

Proxy Voting & Corporate Engagement Update

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Investment Committee

March 13, 2023

Looking Back – 2022 Proxy Season Outcomes

- **Proxy Voting & Corporate Engagement**
 - ✓ Voted 8,719 meetings covering 86,432 individual voting/ballot items
- **Executive Compensation Accountability**
 - ✓ Voted “against” 49% of management say-on-pay proposals versus 55% “against” in 2021
 - ✓ Voted “against” 1,289 Compensation Committee members in 2022 versus 3,079 in 2021
- **Corporate Board Diversity and Accountability**
 - ✓ 88% of companies engaged since July 2017 have since added at least one diverse director to their boards
 - ✓ Voted “against” 173 directors where diversity engagements did not result in constructive outcomes (145 in 2021).
- **Climate Risk Oversight**
 - ✓ CalPERS voted against 95 directors at 26 CA100+ companies for climate risk oversight. Staff will expand the climate risk oversight voting practice in 2023 to go beyond the CA100+ companies and include additional high emitting companies
 - ✓ CalPERS filed/co-filed 2 shareowner proposals (1 withdrawn and 1 achieved 27% support)
 - ✓ Ran proxy solicitation in support of CalPERS filed shareowner proposal
- **Enhanced Investor Rights**
 - ✓ Proxy Access: 48 companies adopted or committed to adopt proxy access per our request
 - ✓ Targeting another 50 companies in 2023 requesting the adoption of proxy access

Looking Ahead – 2023 Proxy Season Outlook

- **Proxy Voting Focus**

- ✓ Increase the scope and review of company boards that lack meaningful diversity
- ✓ Expand the review of companies with high GHG emissions and board oversight
- ✓ Increase board independence requirements at Japanese companies, in line with other markets
- ✓ Withhold support from directors at companies with unequal voting rights without sunset provision

- **Executive Compensation**

- ✓ Focus engagement on relative underperformers with continual higher relative pay
- ✓ Continue to withhold votes from directors at companies with poor pay practices

- **Corporate Board Diversity**

- ✓ Continue to engage on board diversity in the context of proper succession planning. Staff may also use shareowner campaigns, including filing shareowner proposals where engagement efforts stall

- **Climate Change**

- ✓ Expand universe beyond the CA100+ to highest 350 emitting companies in portfolio – represents 85% of total portfolio scope 1&2 emissions and over 50% of scope 3 emissions

- **Investor Rights**

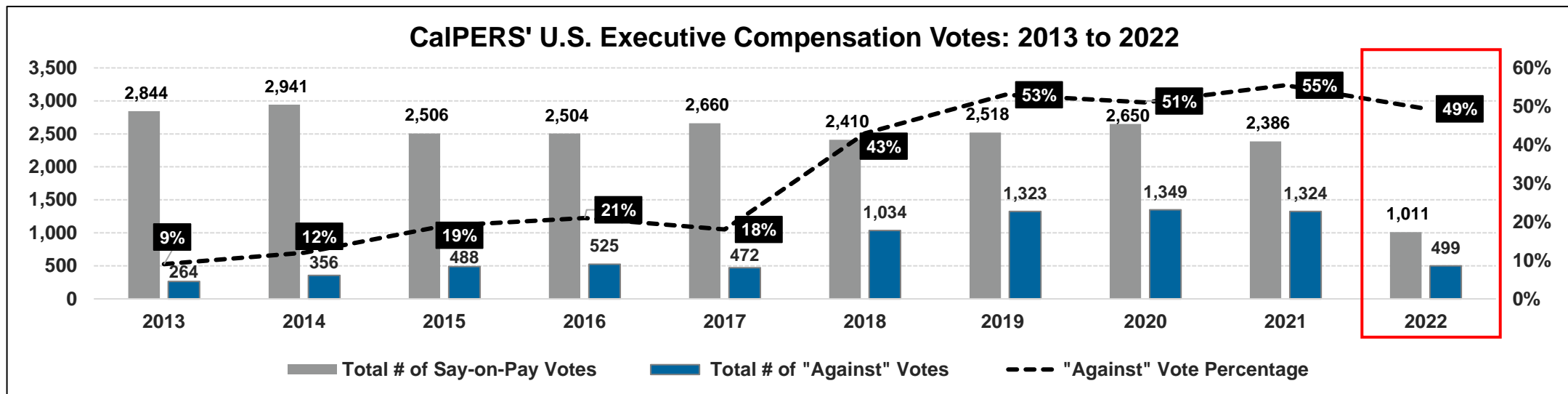
- ✓ Continue to engage companies to adopt proxy access and majority voting; two key governance pillars

Appendix

Regulatory Developments

- **Clawback (Adopted)** – Companies listed on the NYSE or NASDAQ are now required to establish and disclose a written policy that provides for the clawback of incentive-based executive compensation received by a current or former executive officer during the three-year period preceding any accounting restatement based on a misstated financial performance (CalPERS provided comment to the SEC)
- **Climate Disclosure (Final rule expected by April 2023)** – The SEC is considering adopting the pending rule to help investors better evaluate climate-related risks and opportunities. Specifically, the rule would require companies to disclose climate-related information such as emissions, climate targets and material climate impacts (CalPERS provided comment to the SEC)
- **Corporate Board Diversity** – The SEC is considering adopting rules to enhance company disclosures about the diversity of board members and nominees
- **Human Capital Management Disclosure** – The SEC is considering adopting rules to enhance registrant disclosures regarding human capital management

