

# Global Equity Corporate Governance Program Update

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  - Corporate Governance Trends

# ESG Strategic Plan | Updated Summary

	Environmental	Social	Governance
S T R A T E G I C	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (includes water risk)</li> </ul>	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (includes human capital)                             <ul style="list-style-type: none"> <li>- <b>Human Capital Management Petition</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (focusing on the long-term)</li> </ul>
	<ul style="list-style-type: none"> <li>Manager Expectations (includes water risk)</li> </ul>	<ul style="list-style-type: none"> <li>Manager Expectations</li> </ul>	<ul style="list-style-type: none"> <li>Manager Expectations</li> </ul>
	<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>- Sustainable Investment Research Initiative (SIRI)</li> <li>- Global Equity Strategies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>- Sustainable Investment Research Initiative</li> <li>- Diversity</li> <li>- Income inequality (action plan if warranted)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>- Principles Review Topics:                                     <ul style="list-style-type: none"> <li>- <b>Environmental Management Practices</b></li> <li>- <b>Executive Compensation (Pay Ratio)</b></li> </ul> </li> <li>- <b>Emerging Topics for Principles Review</b> <ul style="list-style-type: none"> <li>- <b>Product Safety</b></li> <li>- <b>Indigenous Peoples' Rights</b></li> <li>- <b>HCM Disclosures</b></li> <li>- <b>Geopolitical Risks</b></li> <li>- <b>Compensation (Clawback)</b></li> </ul> </li> <li>- Supply Chain Activities</li> <li>- <b>Non-voting Shares and benchmarks</b></li> </ul> </li> </ul>
C O R E	<ul style="list-style-type: none"> <li>Engage 80 100 + PRI Montreal Pledge Companies (identify water risk candidates) <b>CA 100+</b></li> <li><b>SASB 100</b></li> </ul>	<ul style="list-style-type: none"> <li>Diversity and Inclusion                             <ul style="list-style-type: none"> <li>- Engagement</li> <li>- Voting</li> <li>- 3D (Diverse Director DataSource)</li> <li>- Advocacy                                     <ul style="list-style-type: none"> <li>- <b>External Managers</b></li> <li>- <b>Internal Talent Management</b></li> </ul> </li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Private Equity Fee and Profit Sharing Transparency (including AB 2833)</li> </ul>
	<ul style="list-style-type: none"> <li>Carbon Footprinting – Total fund</li> <li>Thermal Coal Companies – (SB185)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible Contractor Program                             <ul style="list-style-type: none"> <li>- <b>Labor Engagements</b></li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Proxy Voting</li> <li>Shareowner Campaigns (<b>Proxy Access / Majority Voting</b>)</li> <li>Focus List (<b>Japan Engagements</b>)</li> <li>Divestment: Mandates, Policy &amp; Principles</li> </ul>
	Work through Partnerships to leverage resources and impact		
<ul style="list-style-type: none"> <li>Corporate Engagements</li> <li><b>Financial Markets Advocacy / Federal and Legislative Guidelines</b></li> <li>Sustainability Report</li> <li>Response to Ad Hoc Media and Stakeholder Requests: <b>DAPL; Geopolitical risk; Deforestation; Turkey; Assault Weapons</b></li> </ul>			

# Core Initiatives

# 1. 2018 Global Proxy Voting Work Plan

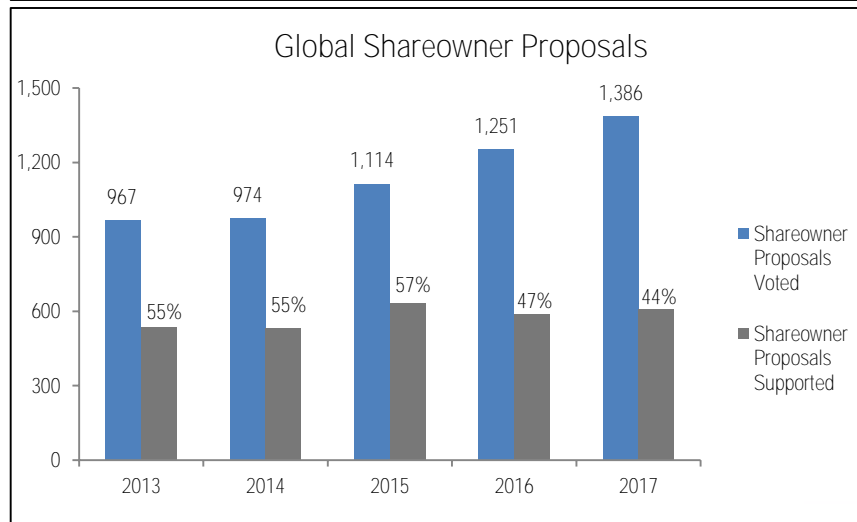
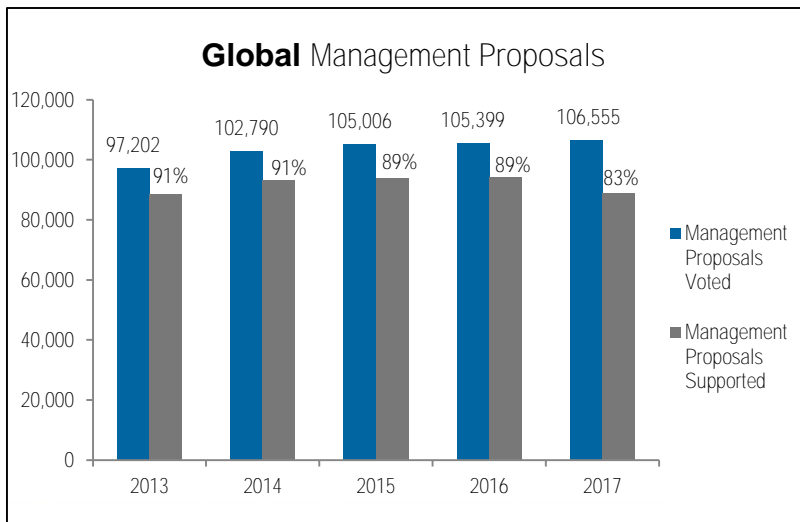
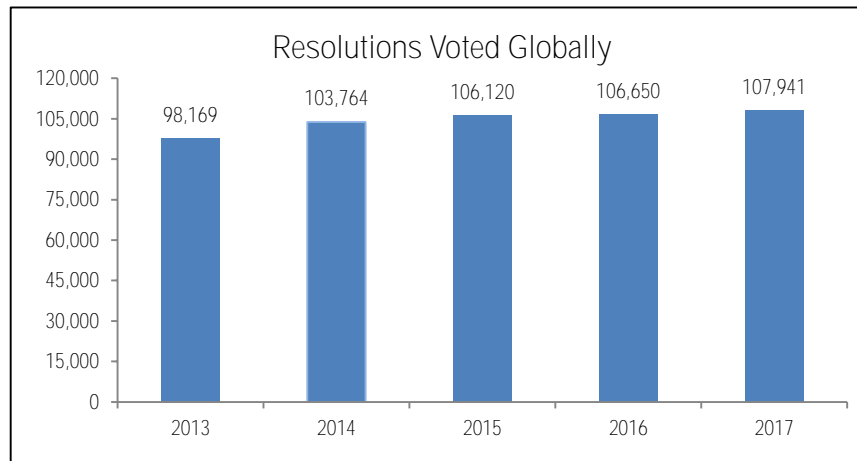
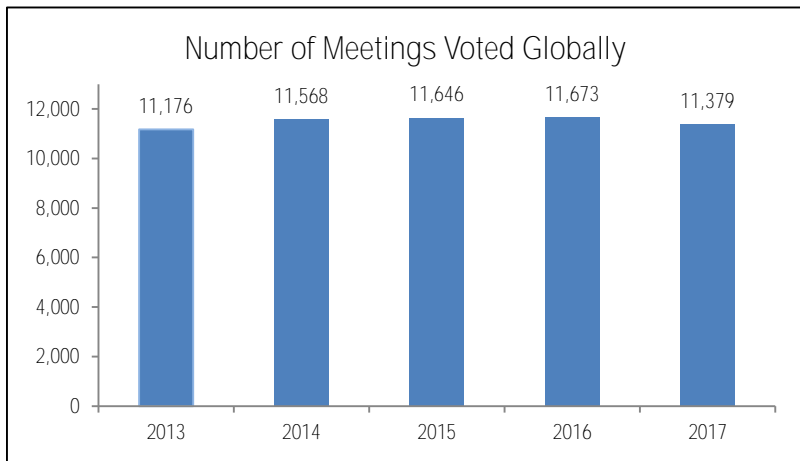
## Proxy Voting Outlook for 2018:

- CalPERS casts votes at approximately 11,000 company meetings annually
- During March, April, May, and June staff will cast votes at approximately 8,000 meetings
- Votes are cast in line with the CalPERS Governance & Sustainability Principles. Staff will vote management and shareowner proposals consistent with our principles on:
  - Investor Rights
  - Board Quality: Diversity, Independence and Competence
  - Compensation
  - Corporate Reporting
  - Environmental and Social Issues
- 2018 Shareowner Proposal Activity: Staff expects an active year with respect to shareowner proposal filings and related voting activity centered around the following issues:
  - Proxy Access
  - Environmental Disclosure (climate risk)
  - Executive Compensation
  - Independent Board Chair
  - Reporting on Political Contributions/Lobbying Activities
  - Board Diversity/Composition

