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February 28, 2018

Ms. Catherine Horton
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Re: Proposed Revisions to the UK Corporate Governance Code

Dear Ms. Horton,

On behalf of the California Public Employees' Retirement System (CalPERS), thank you for the opportunity to provide responses to the Financial Reporting Council's (FRC's) open consultation on proposed revisions to the United Kingdom (UK) Corporate Governance Code (Code).

CalPERS is the largest public pension fund in the United States with approximately \$352 in global assets. CalPERS invests these assets on behalf of more than 1.8 million members, retirees, and beneficiaries.

CalPERS believes that strong corporate governance serves as a foundation for promoting investor protections and strengthening the quality of, and public confidence in capital markets. The CalPERS Investment Office is guided by ten Investment Beliefs¹ intended to provide a basis for the strategic management of our investment portfolio. Investment Belief 2 states, "a longtime investment horizon is a responsibility and an advantage." As a significant institutional investor, that responsibility requires that CalPERS advocate for meaningful, high-quality governance standards that enhance the integrity and efficiency of capital markets and our ability to meet our commitments over the long-term.

¹ See, <https://www.calpers.ca.gov/docs/board-agendas/201702/pension/item7-01.pdf>, dated May 2015

Additionally, the CalPERS Governance and Sustainability Principles (Principles)² embrace the belief that a company's strategy and long-term sustainability are best influenced by strong, accountable corporate governance. We believe that fully accountable governance structures produce, over the long-term, the best returns to shareowners.

We recognize that governance best practices are constantly evolving. Therefore, we would like to thank the FRC for its effort to enhance provisions and best practices within the UK Governance Code. FRC's efforts to enhance governance best practices will provide improved guidance for companies and their owners. We believe that these enhancements will help to strengthen the alignment of interest, particularly with respect to stakeholder collaboration, transparency, board quality, and accountability and compensation.

Set forth below are some general comments on the revised UK Corporate Governance Code and the Guidance on Board Effectiveness.

Wider Stakeholders (*refer to question #3*)

We are delighted to see that the revised Code now includes reference to the corporate board's responsibility for considering the needs and views of a wider range of stakeholders. This view is in line with the FRC's findings that companies benefit when considering all stakeholders. Furthermore, this view is consistent with our Investment Belief 4 that "long-term value creation requires the effective management of three forms of capital: financial, physical and human." Companies are better able to effectively manage human capital when they strive for active collaboration with their stakeholders including the workforce. This collaborative approach enhances opportunities to create wealth, employment, and sustainable economies. Therefore, in our view, wider stakeholder engagement should include a process whereby employee and supplier concerns surrounding potential or suspected governance violations can be raised without fear of retribution.

Significant Votes Against Resolutions (*refer to question #5*)

In furtherance of board accountability to its shareowners, we believe that timely disclosure of voting results is critical to our assessment of how companies employ and identify risks related to financial, human, and physical capital. Significant, long-term shareowners like CalPERS exercise voting rights consistent with the interests of their members and beneficiaries. Therefore, as outlined in our Principles, voting results surrounding board-endorsed resolutions that have been opposed by a significant proportion of votes should include a company explanation as to what actions were taken to understand and respond to the concerns that led shareowners to vote against the board's recommendation.

² See, <https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf> , dated April 17, 2017

We appreciate that the Code was revised to include specific steps the company should take to address and engage shareowners on resolutions that receive significant votes 'against' at the company's General Meetings. Additionally, the revised Code proposes that 20% of votes 'against' a proposal is significant enough to warrant a company explanation as to what actions it intends to take to consult with shareowners to better understand the reasons behind the voting results. Lastly, the revised Code also suggests that the company should publish an update on the resolution "no later than six months after the vote" and before the final summary is provided in the next annual report. While we do not subscribe to a specific threshold for what would be deemed "significant" or how soon the explanations should be published, we support the intent of the revision to promote board accountability to shareowners through fair, accurate, and timely reporting on material environmental, social, and governance risks.

Board Independence & Tenure (*refer to questions #7 and #8*)

As stated in our Principles, "independence is the cornerstone of accountability." We recognize that independent boards are essential to a sound governance structure. Therefore, at a minimum, a majority of the board should consist of independent directors. A key component of board independence is a director's years of service on the board. We believe that extended periods of service may adversely affect a director's ability to bring an objective perspective to the boardroom. Thus, we consider it good practice for companies to conduct rigorous evaluations to assess directors' independence and to ensure boards maintain the necessary mix of skills, diversity, and experience to meet strategic objectives.

Board Composition, Succession, and Evaluation (*refer to questions #9 and #11*)

The revised Code considers the composition of the board as operationally effective when it includes a broad mix of knowledge, skills, experiences, backgrounds, and personal strengths, including women and individuals from a range of social and ethnic backgrounds. As highlighted in the revised Code, diverse boards encourage a more rounded consideration of the issues, foster constructive challenge, and guard against "group think." We wholeheartedly agree with this approach as we view diversity as a key component of board quality.

As outlined in our Principles, board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a broader range of experience, thoughts, perspectives, and competencies to help enable effective board leadership. In our view, companies should have a robust process for considering diversity when assessing board talent and skills necessary and most appropriate for the company. Accordingly, the revisions to Provision 17 to expand the remit of the nomination committee to provide oversight of the development of a diverse pipeline is in line with our approach and is therefore a welcome change.

Along these same lines, reporting on ethnicity (and gender) in executive pipelines supports a robust board refreshment process and facilitates companies identifying and considering a diverse pool of candidates. Reporting on levels of ethnicity in executive pipelines also ensures the company has a thorough understanding of the diverse characteristics and skills sets available within its own talent pool. So, we also welcome enhanced transparency with respect to progress on diversity as outlined in Provision 23 which encourages reporting on actions taken to increase diversity and inclusion. This approach allows companies to better maintain the necessary mix of skills and talents needed to handle complex issues.

Remuneration (*refer to questions #14, #15, and #16*)

We view remuneration as an effective mechanism for holding directors and management accountable for performance. Implicit in CalPERS' is the belief that the philosophy and practice of compensation needs to be performance based. Consequently, we view the compensation committee's main role as determining and recommending to the board the remuneration philosophy and policy of the company that links compensation to its long-term business strategy. This includes oversight of plan design, implementation, monitoring, and evaluation. For these reasons, we advocate for enhanced compensation committee accountability for compensation.

Provision 33 of the revised Code lays out an expanded remit for remuneration committees including greater responsibility for demonstrating how pay and incentives align across the company. As outlined in the revised Code, the remuneration committee's expanded remit to engage with employees and oversee pay and incentives across the wider workforce should encourage greater focus on the strategic rationale for executive pay levels. We support this approach as we believe that remuneration committees are vital to ensuring compensation practices align with performance in a way that does not encourage excessive risk taking and drives the long-term success of the company.

Thank you for considering our comments. If you have any questions or wish to engage further on this issue please contact James Andrus at (916) 795-9058 or James.Andrus@Calpers.ca.gov.

Sincerely,

MARCIE FROST
Chief Executive Officer