CalPERS' U.S. Executive Compensation Votes: 2013 to 2022

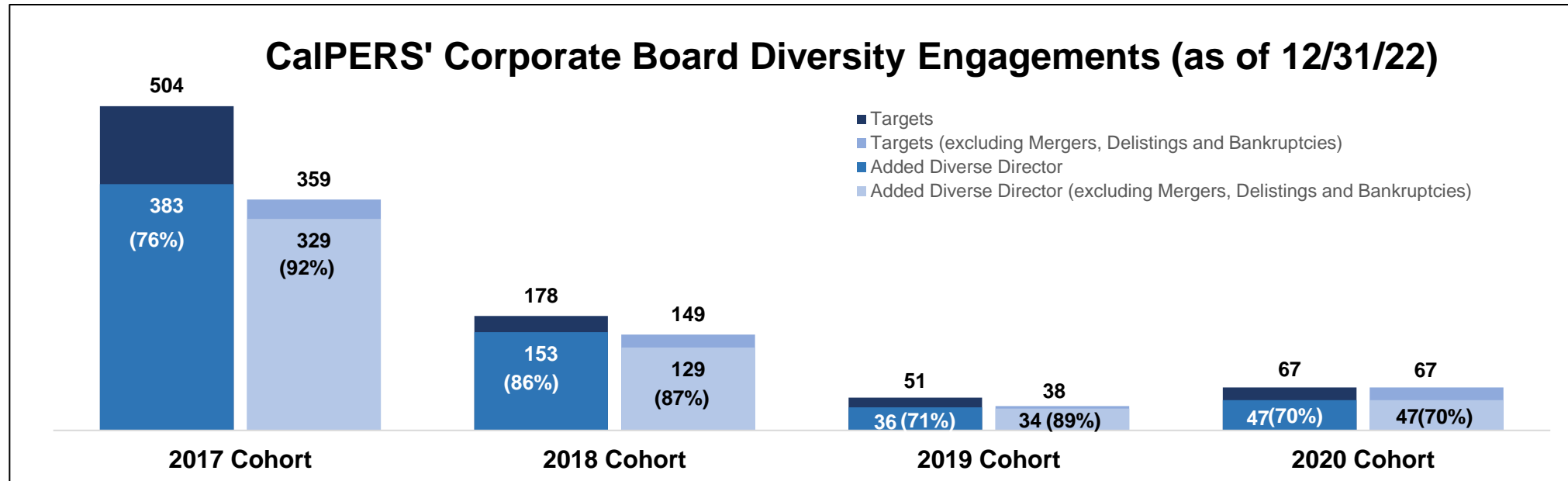


- ✓ 2017: Performed extensive research on executive compensation and pay-for-performance
- ✓ 2018: Implemented enhanced voting practices on Say on Pay proposals in the United States. Voted “against” 43%
- ✓ 2019: Developed and implemented a new proprietary 5-year quantitative model. Voted “against” 53% of SOP proposals
- ✓ 2020: Systematically tied SOP votes to directors. Voted “against” 51% of SOP proposals and “against” 3,402 Compensation Committee members
- ✓ 2022: Voted “against” 49% of SOP proposals and “against” 1,289 Compensation Committee members

Corporate Board Diversity Engagements

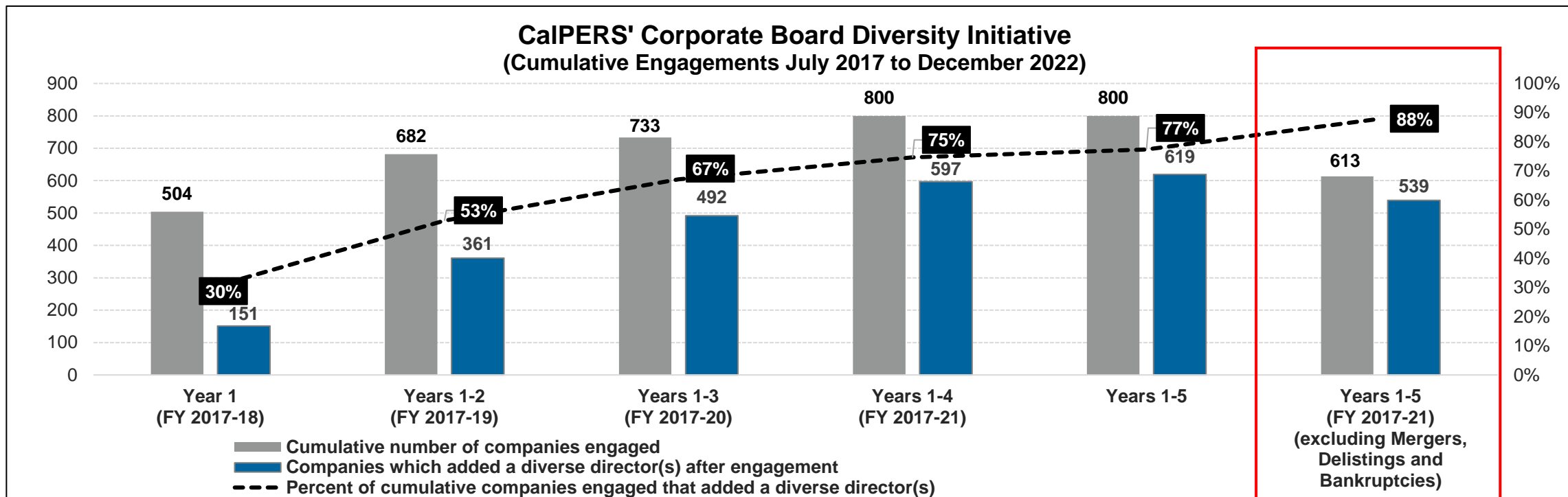
- Success rate: 88% of companies engaged have added a diverse director to their boards since 2017
- Voted “against” directors where diversity and succession planning engagements did not result in constructive outcomes
- Filed and withdrew shareowner proposals at 2 companies based on addition of diverse directors (2022)
- Continued partnership with CalSTRS, LACERA and SFERS on the California Board Diversity Initiative to improve board diversity at S&P 500 companies