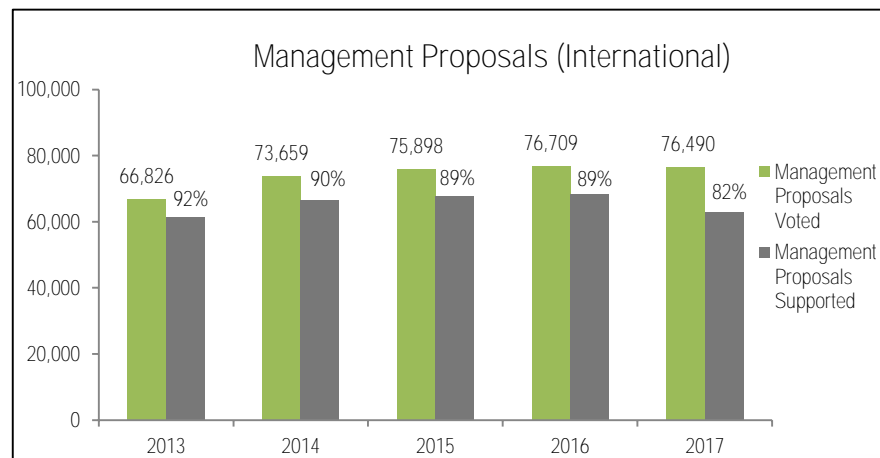
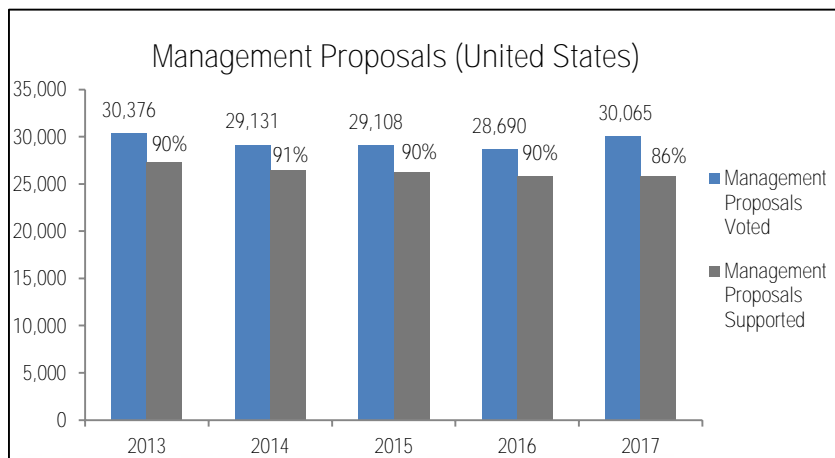
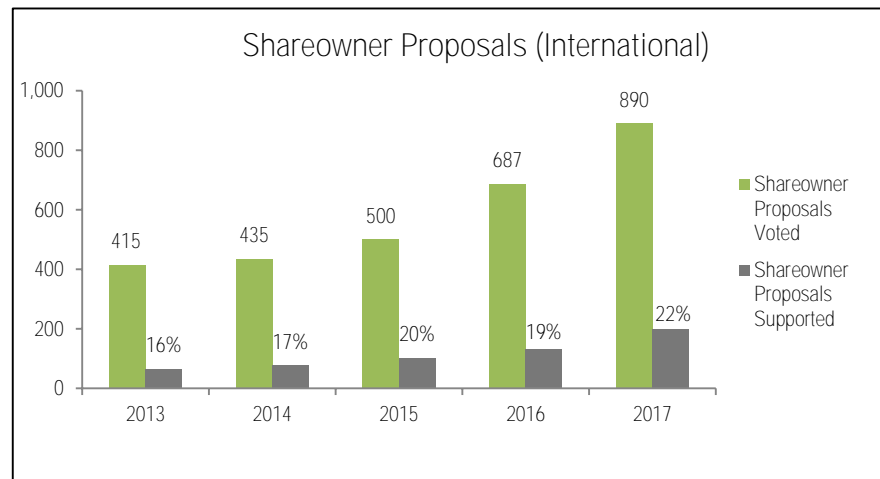
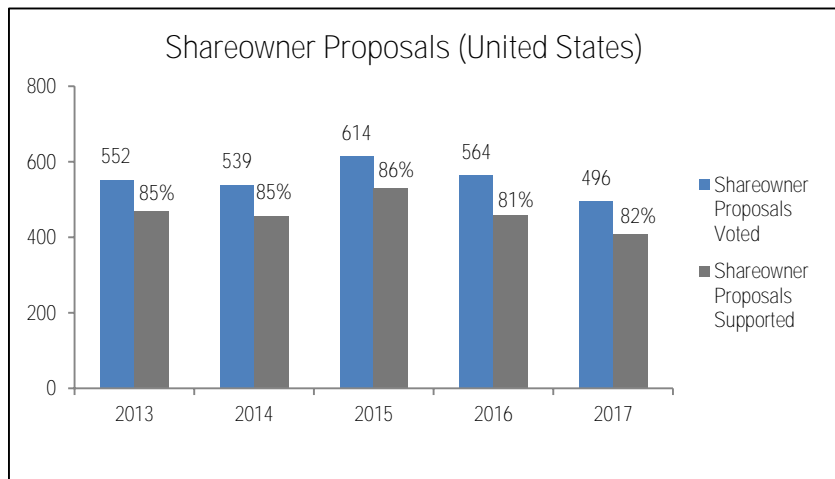
## Q4 2017 – Notable Proxy Votes

- Procter & Gamble: **Voted “for” the Procter & Gamble director slate at the 2017 proxy contest against Trian Partners (Nelson Peltz).** After a rare vote recount Peltz narrowly won, and got a board seat at P&G
- McKesson Corporation: **Voted “against” the advisory vote on executive compensation for failing to appropriately link pay with performance.** The proposal failed to receive majority shareowner support, receiving only 26% of the votes cast
- NetApp Inc.: **Voted “for” and filed a shareowner letter with the Securities and Exchange Commission (SEC) for a NYC Funds proxy access proposal.** The proposal received overwhelming support at 90% of the votes cast
- Oracle Corporation : **Voted “against” 7 director nominees over board independence concerns. Also, voted “against” the advisory vote on executive compensation which failed to receive majority shareowner support**
- Lam Research Corporation: **Voted “for” a shareowner proposal requesting Equal Employment Opportunity Data** which received support from 43% of the votes cast. CalPERS staff attended the annual meeting to formally enter the proposal into business on behalf of NYC Funds
- Wells Fargo (Update): **Voted “against” 9 director nominees for oversight failures stemming from the retail banking scandal.** The company has since separated the Chair/CEO roles, elected a new independent Chair, and refreshed the board (6 new directors were added to the board in 2017, and the company has publicly committed to adding 4 new directors in 2018). On 2/2/2018, the Federal Reserve placed limits on the growth of the company’s assets until Wells Fargo proves that it has fixed its oversight failures

