

# Proxy Voting Overview

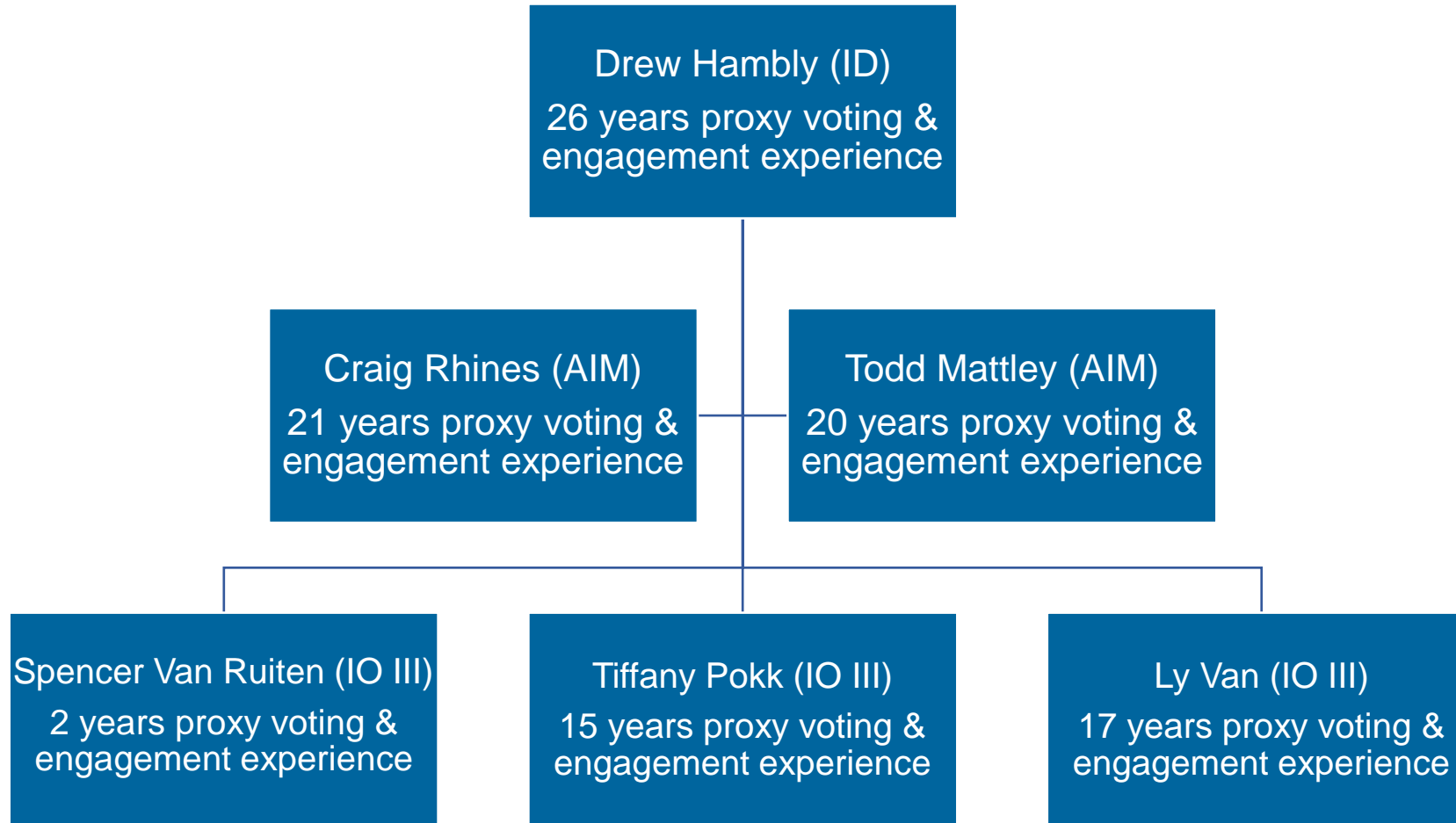
Drew Hambly, Investment Director  
Global Public Equity