CalPERS' Corporate Board Diversity Engagements (2017 to 2020 Cohorts)



- ✓ 76% of the 2017 corporate board diversity cohort have since added a diverse director to their boards following CalPERS' engagement. Excluding delisted, acquired and bankrupt companies, 92% have added a diverse director. Engagements started in July 2017
- ✓ 86% of the 2018 corporate board diversity cohort have since added a diverse director to their boards following CalPERS' engagement. Excluding delisted, acquired and bankrupt companies, 87% have added a diverse director. Engagements started in October 2018
- ✓ 71% of the 2019 corporate board diversity cohort have since added a diverse director to their boards following CalPERS' engagement. Excluding delisted, acquired and bankrupt companies, 89% have added a diverse director. Engagements started in July 2019
- ✓ 70% of the 2020 corporate board diversity cohort have since added a diverse director to their boards following CalPERS' engagement. Excluding delisted, acquired and bankrupt companies, 70% have added a diverse director. Engagements started in July 2020

CalPERS' Corporate Board Diversity Cumulative Engagements (July 2017 to December 2022)



- Market-wide improvements in corporate board diversity**

- ✓ 98% of Russell 3000 companies now have at least one female director compared to 78% in Q2 2017 (ISS Data – Jan 2023)
- ✓ 27.9% 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 Data – Jan 2023)
- ✓ S&P 500: In 2022, 72% of new independent directors were racial/ethnically diverse vs. 22% in 2020 (2022 Spencer Stuart Board Index)

Climate Action 100+ Update



CalPERS is playing a leading role in strategy and implementation

- CalPERS convened the initiative following the carbon footprint of our global public equity portfolio in 2015
 - Inaugural Chair (and current member) of the CA100+ Steering Committee
 - Initiative now has over 700 signatories with over \$68 trillion in assets under management
 - Signatories are engaging a total of 166 companies with some of the largest GHG emissions across the globe

Engagement Update

- CalPERS filed shareholder proposals at 2 CA100+ companies for 2023
- New for 2022, CalPERS considered specific climate-related criteria to hold directors accountable at all CA100+ companies. As a result, CalPERS voted against 95 directors at 26 CA100+ companies. In 2023, CalPERS will expand this practice beyond the CA100+ for additional high emitting companies
- 75% of companies have now set a net zero by 2050 target or ambition (up from 69% in March 2022)
- 92% of companies have some level of board oversight of climate change (slight increase from 90% in March 2022)
- 91% of companies have aligned with TCFD recommendations (up from 90% in March 2022)