# Global Proxy Voting – Votes Cast 2013 to 2017

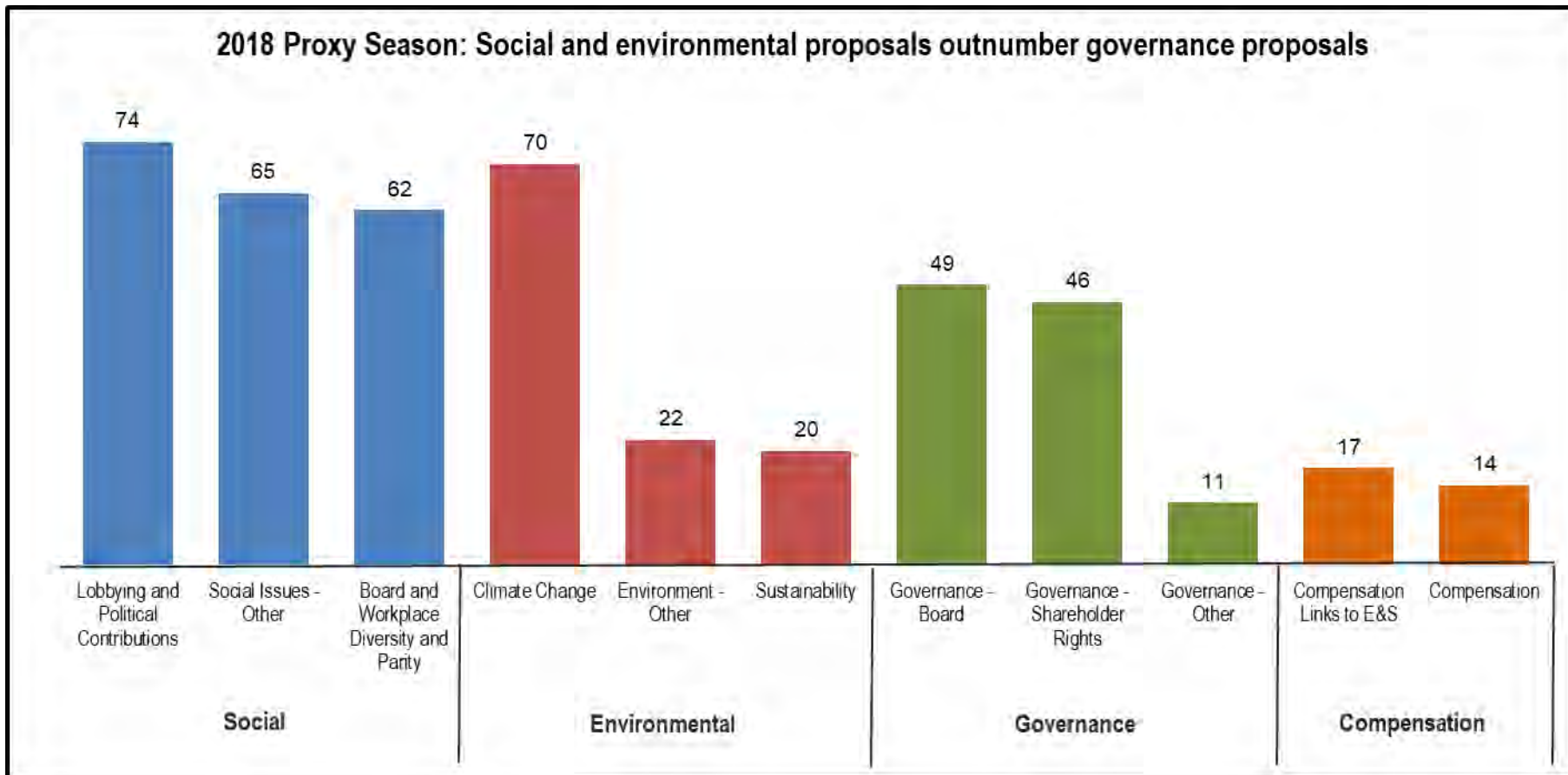


# United States & International Proxy Votes – Votes Cast 2013 to 2017



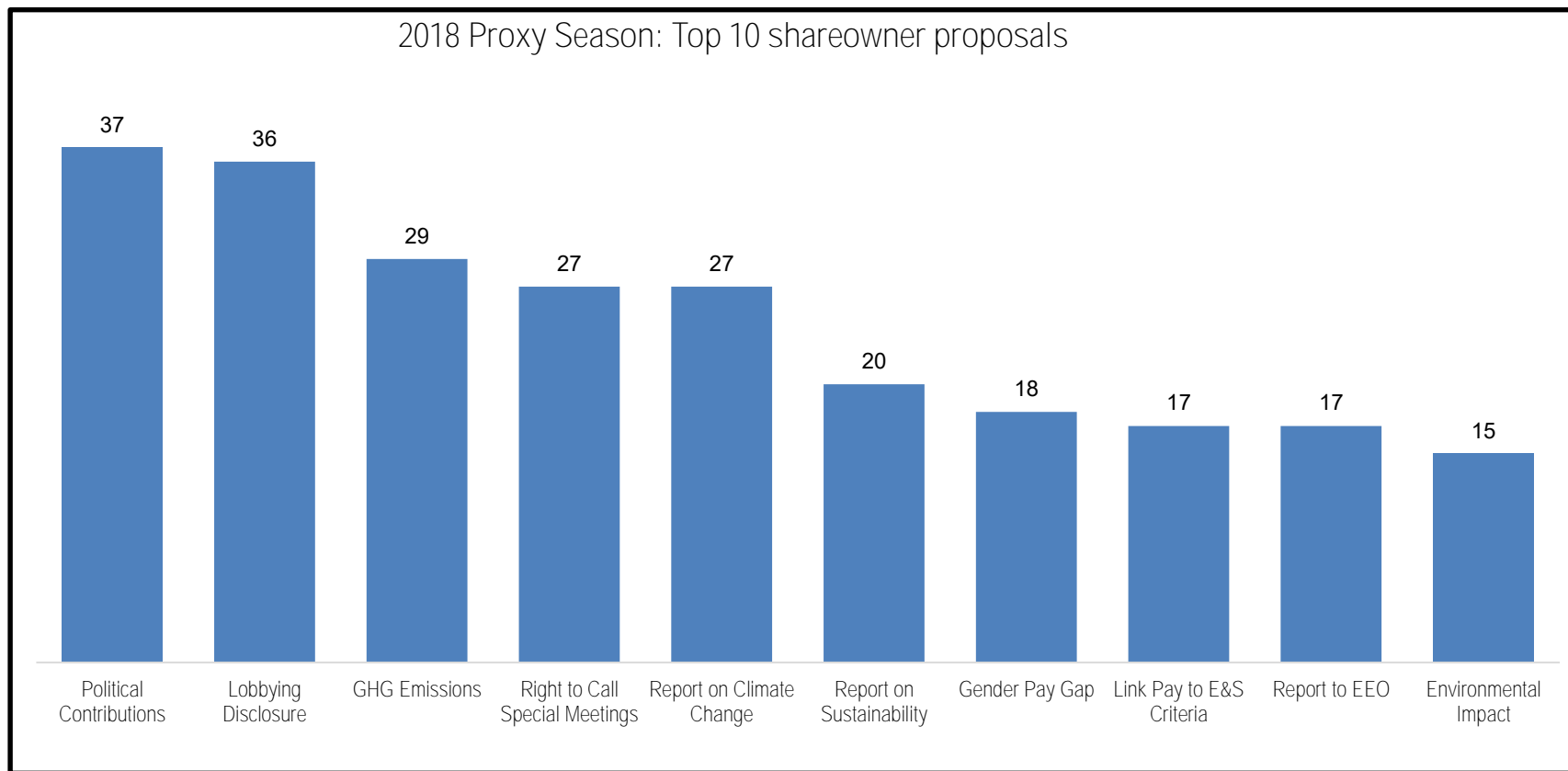


# 2018 U.S. Proxy Season Shareowner Proposals – Russell 3000



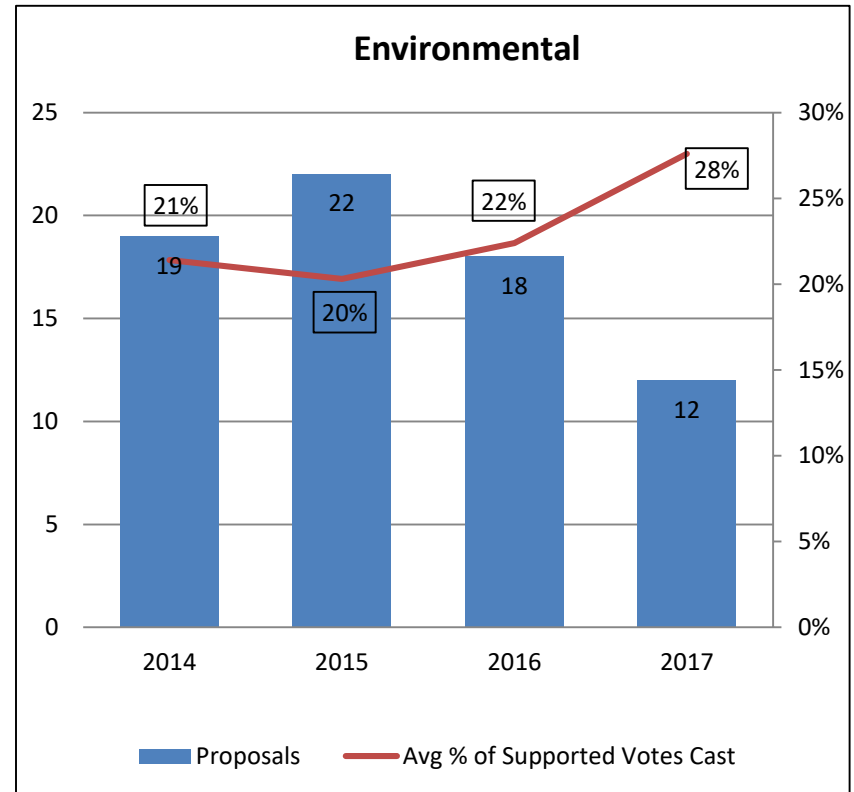
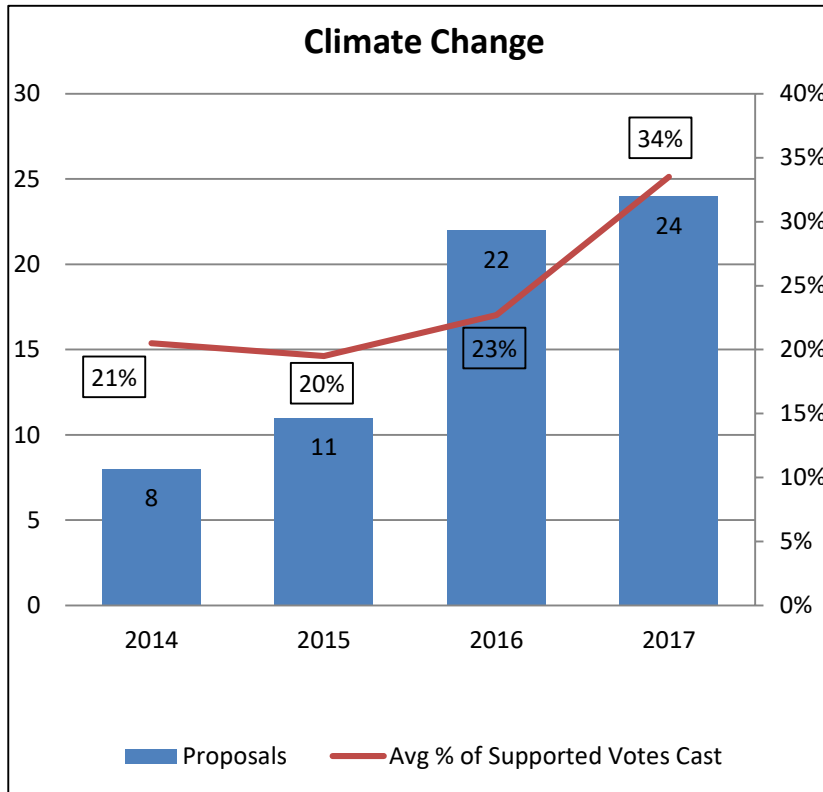
Source: ISS Analytics - February 2018

## 2018 U.S. Proxy Season Top 10 Shareowner Proposals – Russell 3000



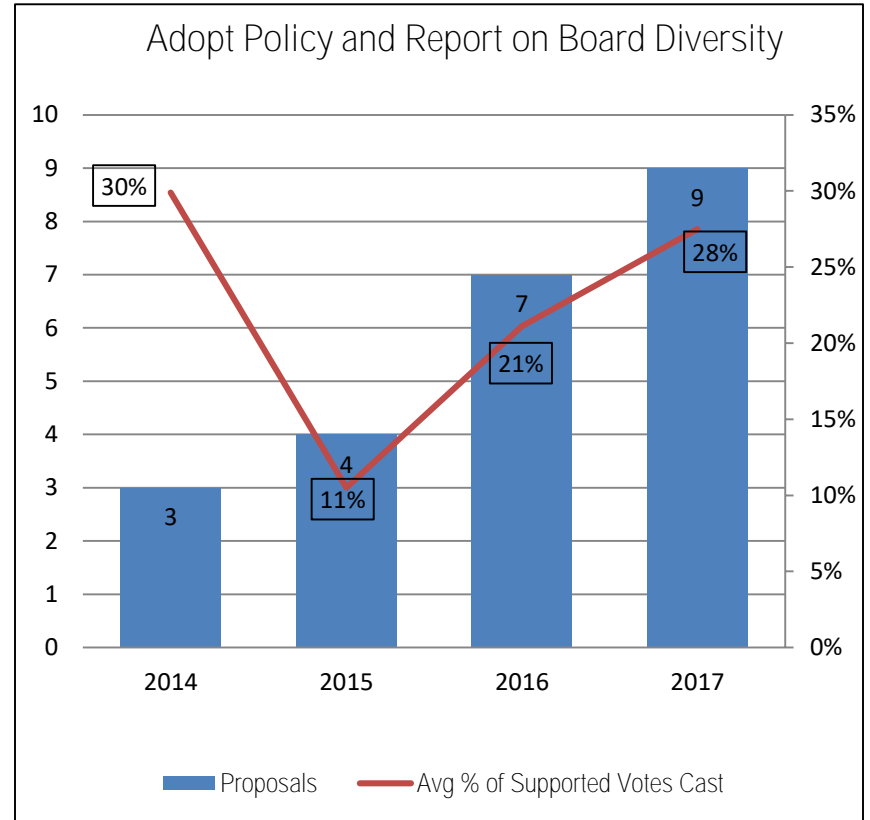
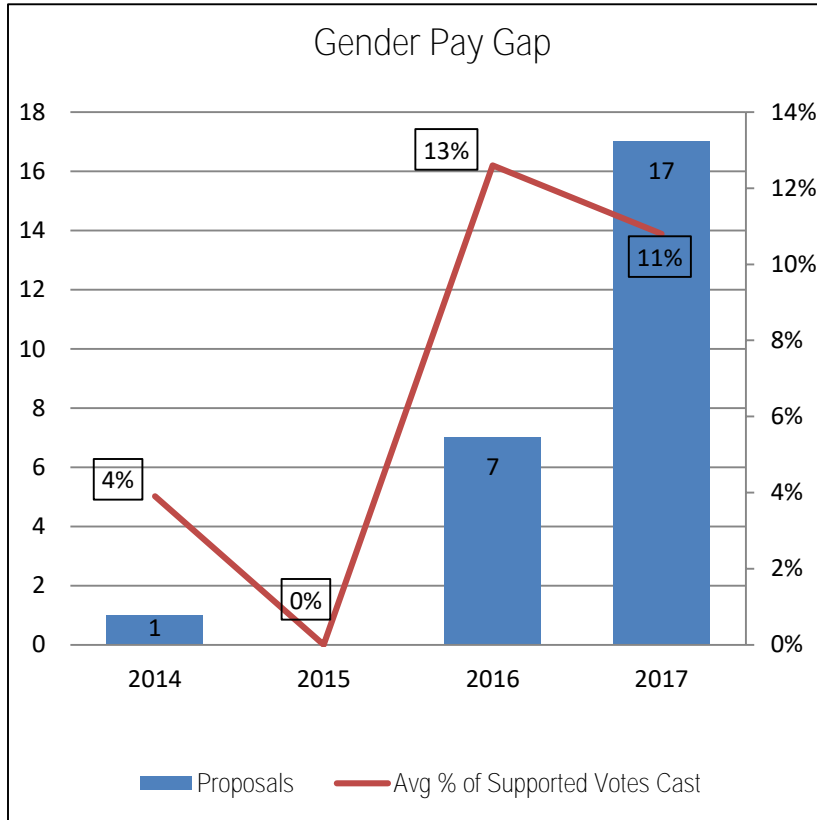
Source: ISS Analytics - February 2018

# U.S. Environmental and Social Proposals Trends – Russell 3000



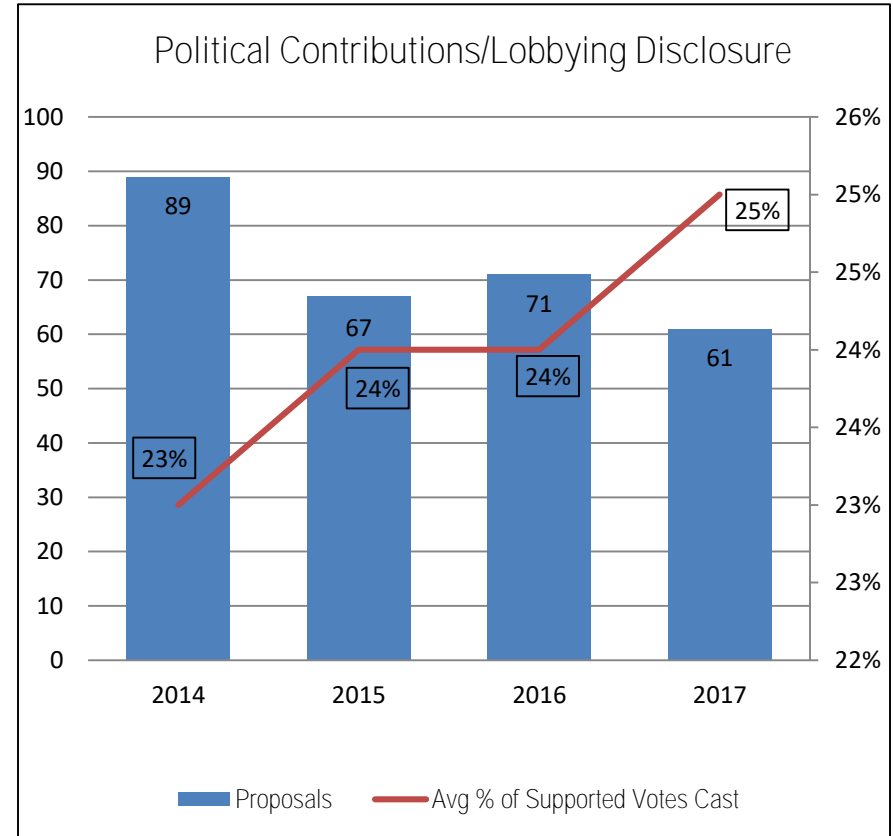
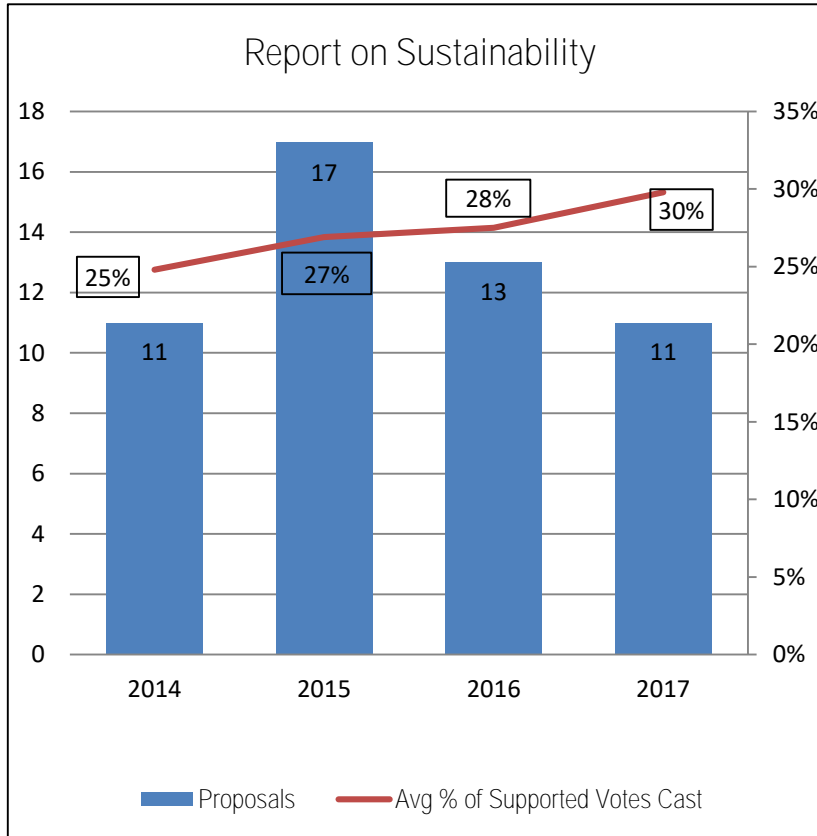
Source: Georgeson - October 2017