July 15, 2024

### Stewardship Program

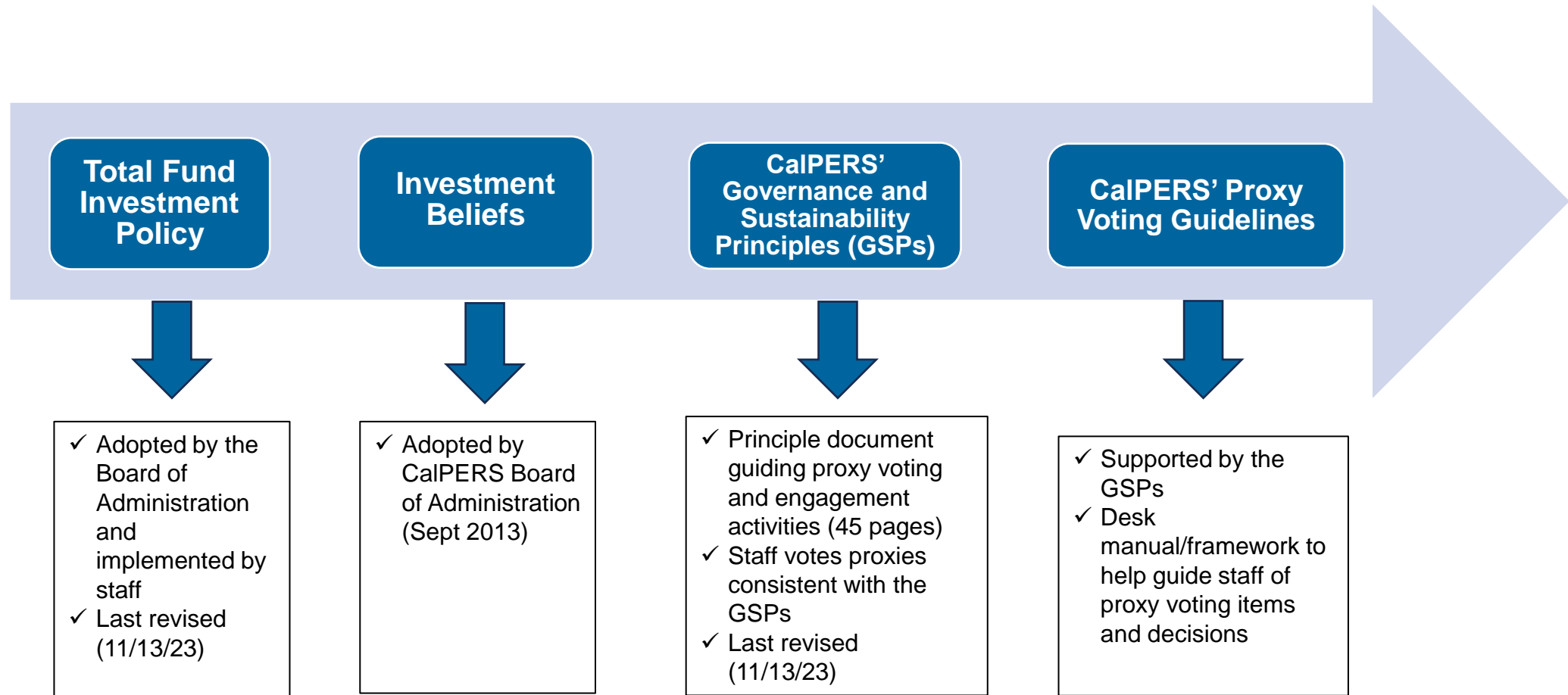
<b>Proxy Voting</b>	<ul style="list-style-type: none"><li>• Vote all public company proxies consistent with CalPERS Governance &amp; Sustainability Principles</li></ul>
<b>Engagement</b>	<ul style="list-style-type: none"><li>• Engage portfolio companies on compensation, corporate board diversity, energy transition, sustainability, human capital management, and governance best practices</li><li>• Promote long-term value creation</li></ul>
<b>Partnerships</b>	<ul style="list-style-type: none"><li>• Use external and internal partnerships to engage global asset owners and managers, companies, data providers, regulators, and standards-setting bodies</li></ul>
<b>Research</b>	<ul style="list-style-type: none"><li>• Continuous research, development, and integration of best practices, proxy voting enhancements, and evolution of Governance &amp; Sustainability Principles</li></ul>