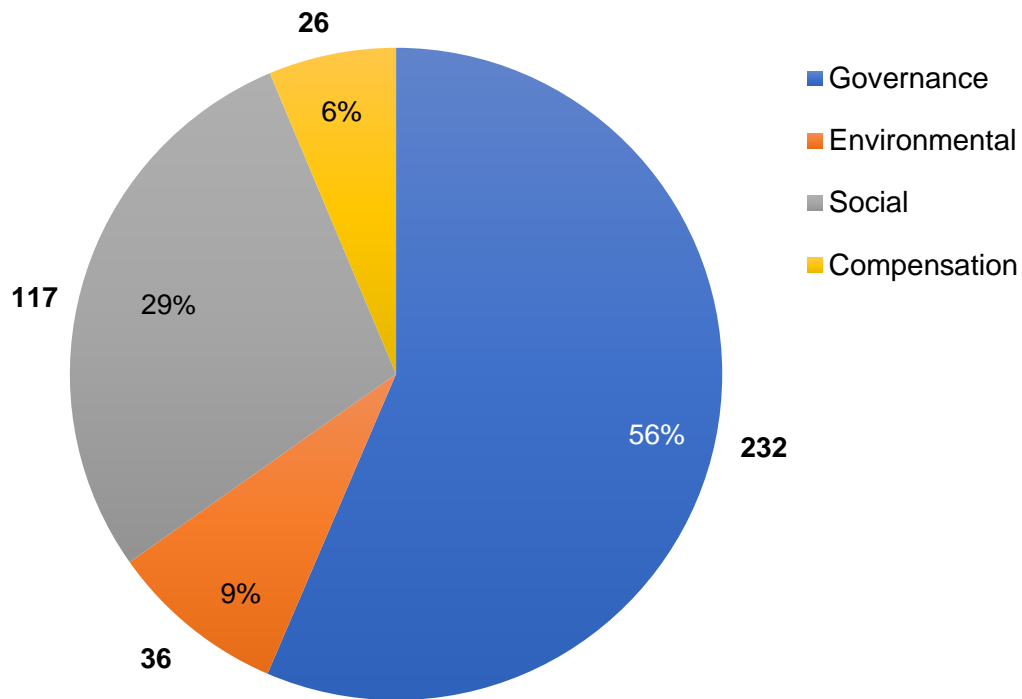
Climate Action 100+ Engagement Goals

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

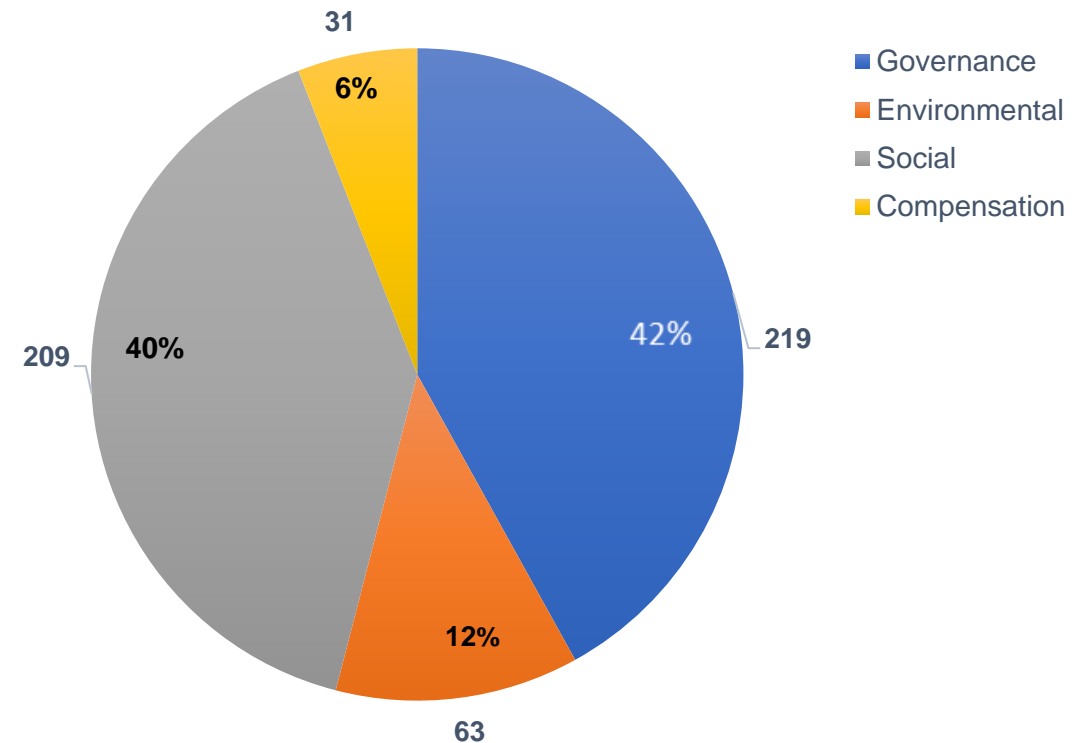
- Improve the governance of climate-related risks and opportunities
- Curb greenhouse gas (GHG) emissions across the value chain to be consistent with net-zero by 2050, and
- Strengthen climate-related financial disclosures in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)