# U.S. Environmental and Social Proposals Trends – Russell 3000



Source: Georgeson - October 2017

# U.S. Environmental and Social Proposals Trends – Russell 3000



Source: Georgeson - October 2017

## 2. Proxy Access Initiative

### Objective

- Proxy Access gives shareowners in the United States the right to nominate director candidates on a **company's ballot or proxy statement**
- Ensuring board accountability through proxy access has been a long-standing CalPERS priority

### Background

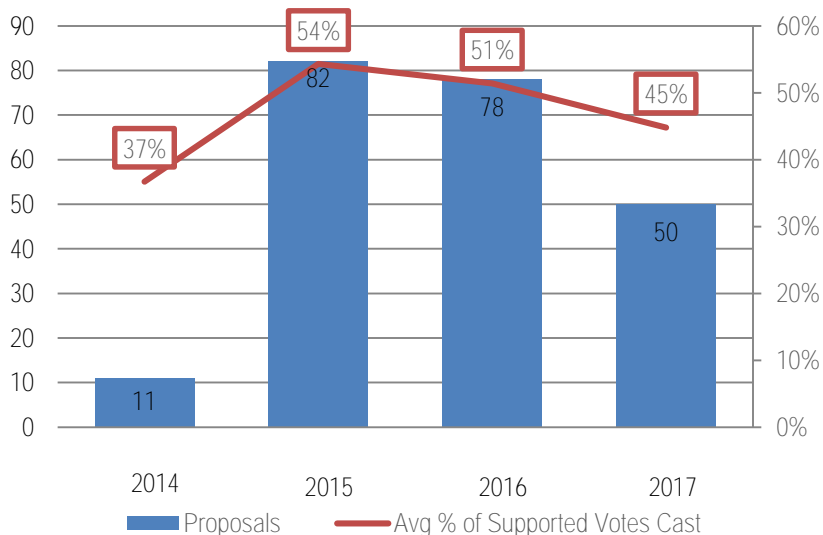
- The SEC adopted a proxy access rule as part of Dodd Frank in 2010
- In 2011 the U.S. Chamber of Commerce and Business Roundtable filed suit to challenge the SEC universal proxy access rule. Their challenge was successful and proxy access was removed from Dodd Frank
- Shareowners were allowed to file proxy access proposals on a company-by-company basis starting in 2012
- Starting in 2015 CalPERS focused on implementation of proxy access by engaging companies, filing shareowner proposals, and supporting partner fund campaigns (New York City Funds Board Accountability Project)
- Currently over 460 U.S. companies have adopted a proxy access bylaw
- Over 60% of the S&P 500 has adopted proxy access bylaws (up from 1% in 2014)

### Next Steps

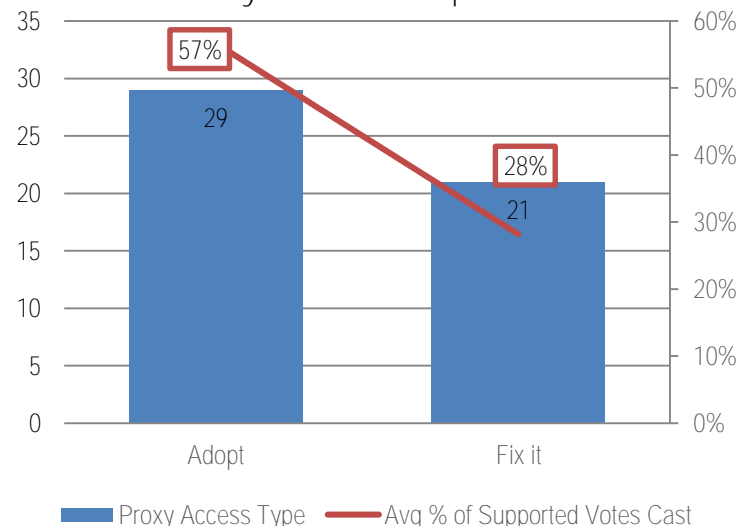
- 2018: continue to focus on implementation of proxy access by:
  - Supporting shareowner proposals
  - Filing shareowner proposals
  - Conducting company engagements
  - Supporting fellow investor campaigns
  
- Re-filed the request for proxy access at Old Republic International Corporation
  - CalPERS proposals requesting proxy access have passed each year since with majority shareowner support since 2016
  
- CalPERS has started engagements at 25 S&P 500 companies surrounding the adoption of proxy access. Where staff is unable to successfully negotiate adoption shareowner proposals will be filed
  - Year to date 2 companies have committed to adoption
  - Staff is in various stages of engagement at the remaining 23 companies
  
- Support NYC Funds campaign surrounding proxy access in 2018 (preliminary target list of 50 companies)
  - Selection criteria: diversity, climate risk and governance

# Proxy Access Shareowner Proposal Trends

Proxy Access Proposal Trends



2017 Proxy Access: Adopt vs. Fix it



	Passed	Failed
2017 Proposals	18	32
"Adopt"	18	11
"Fix it"	0	21
2016 Proposals	41	37
2015 Proposals	48	34
2014 Proposals	4	7

**"Adopt"** Proxy Access: New proposals requesting adoption  
**"Fix it"** Proxy Access: Proposals with request to change existing bylaw to bring in line with vacated SEC rule (e.g. to increase or eliminate aggregation limits and/or increase percentage of the board subject to proxy access)



### 3. Japan Board Independence Initiative

#### Objective

- Improve board independence at Japanese portfolio companies by moving the market towards majority independent boards consistent with the CalPERS Governance & Sustainability Principles

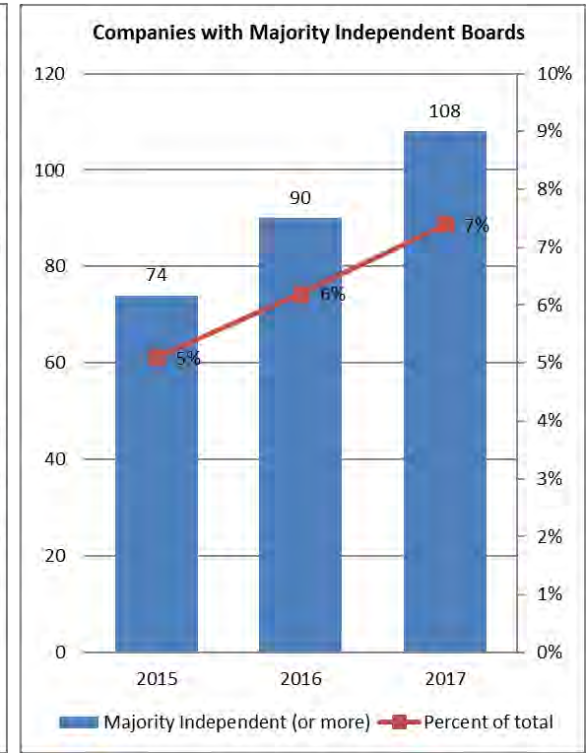
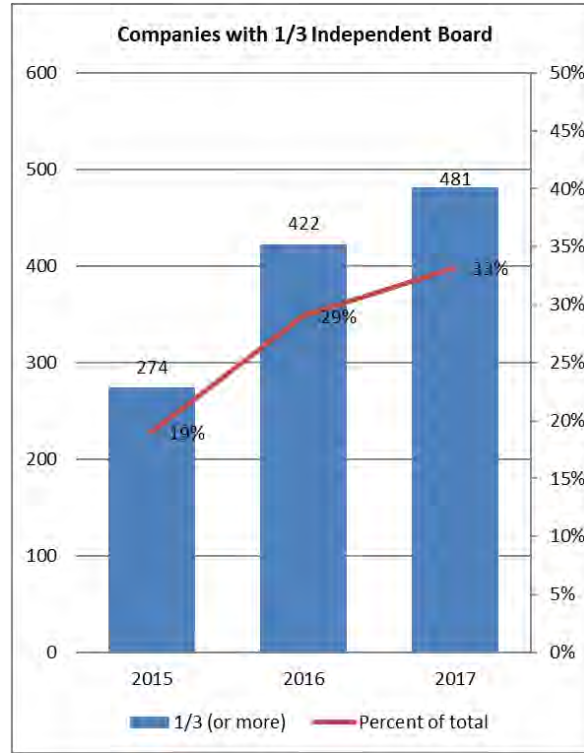
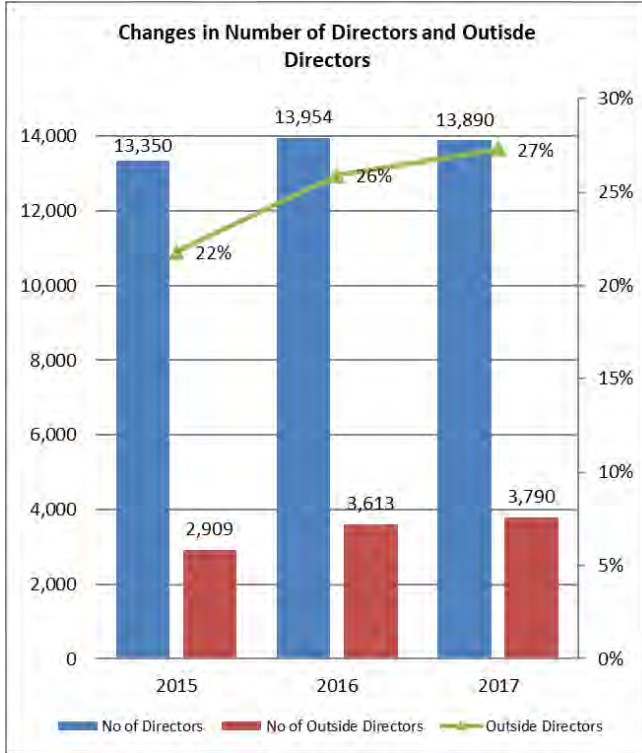
#### Background

