporate Governance website and we also publish our response to the annual PRI Reporting Framework.

Principle 7

To contribute positively to the sustainable growth of investee companies, institutional investors should develop skills and resources needed to appropriately engage with the companies and to make proper judgements in fulfilling their stewardship activities based on in-depth knowledge of the investee companies and their business environment and consideration of sustainability consistent with their investment management strategies.

As expressed in our Investment Beliefs, we believe long-term value creation requires effective management of three forms of capital: financial, physical, and human. Our corporate engagement activities are supported by this belief and are conducted privately and confidentially with our portfolio companies.

Consistent with our fiduciary duty, we exercise our ownership rights to influence how our portfolio companies are managed and governed. Our underlying objective is to ensure that our portfolio companies are managed to create long-term, sustainable value for shareowners. Our engagement process involves clear communication with companies regarding our engagement objectives and is meant to be collaborative.

We also use external research from numerous providers which allow us to further evaluate environmental, social, governance (ESG) and financial performance. Furthermore, we often exchange views and collaborate with other large investors and networks such as the Climate Action 100+, ACGA, Ceres-led Investor Network on Climate Risk (INCR), ICGN and PRI.

CalPERS has a long-standing commitment to sustainable investment and a proud history of leadership and innovation in the field. As a significant institutional investor with a long-term investment time horizon, sustainable investment means taking account of ESG factors across all our day-to-day investment business.

Principle 8

Service providers for institutional investors should endeavor to contribute to the enhancement of the functions of the entire investment chain by appropriately providing services for institutional investors to fulfill their stewardship responsibilities.

While we leverage external research from numerous providers to help support our initiatives, we work to ensure that all activities are in line with our Governance & Sustainability Principles. We also routinely engage with our services providers to ensure their products and services are fulfilling our objectives.

For more information, please refer to CalPERS' Corporate Governance website.