Shareowner Proposal Types – 2021 and 2022

2021 ESG Shareowner Proposals (total of 411)

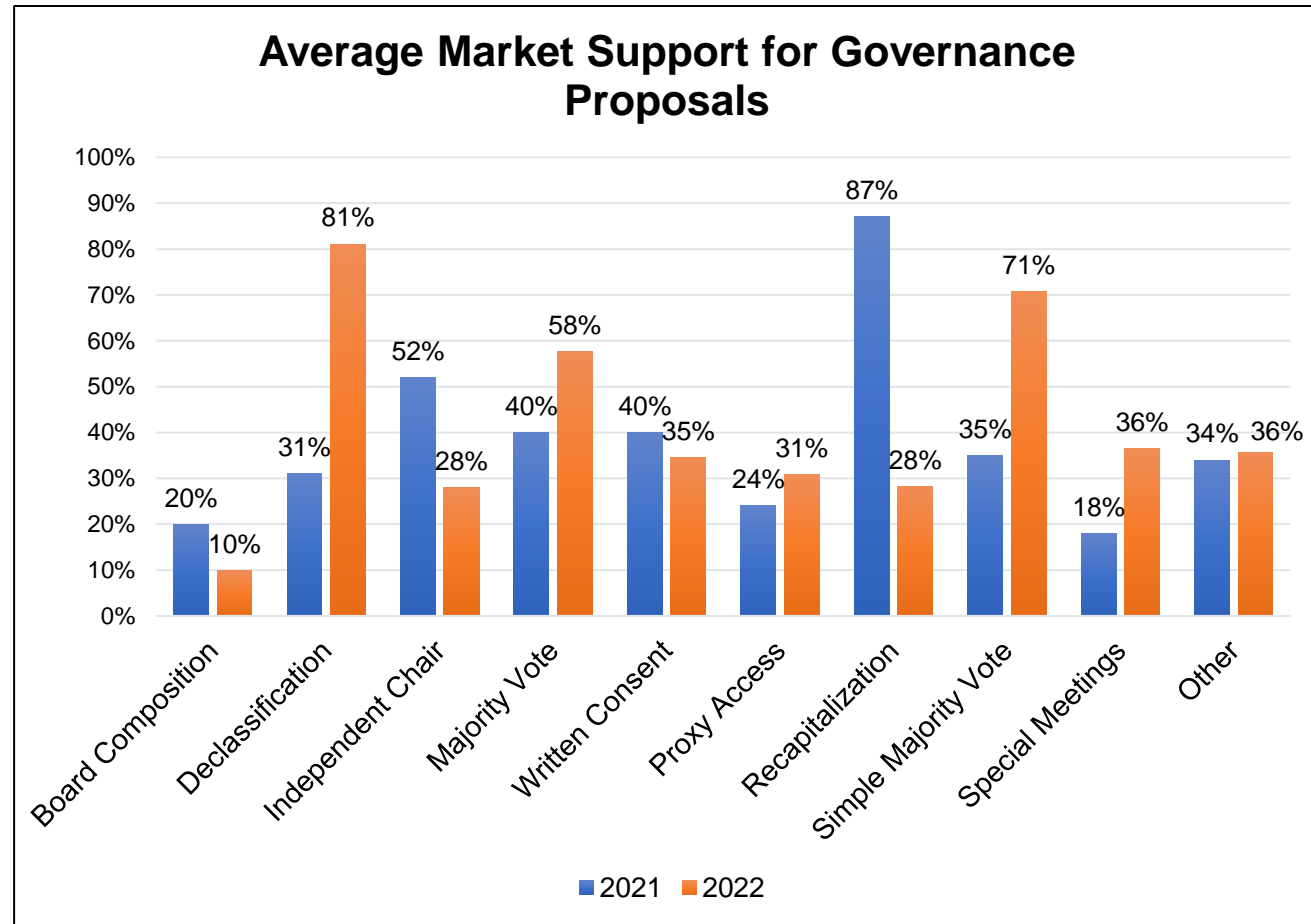
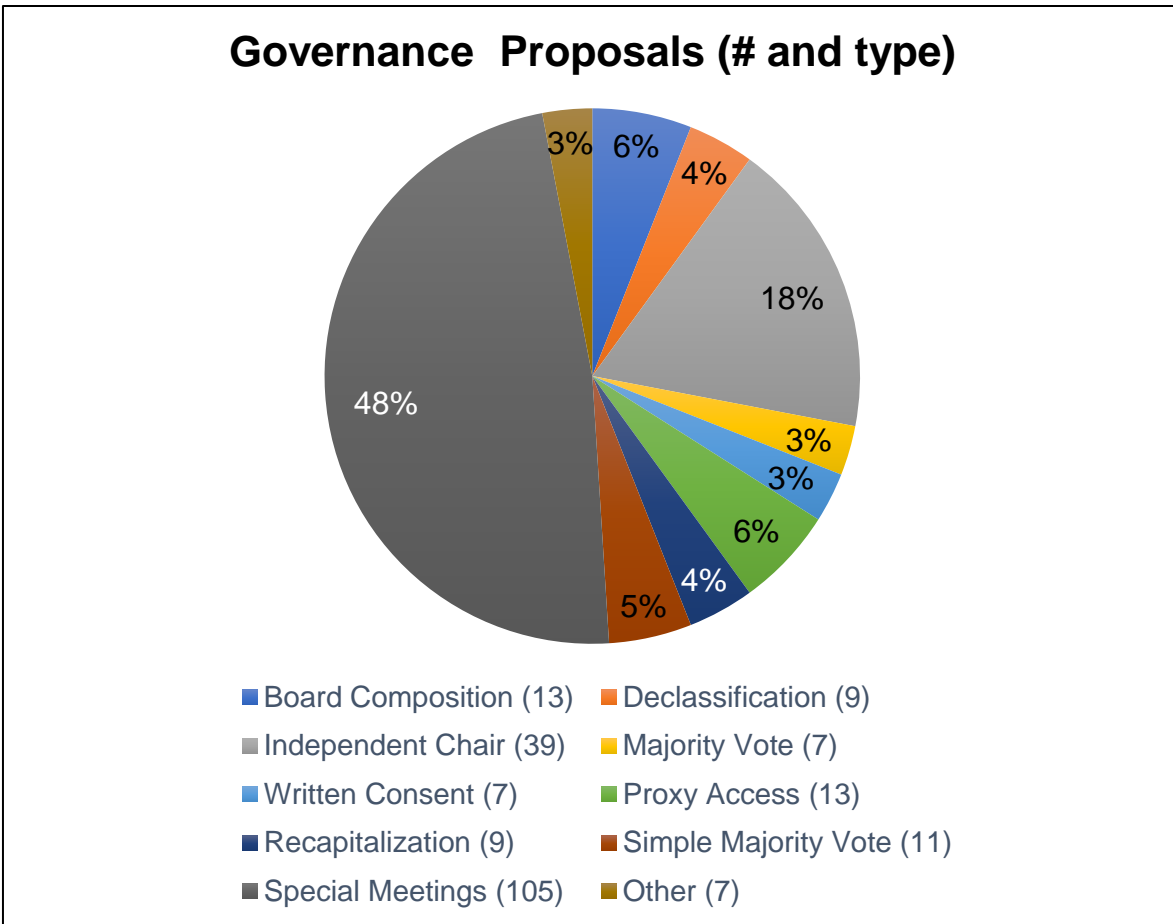