- The Initiative evolved from the Focus List Program. Staff presented at the August 2017 Investment Committee meeting the transition from a narrow engagement program to a market-wide engagement approach for Japan
- **Japan is CalPERS' second largest investment market**
- Board independence in Japan is low relative to other developed markets
- Board independence is essential to a sound governance structure
- CalPERS publicly supported the Japan Corporate Governance Code and is a signatory to the Japan Stewardship Code
- Staff amended the proxy voting practice for Japan in 2017 to vote against non-independent directors when board independence is less than one-third
- Wrote to 864 companies (of ~1200) following 2017 Japan proxy season where CalPERS voted against directors due to one-third threshold

#### Next Steps

- Continue to vote against non-independent directors when board independence is less than one-third
  - Write to companies following 2018 Japan proxy season to communicate CalPERS proxy vote and influence future board appointments
  - Carry out company specific engagements as needed to accomplish desired governance reforms
-

# Japan Board Independence Trends



Source: IR Japan

## 4. Majority Vote Initiative

### Objective

- **Many companies retain a “plurality voting” system that allows a director to be elected with a single vote, regardless of the number of votes “withheld.” To reform the director election process CalPERS engages companies requesting a majority vote standard for director elections**

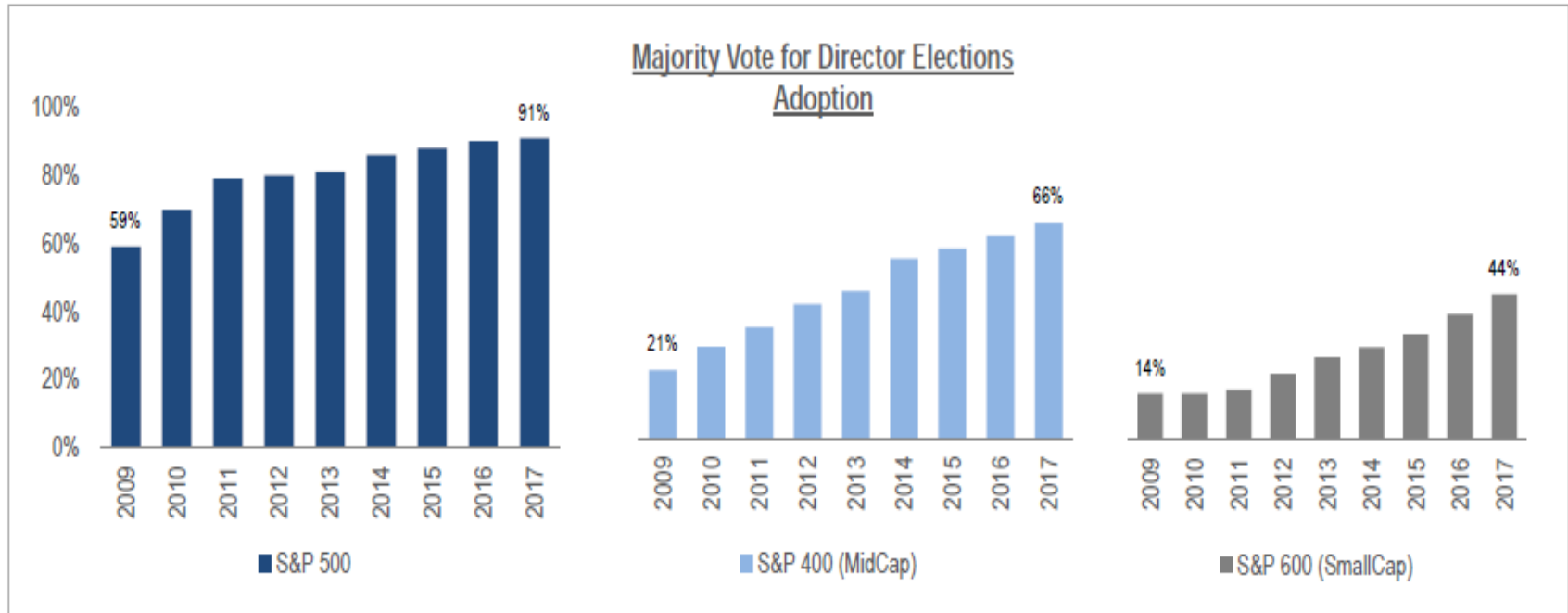
### Background

- Staff began in 2010 engaging 50 companies per year regarding the adoption of majority voting
- 385 of the 400 companies engaged since 2010 have either adopted or committed to adopt majority vote for director elections

### Next Steps

- Staff will expand the number of companies engaged from 50 to over 100 companies per year
- Staff has started engagements at 50 companies regarding the adoption of majority voting (legacy approach)
  - 14 companies have either adopted or committed to adopt
  - To date staff has filed 23 resolutions (10 have been withdrawn after successful negotiations on implementation)
  - Staff is in various stages of engagement at the remaining 36 companies
- Staff will engage 50 Diversity & Inclusion Initiative companies surrounding the adoption of majority vote (this will be in addition to the 50 companies identified under legacy majority vote approach)
  - 306 of the 504 diversity initiative companies lack majority vote for director elections

# U.S. Majority Vote for Director Elections Adoption Trends



Source: 2017 ISS Board Practices Report

# Voting Enhancements

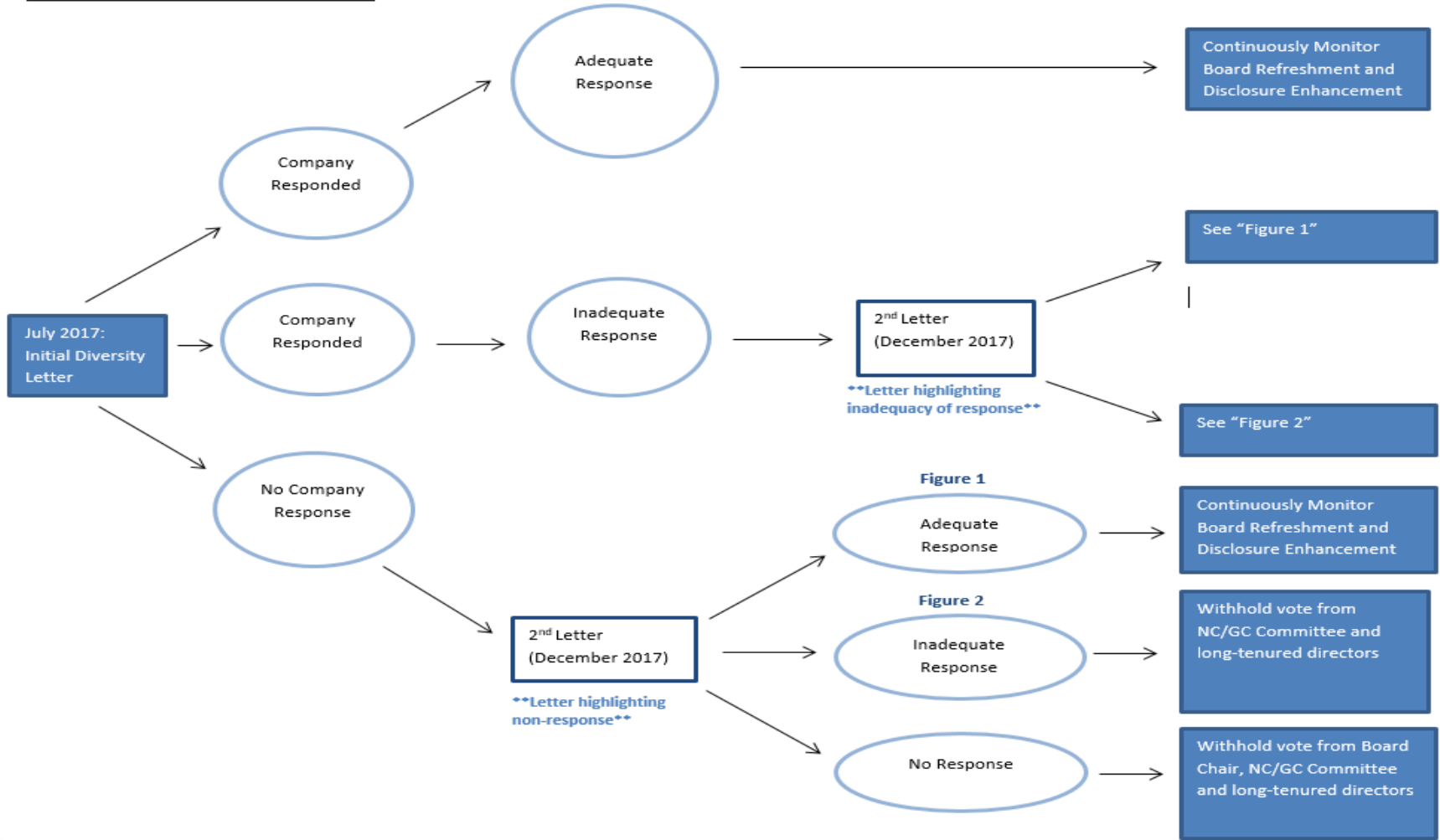
## 1. Board Diversity & Inclusion Voting Enhancement

In 2018, as part of the CalPERS Diversity & Inclusion Initiative at Russell 3000 companies, staff will begin holding directors accountable at companies that do not improve board diversity (by adding gender diversity) or improve diversity & inclusion disclosures

- Director Voting Strategy:
  - No response → **“Withhold” vote from Board Chair and entire Nominating/Governance Committee** (CalPERS will support nominees with tenure of 1 year or less)
  - Inadequate response → **“Withhold” vote from entire Nominating/Governance Committee** (CalPERS will support nominees with tenure of 1 year or less)
  - Consistent with CalPERS Governance & Sustainability Principles, staff will consider withholding from long-tenured directors (12 years or more) where there is insufficient disclosure of nominee independence
    - Votes based on independence could result in withhold votes from both board and key committee membership (applicable only for D&I Initiative)

# 2018 CalPERS Board Diversity & Inclusion Voting Enhancement

**D&I Initiative – Russell 3000 Workflow**



## 2. Executive Compensation Voting Enhancement

After completing a review of CalPERS executive compensation proxy voting practices, staff is enhancing the evaluation process tied to Say-on-Pay (SOP) proposals voted within the United States. Staff will be **increasing the level of scrutiny when reviewing a company's pay and performance practices and opposing** more compensation plans which are not aligned with shareowner interests. Staff will continue to exercise independent judgement on voting SOP plans even while using 3<sup>rd</sup> party models to help the review process

### Say-on-Pay Evaluation Process:

- Current Process – **Case by case review but typically vote “against” SOP proposals when** 1) Glass Lewis pay for performance model grade is an “F” only or 2) other negative pay practices/features are present
- New Practice – **Case by case review but typically vote “against” SOP proposals when** 1) Glass Lewis grade is **“F” or “D”** or 2) other negative pay practices/features are present
  - **Staff will also apply an additional layer of scrutiny to companies receiving a pay grade of “C” and may vote “against”** these plans when other negative pay features present. Staff will continue to use ISS and Equilar research as part of the review process
- New Practice – Incorporate CEO Pay Ratio information as supplemental review item. This will be used as another **data point of review and possibly a contributing factor to an “against” vote**
  - On a case by case basis in year one of the disclosure staff may engage companies where there appears to be pay ratio alignment issues