## Stewardship Team | Organization Chart





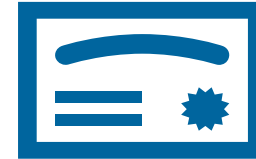
## Stewardship | CalPERS Governance Documents



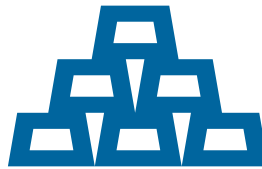
## Stewardship | CalPERS Global Public Equity Holdings



Public Equity AUM = \$225b (as of 3/31/24)

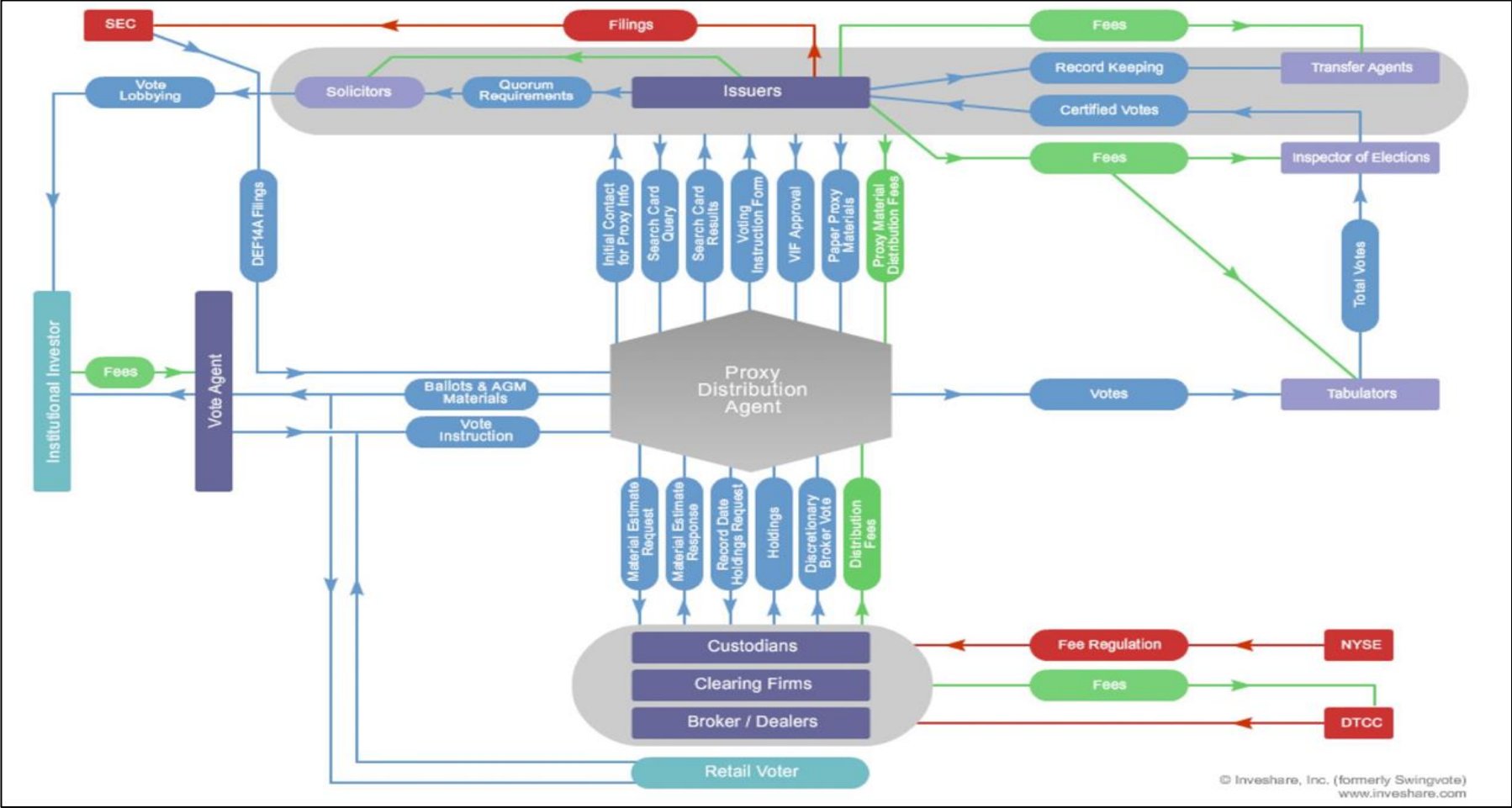
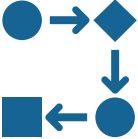