2022 ESG Shareowner Proposals (total of 522)



Source: Glass Lewis: 2022 Proxy Season Review

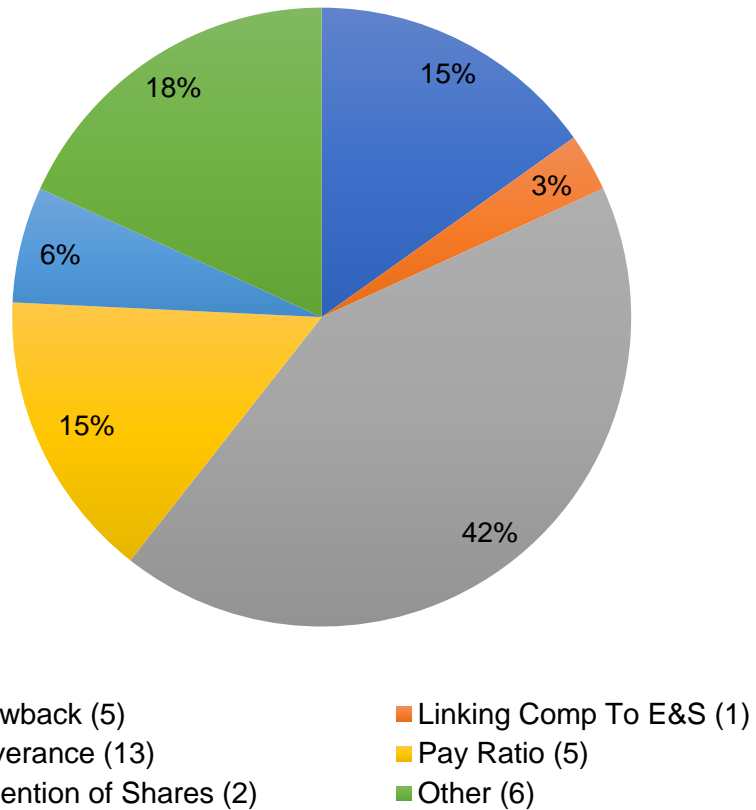
Governance Shareowner Proposals



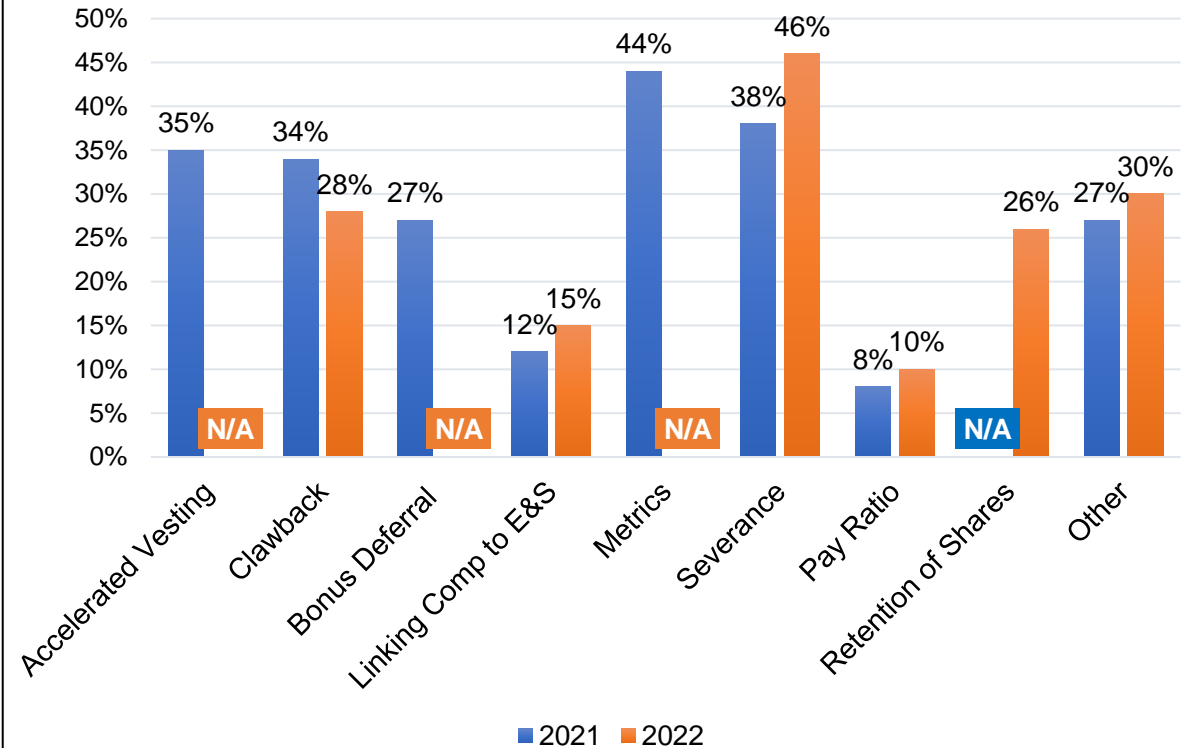
Source: Glass Lewis: 2022 Proxy Season Review

Compensation Shareowner Proposals

Compensation Proposals (# and type)