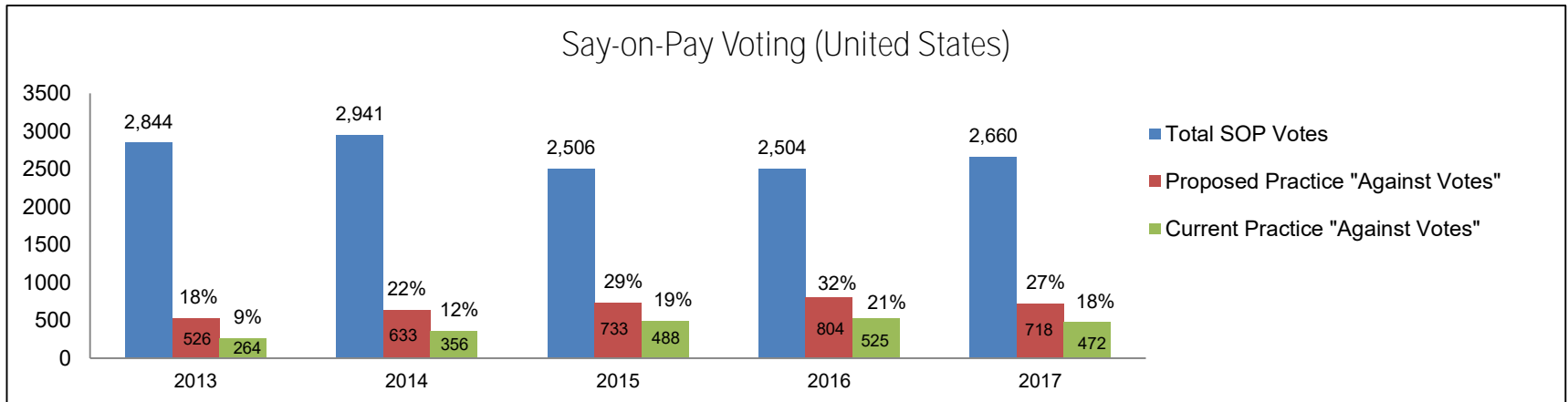


# 2018 Executive Compensation Voting Enhancement: Illustrative View

- 2017 Glass Lewis Pay for Performance Model (grade and number of companies):



- A = 109 (4%)
- B = 529 (19%)
- C = 996 (36%)
- D = 416 (15%)
- F = 154 (5%)
- No Rating = 568 (21%)



Source: Glass Lewis

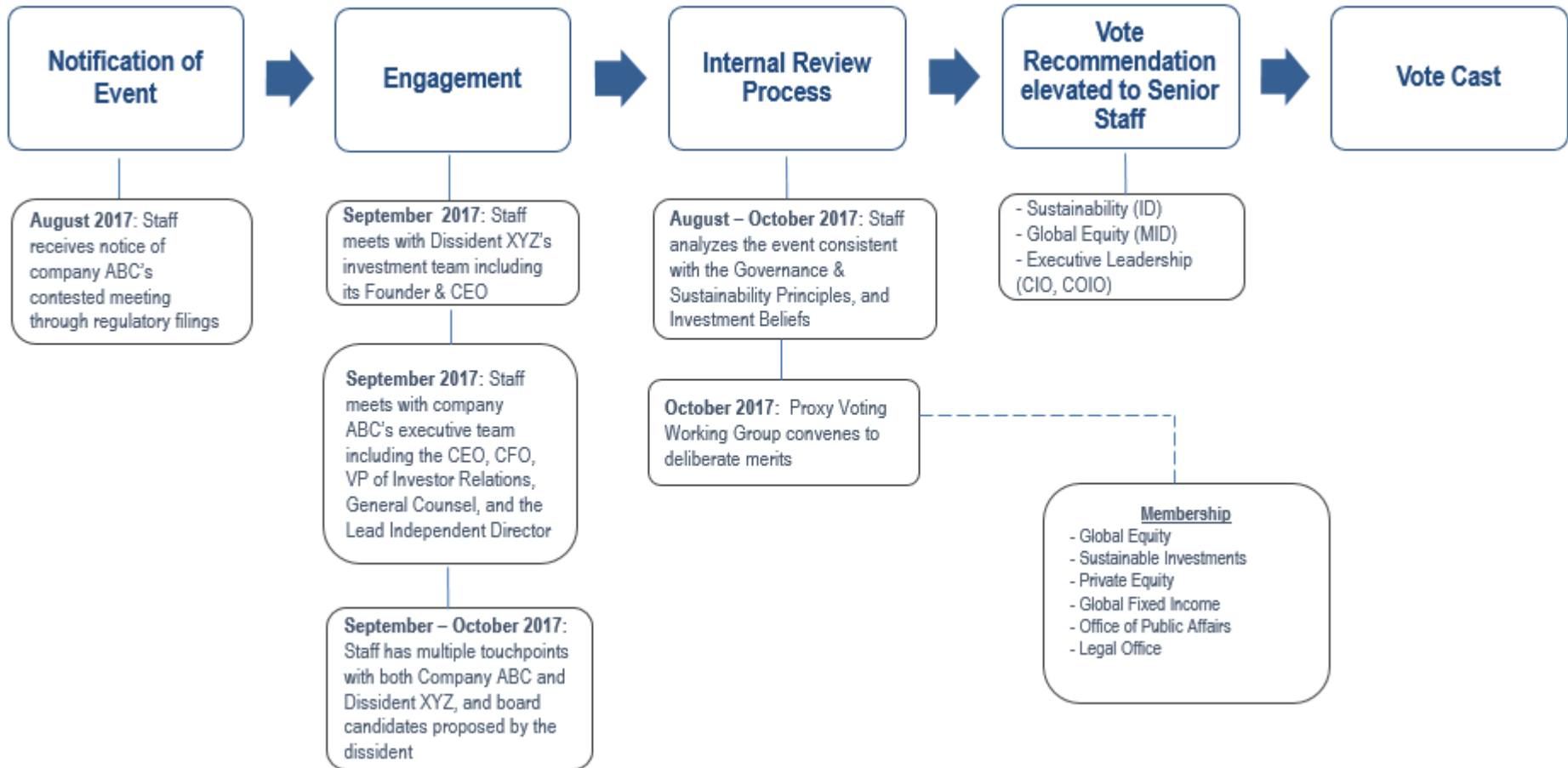
### 3. Contested Elections Voting Enhancement

The fundamental objective when evaluating a proxy contest is to determine which slate (management or dissident) is more likely to enhance shareowner value consistent with the CalPERS Total Fund Investment Policy, Investment Beliefs, and Governance & Sustainability Principles (GSP). Staff has developed a voting framework focusing on the following critical areas (see Appendix for detailed framework):

- Corporate Governance Analysis
  - Investor Rights
  - Board Quality
  - Compensation
  - Corporate Reporting
  - Regulatory Effectiveness
  
- Strategy Review
  - Evaluation of both the management and dissident strategic plan
  - Track record of management and activist
  - Board candidates assessment relative to strategic plan
  - Capital Allocation
  
- Long-term Company Performance
  - Stock price and operational performance relative to peers and index

Global Equity Corporate Governance Program

Example: Contested Election Workflow  
 (Company ABC versus Dissident XYZ)



# Emerging/Ongoing Issues

## 2018 Emerging/Ongoing Issues

### Opioids Epidemic

- In 2018, staff expects several shareowner proposals tied to the opioids epidemic (proposal topics include: Independent Board Chairman, Clawback, Drug Pricing, and Lobbying Report)

### Harassment and Misconduct Allegations

- Engage companies as needed to ensure corporate boards are adequately overseeing risk surrounding misconduct allegations and accordingly hold directors accountable at companies where there are oversight failures

### Director Qualifications / Skills Set Matrix

- In 2018 proposals will request for enhanced disclosure about director qualifications (e.g. background, skill-set, and diversity)

### Human Capital Management

- Engage companies on the development of maximum progressive practices related to Human Capital Management

### Board Diversity / Gender Pay Equity

- Support proposals requesting increased board diversity and gender pay equity disclosures

### Cybersecurity

- Ensure board are providing adequate oversight to cybersecurity risk

### CEO Pay Ratio

- In 2018 companies will be required to disclose the ratio between CEO compensation and the median employee pay
- Staff will begin using pay ratio as an element of the Say-on-Pay review process

# Financial Markets Advocacy

## Financial Markets Advocacy

### Dodd-Frank Act Reform:

- Visited the offices of 18 members of the House Financial Services Committee, 11 Senate offices, the SEC, FINRA
- **Wrote letters in opposition to proposed proxy adviser legislation under H.R. 4015 “The Corporate Governance Reform and Transparency Act of 2017” and in support of certain measures for inclusion in S. 2155 “The Economic Growth, Regulatory Relief and Consumer Protection Act”**

### Market Structure:

- **Conducted research and due diligence on the Commodity Futures Trading Commission’s (CFTC) Project K.I.S.S. (Keep It Simple Stupid)**
- Reviewed and analyzed Treasury Reports covering Capital Markets and Economic Opportunities for Banks and participated in U.S. Treasury Roundtable focused on capital formation
- Reviewed and analyzed Markets in Financial Instruments Directive II (MiFID) roll-out and industry response
- Expanded strategic network to enhance our market structure oversight – new membership with the Healthy Markets Association, including a position on its governing board

### Corporate Reporting & Governance:

- **Wrote letter successfully urging the Securities and Exchange Commission’s (SEC) approval of the Public Company Accounting Oversight Board’s (PCAOB) new standard enhancing the auditor’s report to include Critical Audit Matters (CAM)**
- Conducted research on Dual Class Shares and responded to three separate consultations
- **Recommended changes to the Sustainability Accounting Standards Board’s (SASB) provisional standards across all industries**
- Provided support in drafting, launching and engaging on the Human Capital Management (HCM) Petition to the SEC and meeting with new SEC Chair Jay Clayton
- **Supported S. 536 the “Cybersecurity Disclosure Act of 2017”**
- Monitored impact of SEC Staff Legal Bulletin No. 141 concerning exclusion of shareowner proposals
- Wrote letter to the Director of the Division of Corporation Finance, William Hinman opposing potential forced arbitration provisions for public companies

# Corporate Governance Integration into Global Equity



# Corporate Governance Integration into Global Equity

## Resources & Organization:

- Staffing
  - Appointed two Associate Investment Managers (AIMs)
  - Active recruitment for a third Associate Investment Manager and an Investment Officer III
  - Staff paired into two-person teams, organized by sector, and with both corporate governance and investment management experience
  
- Eliminated functional structure
  - No bifurcation between proxy voting and corporate engagement roles
  - Staff cross-trained to execute both proxy voting and corporate engagement duties
  - Provides career development opportunities for staff, and a deeper bench strength for succession planning
  
- Introduced sector-based structure
  - Enhanced depth of sector knowledge and sector-specific issues
  - Aligned with wider investment management industry research roles
  - Sector coverage duties include proxy voting, corporate engagement, and researching ESG trends and regulatory topics

# Corporate Governance Integration into Global Equity

## Governance:

- Governance & Sustainability Principles (Board-approved)
- ESG Strategic Plan (Board-approved)
- Governance and Sustainability Subcommittee (GSS) of the Investment Strategy Group (ISG)
- Proxy Voting Working Group (PVWG) (membership: INVO asset classes & enterprise)
- Financial Markets Working Group (FMWG) (membership: INVO asset classes & enterprise)

## Processes:

- Standardized frameworks
  - Developed standard templates to provide guidelines on proxy votes on contested elections and diversity
  - Proxy Voting Working Group (PVWG) got templates approved by Governance & Sustainability Subcommittee
  - **Weekly “2018 Proxy Season Heat Map” meetings with senior staff to elevate sensitive issues** (membership: CIO, Global Equity, Sustainable Investments)

## ESG Strategy Launches:

- Approved two new internally-managed ESG strategies
- One strategy has already been funded (\$1B); 2<sup>nd</sup> strategy is going through operational set-ups

# Corporate Governance Integration into Global Equity

## Voting Practice Enhancements:

- Japan Board Independence Initiative
  - Withhold votes from non-independent directors on Boards with less than 1/3 independent directors
  - This was implemented during the 2017 proxy season
  
- Board Diversity Initiative
  - Withhold votes from directors who sit on Nominating Committees at companies which have not demonstrated a willingness or commitment to improve board diversity
  - This will be implemented starting during the 2018 proxy season
  
- Executive Compensation Initiative
  - **Case by case review but typically vote AGAINST “Say-on-Pay” plans that receive a “D” or “F” rating from Glass Lewis pay-for-performance model**
  - **Current practice is a case by case review but typically vote “AGAINST” plans which receive an “F” only**
  - Staff will continue to exercise independent judgement on voting SOP plans even while using 3<sup>rd</sup> party models to help the review process
  - This will be implemented starting during the 2018 proxy season

## Corporate Governance Integration into Global Equity

### Global Equity Portfolio's Environmental, Social and Governance (ESG) Monitoring:

- Monitors and measures ESG characteristics at aggregate and individual Global Equity portfolios
- Tracks ESG scores both at aggregate Global Equity and at individual portfolio levels
- Function moved from Portfolio Oversight team to be in Corporate Governance

### ESG Data Ecosystem:

- Engaged proxy advisory firms to develop data analytics platforms
- Underlying data exists but not easily extractable / accessible to investors

### Research:

- Quantitative model for assessing pay-for-performance
  - Staff will explore options for best approach to quantitatively assess pay-for-performance
  - Staff is engaged in discussions with MSCI, Shareholder Value Advisors, other compensation experts, as well as other institutional investors to try and design a better approach to assessing pay for performance

# APPENDIX

# CalPERS' Proxy Contest Review Framework

**Proxy Contest Review Template: "COMPANY NAME"**

The fundamental objective when evaluating a proxy contest is to determine which slate (management or dissident) is more likely to enhance shareowner value consistent with the CalPERS Total Fund Investment Policy and Governance & Sustainability Principles (GSP). The elements below are the critical areas staff should consider when formulating a decision.