Range of CalPERS Ownership as % of Outstanding Shares ranges from 0.01% to 2%. Average is 0.2%



Portfolio of approximately 6,800 securities  
(U.S. = 1,200 / INTL = 5,600)

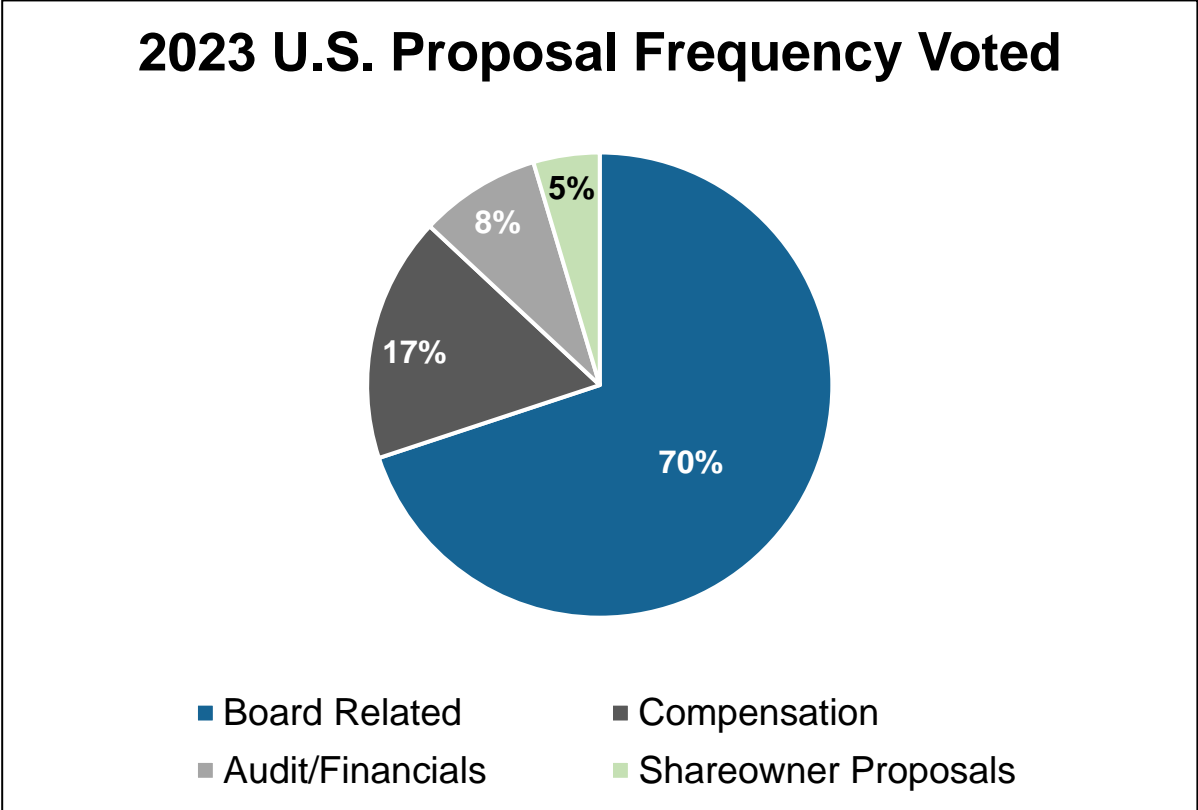
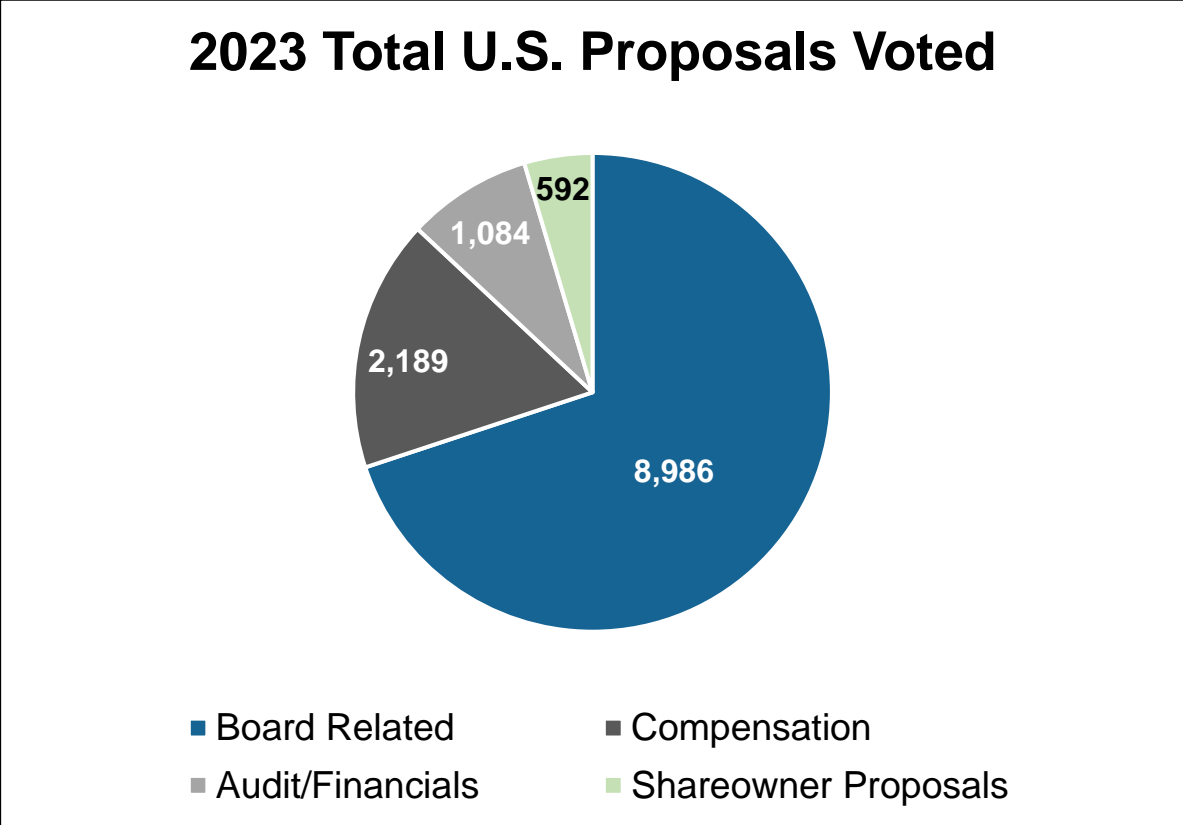
# Proxy Voting Process





# Proxy Voting and Proposal Prevalence

## CalPERS United States voting totals and proposal frequency in 2023





### **CalPERS' Governance and Sustainability Principles (GSPs)**

**ESG Principles and topics covered by CalPERS GSPs**

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- Investor Rights
- Board Quality
- Executive Compensation
- Corporate Reporting
- Regulatory Effectiveness

### **CalPERS' Proxy Voting Guidelines**

**The Proxy Voting Guidelines provide staff a principle-based voting framework on important and commonly presented voting items**