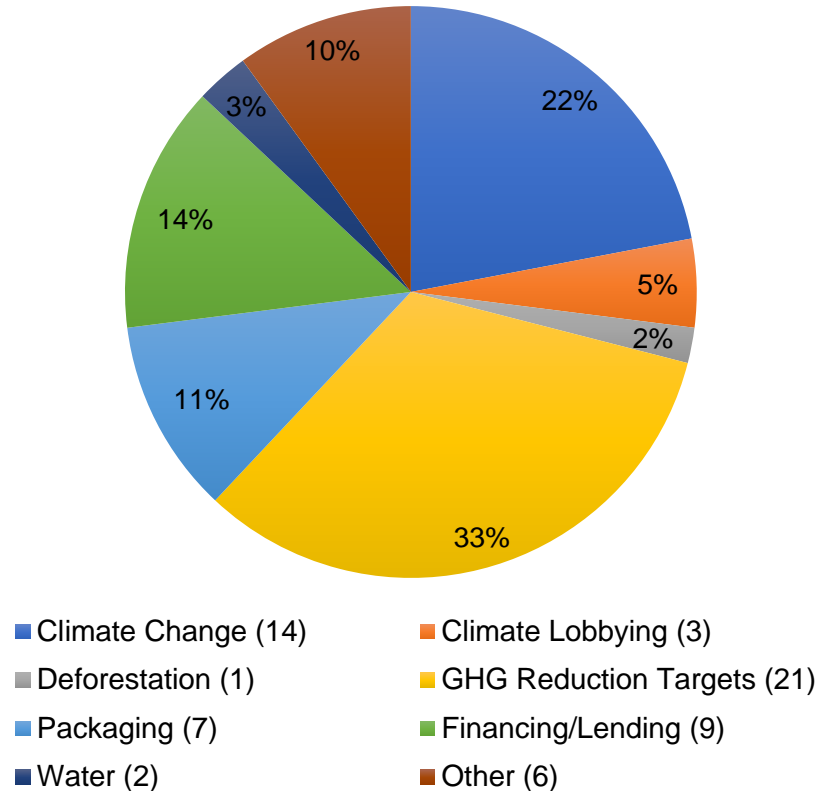
Average Market Support for Compensation Proposals



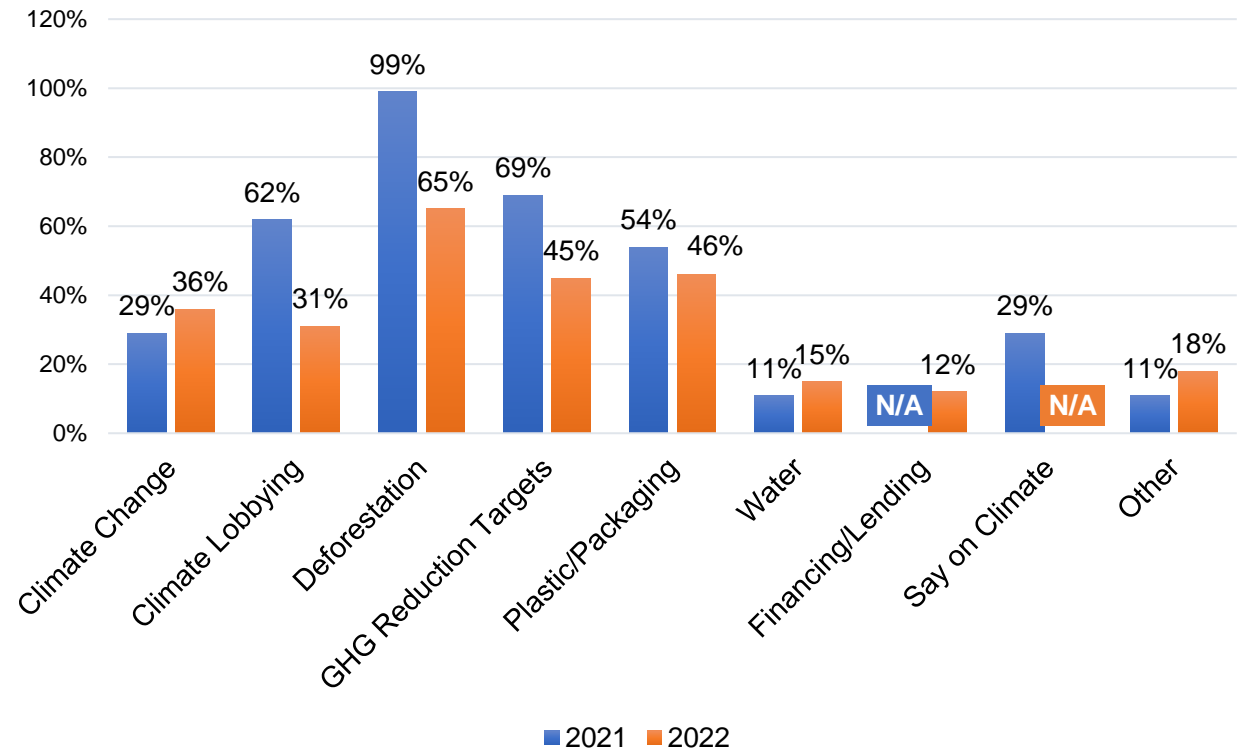
Source: Glass Lewis: 2022 Proxy Season Review

Environmental Shareowner Proposals

Environmental Proposals (# and type)