**Proxy Contest Background:** Review the timeline of events leading up to the proxy contest. Look for evidence to indicate that the dissidents attempted to work cooperatively and engage with management on the issues in question. Also, consider how management responded to the dissidents request/concerns.

Corporate Governance Analysis	Element of Review	Notes
<ul style="list-style-type: none"> <li>Investor Rights (GSP – Section A, pg. 8) – CalPERS is a provider of capital to corporations and investor rights protect CalPERS interests. Review the corporate governance profile of the target company for areas of concern.</li> </ul>	<ul style="list-style-type: none"> <li>Are there any outstanding corporate governance issues or concerns?</li> <li>Are there any entrenchment devices or governance concerns that might reduce director accountability?</li> <li>With respect to the dissidents, will its proposed Board candidates improve the company's governance profile? (e.g. promises to put forth corporate governance reforms)</li> </ul>	<ul style="list-style-type: none"> <li>Annual Director Elections <input type="checkbox"/></li> <li>Majority Vote for Directors <input type="checkbox"/></li> <li>Proxy Access <input type="checkbox"/></li> <li>Dual Class Stock <input type="checkbox"/></li> <li>Independent Board Chairman <input type="checkbox"/></li> </ul>
<ul style="list-style-type: none"> <li>Board Quality: Diversity, Independence, and Competence (GSP – Section B, pg. 11) – Corporate boards of companies must be accountable for overseeing the use of our capital. Review the board quality of the management and dissident slates.</li> </ul>	<ul style="list-style-type: none"> <li>For the management slate:                             <ul style="list-style-type: none"> <li>Does the board have the appropriate skill-sets, attributes, and experience to be a well-functioning board?</li> <li>Is a majority of the board independent and are the key board committees comprised solely of independent directors?</li> <li>Are there any issues surrounding the company's responsiveness to shareowners (e.g. failing to address majority passed shareowner proposals)?</li> <li>Director(s) tenure 12 years or more?</li> </ul> </li> <li>For the dissident slate:                             <ul style="list-style-type: none"> <li>Do the proposed candidates skill-sets, attributes, and experience fill any gaps on the existing board?</li> <li>What is the dissident nominee track record at other companies?</li> </ul> </li> </ul>	

# CalPERS' Proxy Contest Review Framework - Continued

**Proxy Contest Review Template: "COMPANY NAME"**

<ul style="list-style-type: none"> <li>• Compensation (GSP – Section C, pg. 22) – Well-designed compensation programs are a powerful tool to reward and align the users of our capital with our objectives to achieve sustainable long-term investment returns. Review the targeted company's compensation plan for areas of concern.</li> </ul>	<ul style="list-style-type: none"> <li>○ Does CalPERS proxy voting history reflect any compensation or alignment concerns? Have these concerns been addressed?</li> <li>○ Are there any concerns with current compensation arrangements (e.g. pay for performance or structural concerns)?</li> <li>○ Do the dissidents have special compensation arrangements part of their candidacy?</li> </ul>	
<ul style="list-style-type: none"> <li>• Corporate Reporting (GSP – Section D, pg. 29) – CalPERS expects fair, accurate, and timely reporting on how companies employ and identify risks related to financial, human, and physical capital to generate sustainable economic returns.</li> </ul>	<ul style="list-style-type: none"> <li>○ Are there any significant issues with the company reporting and/or disclosures?</li> </ul>	
<ul style="list-style-type: none"> <li>• Regulatory effectiveness (GSP – Section E, pg. 34) – It's imperative to have effective regulations to protect CalPERS as an investor. Review target company's alignment with market best practice.</li> </ul>	<ul style="list-style-type: none"> <li>○ Are there any concerns tied to harmful or inappropriate labor practices?</li> </ul>	

Strategy Review	Element of Review	Notes
<ul style="list-style-type: none"> <li>• Evaluate what (management and dissident) is offering shareowners as well as the likelihood that the proposed objectives and goals can be met.</li> </ul>	<ul style="list-style-type: none"> <li>○ Are there clear operating plans from management and dissident slates?</li> <li>○ What is the market view of competing plans (Wall Street Analysts and Proxy Advisory Firms)?</li> </ul>	
Long-term Company Performance	Element of Review	Notes
<ul style="list-style-type: none"> <li>• Review the targeted company's long-term operational and stock price performance relative to its index and peers. Staff should be mindful of underperformance tied to following key metrics.</li> </ul>	<ul style="list-style-type: none"> <li>○ Total shareowner returns (3yr, 5yr, 10yr)</li> <li>○ Other elements to consider: Growth rates for sales, net income, operating income, margin analysis, cash flows, and debt levels.</li> </ul>	

## CalPERS' Proxy Contest Review Framework - Continued

### Proxy Contest Review Template: "COMPANY NAME"

#### Other Areas of Review:

**Management's Track Record:** Review the outcomes of the management's previous strategic decisions such as acquisition record, new business development, effectiveness of marketing campaign, and strategic positioning.

**Dissident's Stock Ownership Record:** Review the dissident's stock ownership record, as substantial long-term stock ownership enhances the credibility of their proposed director nominees.

**Dissidents Seeking Majority Control:** In most cases dissident shareowners will run a "short-slate", which is only seeking to put a few nominees on the targeted company's board. That said, staff should "closely scrutinize" situations when dissidents are seeking to replace a majority of the board.

**Engagement of Dissident and Management:** Staff will actively engage both sides of the proxy contest. Review the outcomes of these conversations.

**CalPERS Strategic Initiatives or Partner Fund/Stakeholder Engagements:** Is the target company part of any CalPERS strategic initiatives or tied to any engagement activity with CalPERS partner funds/stakeholders (e.g. Climate Action 100+, Diversity & Inclusion)?

**CalPERS Proxy Votes & Engagements:** Has CalPERS elevated any specific concerns at the target company related to proxy votes or engagements? Review at least the past two years of proxy votes and engagement activity.

#### Additional Resources:

- Proxy materials
- Investor presentations
- Sell-side analyst reports
- Proxy advisory firm analysis (e.g. Glass Lewis , ISS, MSCI Research)

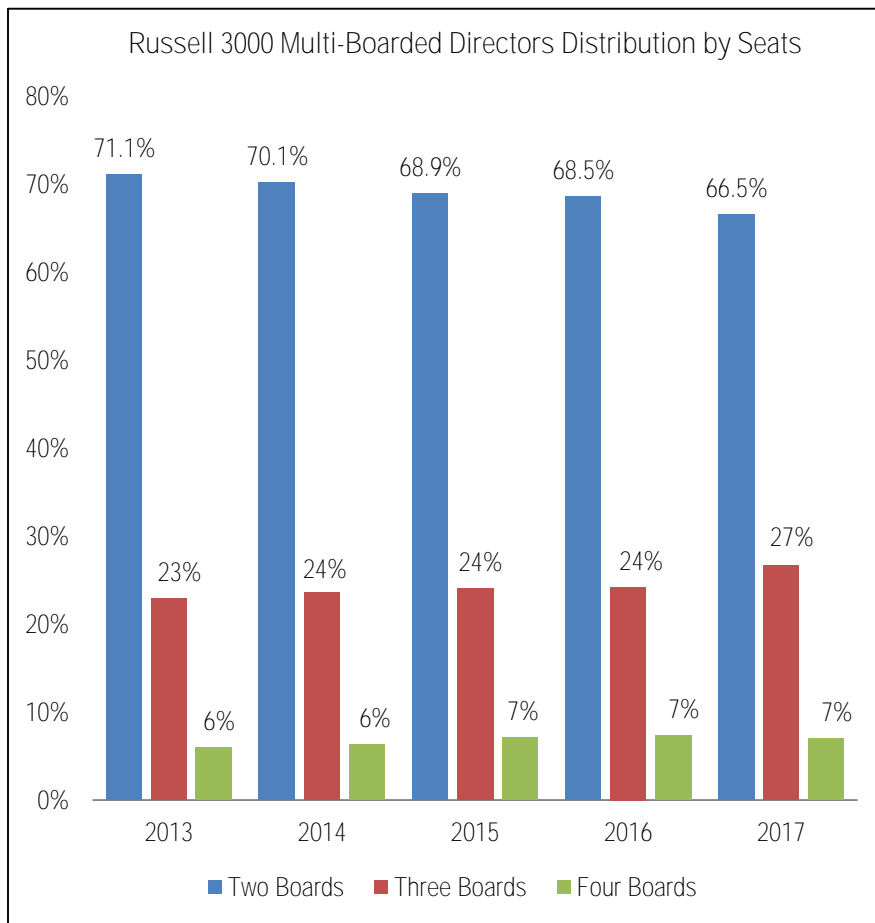
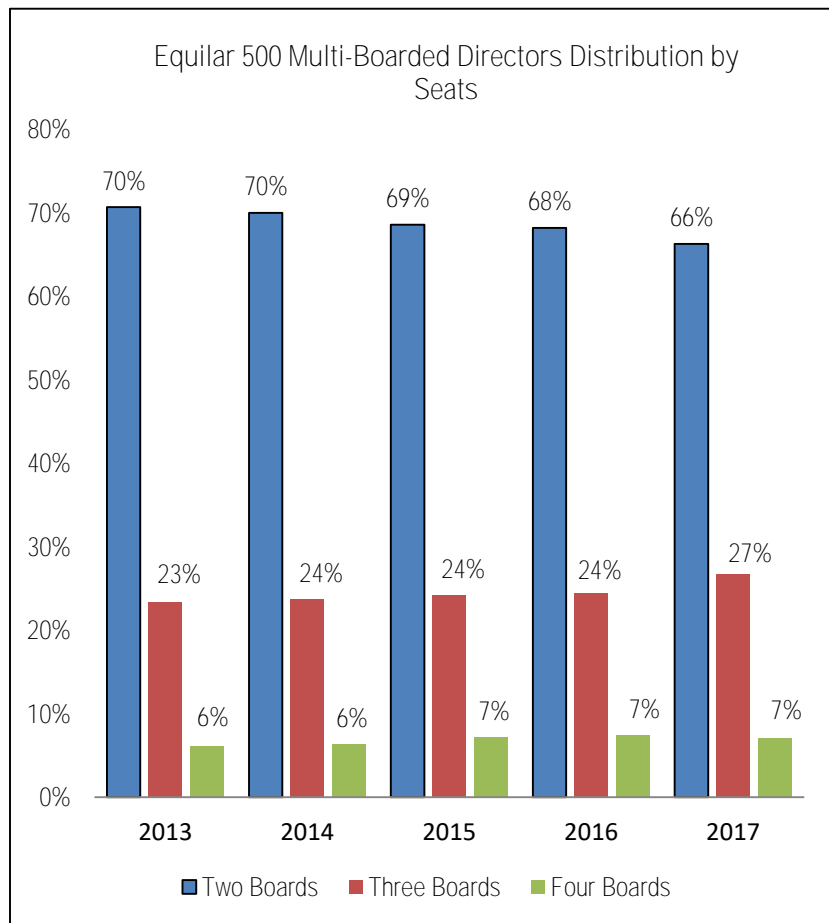