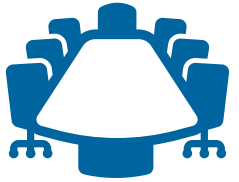
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- Director Elections
- Contested Elections
- Executive Compensation
- Capital Structure
- Auditor Related Issues
- Shareowner Proposals (ESG)

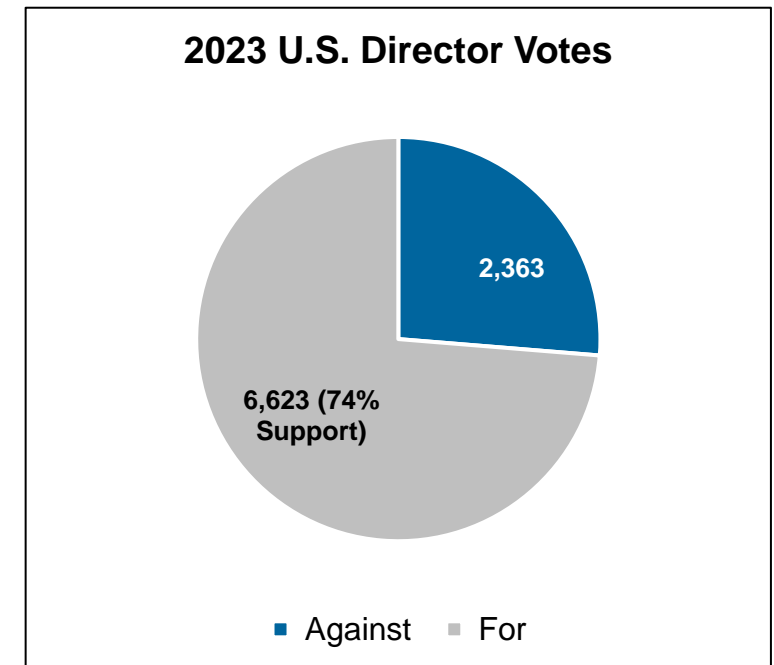
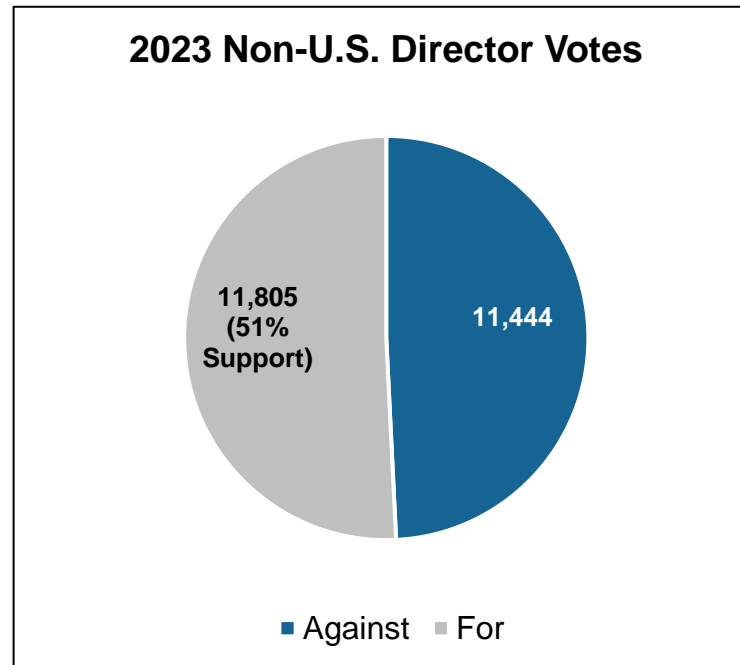


## Director Elections

CalPERS' will vote "for" or "against" director nominees consistent with the GSPs



- Primary reasons staff will vote "against" directors:
  - Board Independence
  - Key Committee Independence
  - Over-boarding/time commitments
  - Failure to align pay with performance
  - Climate Risk Oversight
  - Board Tenure
  - Multi-Class Share Structure
  - Board Composition/DEI
  - Board Oversight Failures
  - Director alignment with CalPERS Principles