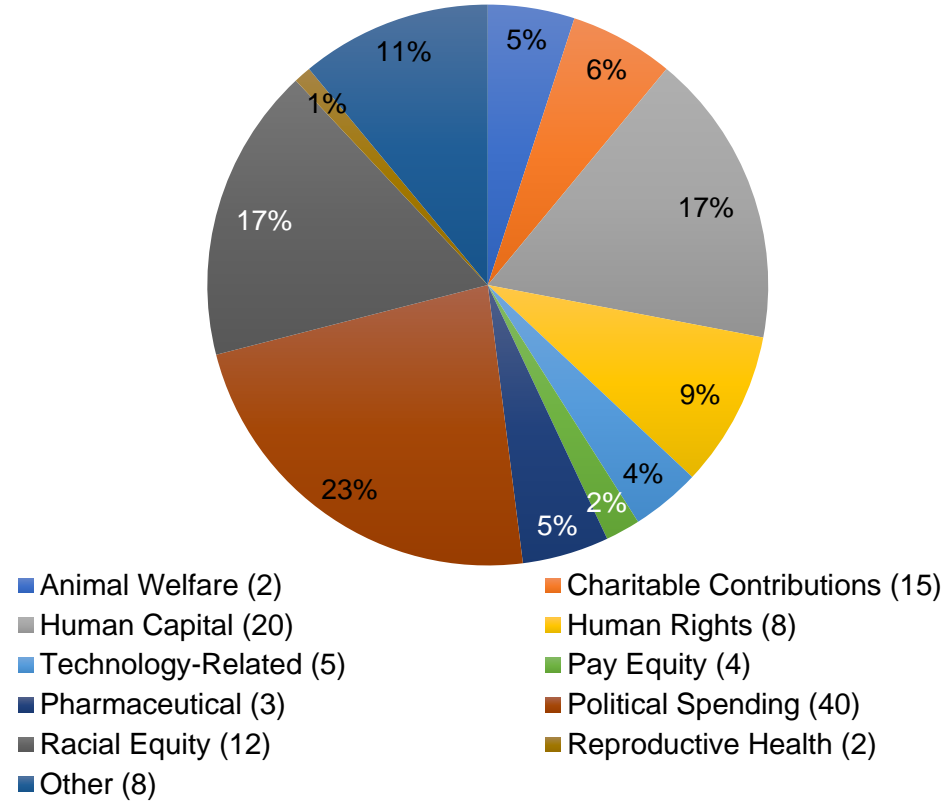
Average Market Support for Environmental Proposals



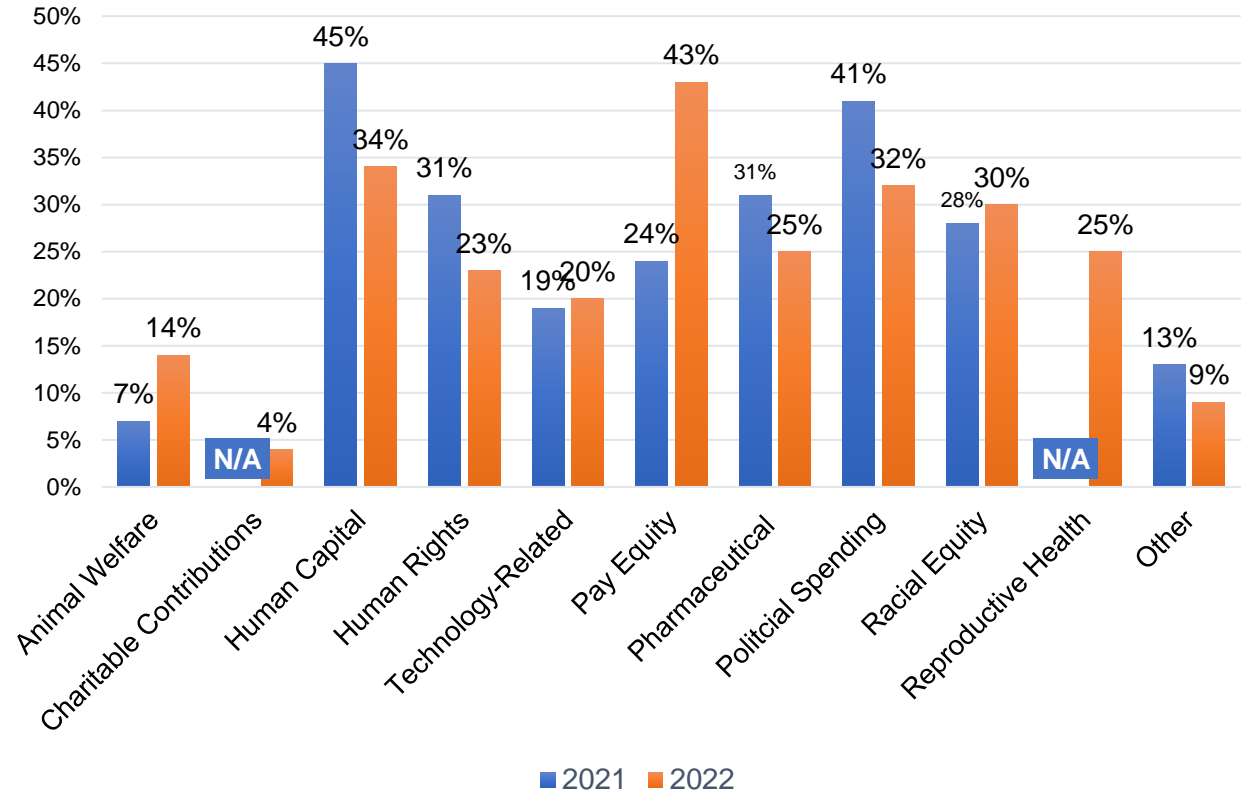
Source: Glass Lewis: 2022 Proxy Season Review

Social Shareowner Proposals

Social Proposals (# and type)



Average Market Support for Social Proposals



Source: Glass Lewis: 2022 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