## U.S. Corporate Governance Trends – S&P 500 Board Composition

<b>S&amp;P 500 Boards: Trends Over 1, 5, and 10 years</b>						
	<b>2017</b>	<b>2016</b>	<b>2012</b>	<b>2007</b>	<b>5 year % change</b>	<b>10 year % change</b>
<b>Board Composition</b>						
Average board size	10.8	10.8	10.7	10.8	1%	0%
Independent directors	85%	85%	84%	80%	1%	6%
Average age of independent directors	63.1	63.0	62.6	61.0	1%	3%
<b>New Independent Directors</b>						
Total number	397	345	291	329	36%	21%
Women	36%	32%	26%	19%	38%	89%
Minorities	20%	15%	12%	n/a	75%	n/a
Average age of independent directors	57.3	57.3	56.7	56.3	1%	2%
Active CEO/chair/president/COO/vice chair	18%	19%	25%	33%	-28%	-45%
Retire CEO/chair/president/COO/vice chair	18%	19%	16%	14%	13%	29%
Financial backgrounds	29%	25%	21%	19%	38%	53%
Other corporate executives	24%	23%	22%	21%	9%	14%
<b>First-time directors</b>						
% of all new directors	45%	32%	30%	n/a	50%	n/a
Average age of independent directors	55.2	56.2	53.4	n/a	37%	n/a
# of first-time directors	179	110	86	n/a	108%	n/a
<b>Women directors</b>						
Women as a % of all directors	22%	21%	17%	16%	29%	38%
Boards with at least one woman directors	99%	99%	91%	91%	9%	9%

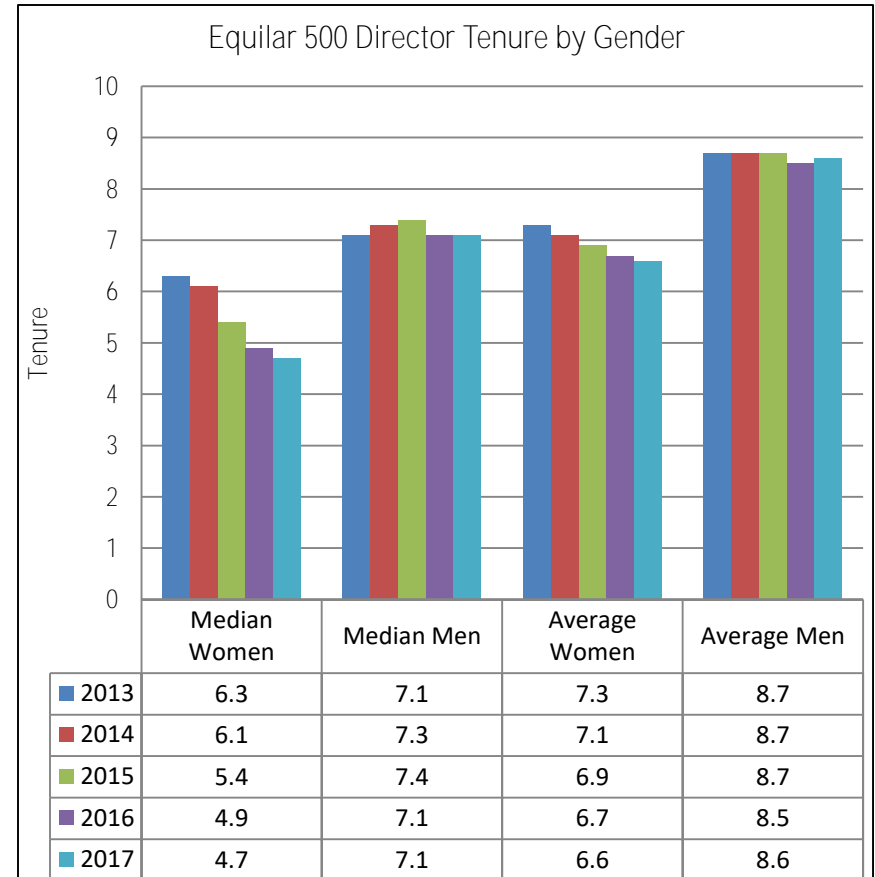
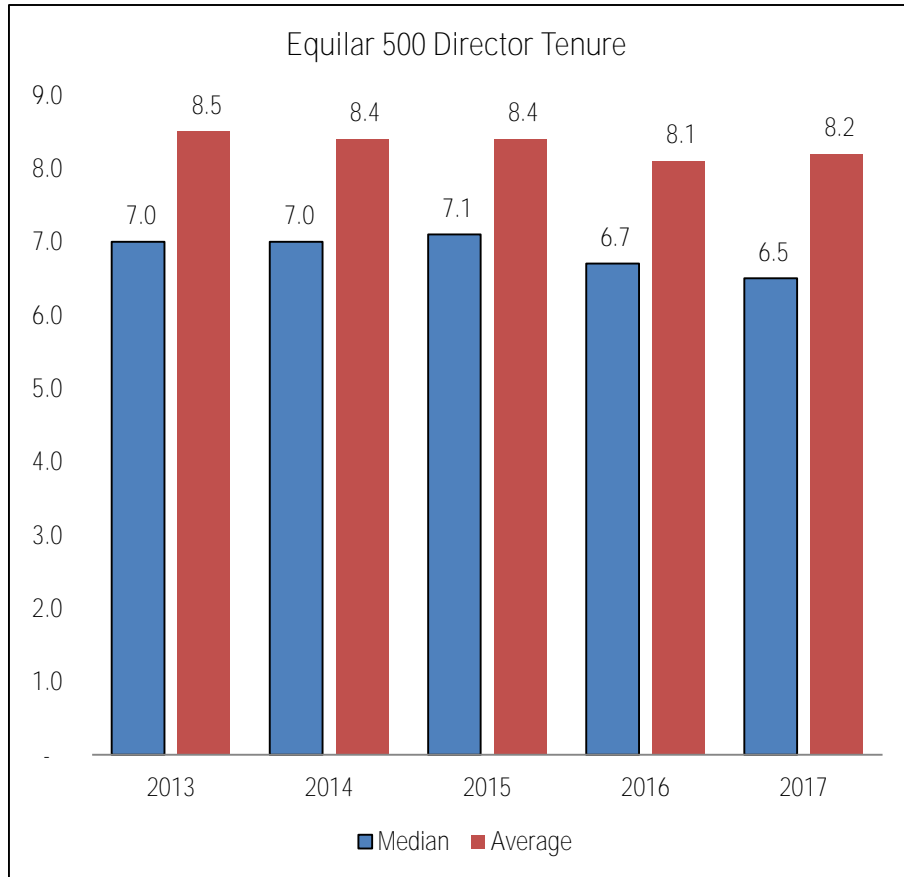
Source: Spencer Stuart - December 2017

# Corporate Governance Trends – Directors with Multiple Board Seats



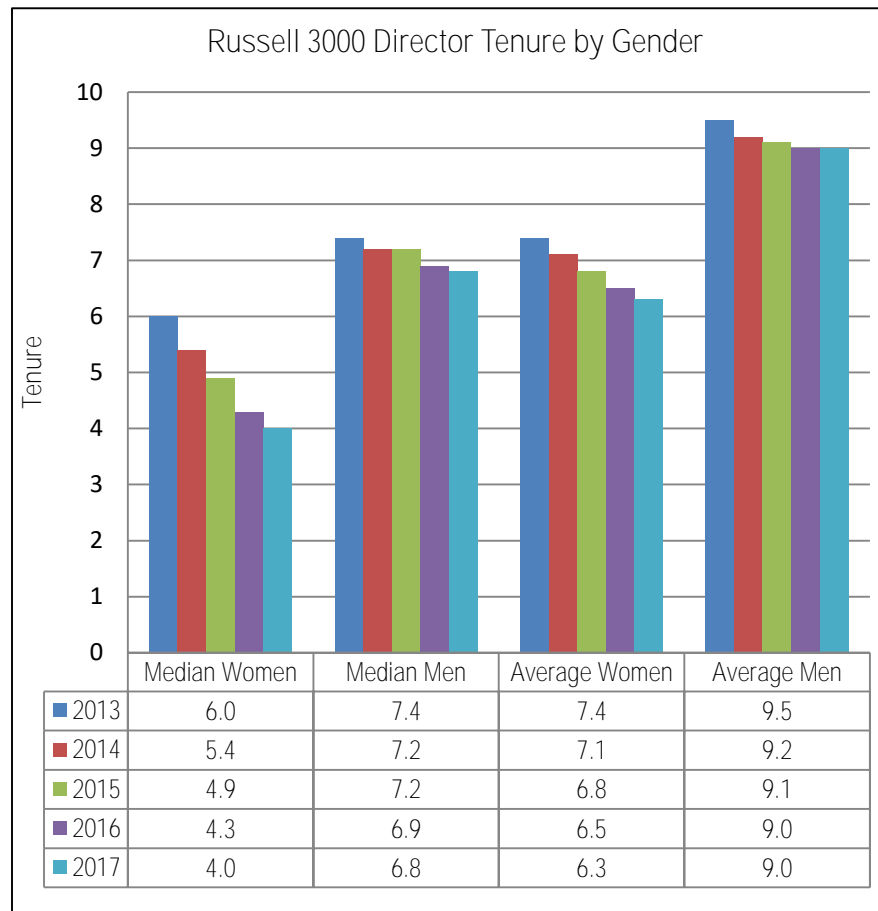
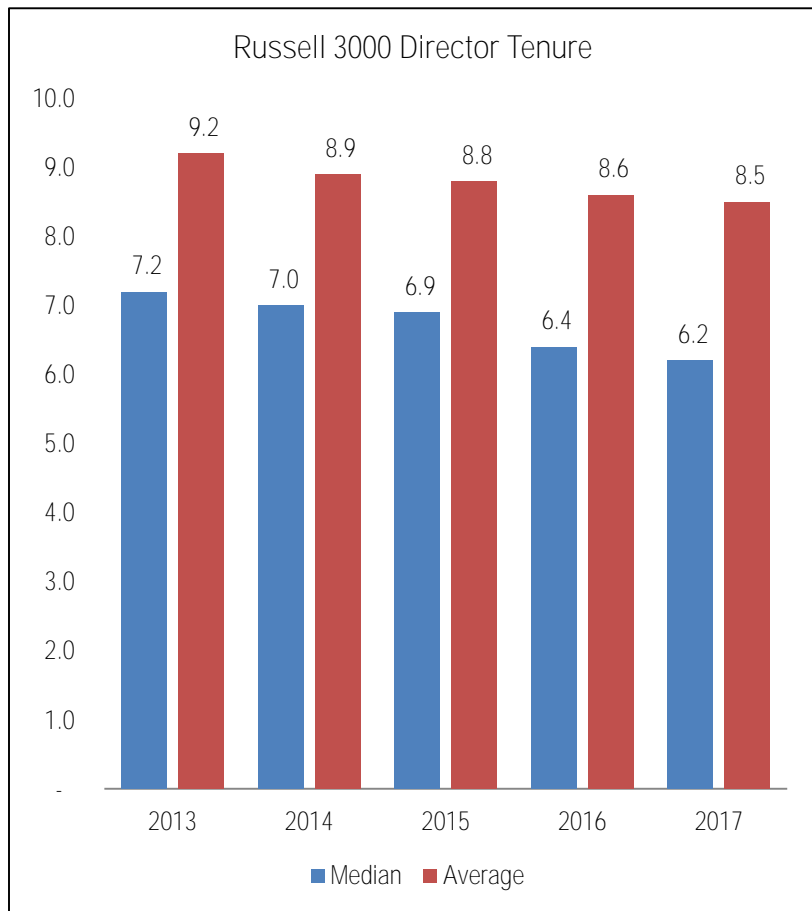
Source: Equilar data as of September 2017

# Corporate Governance Trends – Director Tenure



Source: Equilar data as of September 2017

# Corporate Governance Trends – Tenure & Diversity



Source: Equilar data as of September 2017