## Director Vote Examples

### CalPERS' vote examples "against" director nominees

- Staff votes "against" individual directors consistent with CalPERS Governance & Sustainability Principles
- See common reasons below for Climate, HCM/DEI, and Board Oversight:

#### Climate

- Company: Chevron Corp. AGM 5/31/23
- Voted "against" all members of the Public Policy & Sustainability Committee over issues related to climate risk

#### HCM/DEI

- Company: Ford Motor AGM 5/11/23
- Voted "against" all members of the Nominating & Governance Committee surrounding issues on board composition/DEI

#### Board Oversight

- Company: Southwest Airlines AGM 5/17/23
- Voted "against" directors for oversight failures surrounding 2023 flight disruptions/financial impact. Staff also had concerns with executive compensation and board composition/DEI



## Executive Compensation


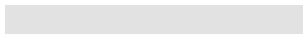
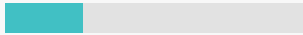


- Commonly referred to Advisory Vote on Executive Compensation or Say-on-Pay (SOP)
- CalPERS current approach to voting Say-on-Pay proposals was implemented in September of 2019 (“framework”)
- CalPERS voting framework has two components:
  - 5-year custom quantitative Pay-for-Performance (P4P) model.
  - Qualitative analysis of the design and structure of the compensation plan
- Primary reasons to vote “against”
  - Negative P4P scores
  - Long-term incentives have vesting and/or performance periods of less than 3 years
  - Excise tax gross-ups
- A vote “against” an SOP results in a corresponding “against” vote for members of the Compensation Committee



**Executive Compensation –  
Quantitative Review**

**CalPERS 5 Year Custom Model (P4P)**

➤ P4P Summary Scores:

5-Year Metrics	Values	Russell 3000 Percentile
<b>P4P™ Score</b>		
Realizable Pay	-62	4 <sup>th</sup> 
Grant Date Fair Value	-196	0 <sup>th</sup> 
Financial Outcomes Spread (Shareholder - CEO)	-2.8%	26 <sup>th</sup> 
Shareholder Financial Outcome (TSR)	31.9%	46 <sup>th</sup> 
CEO Financial Outcome	34.7%	72 <sup>nd</sup> 



**Executive Compensation  
– Quantitative Review**

**CalPERS 5 Year Custom Model (P4P)**

➤ P4P Score (Realizable):

5-Year Annualized TSR (%)			5-Year Realizable Pay (\$)		
AZO	8/31/2023	27.0	BJ	1/31/2023	256,214,240
TSCO	12/31/2023	22.7	<b>DLTR</b>	<b>1/31/2023</b>	<b>247,021,441</b>
TGT	1/31/2023	20.9	AZO	8/31/2023	224,503,362
LOW	1/31/2023	17.0	TGT	1/31/2023	162,702,925
TJX	1/31/2023	17.0	LOW	1/31/2023	156,625,181
KR	1/31/2023	10.4	ACI	2/28/2023	127,360,326
ROST	1/31/2024	9.9	TSCO	12/31/2023	118,007,083
BBY	1/31/2023	7.1	KR	1/31/2023	116,486,328
<b>DLTR</b>	<b>1/31/2023</b>	<b>5.7</b>	TJX	1/31/2023	112,040,522
DG	1/31/2024	3.8	ROST	1/31/2024	93,044,145
M	1/31/2023	2.8	DG	1/31/2024	90,492,947
BURL	1/31/2024	2.1	M	1/31/2023	83,962,232
KSS	1/31/2024	-13.1	BURL	1/31/2024	82,109,181
JWN	1/31/2024	-14.4	BBY	1/31/2023	80,845,021
ACI	2/28/2023	N/A	KSS	1/31/2024	39,091,216
BJ	1/31/2023	N/A	JWN	1/31/2024	18,586,996



**Executive Compensation –  
Quantitative Review**

**CalPERS 5 Year Custom Model (P4P)**

➤ P4P Score (Grant Date Fair Value):

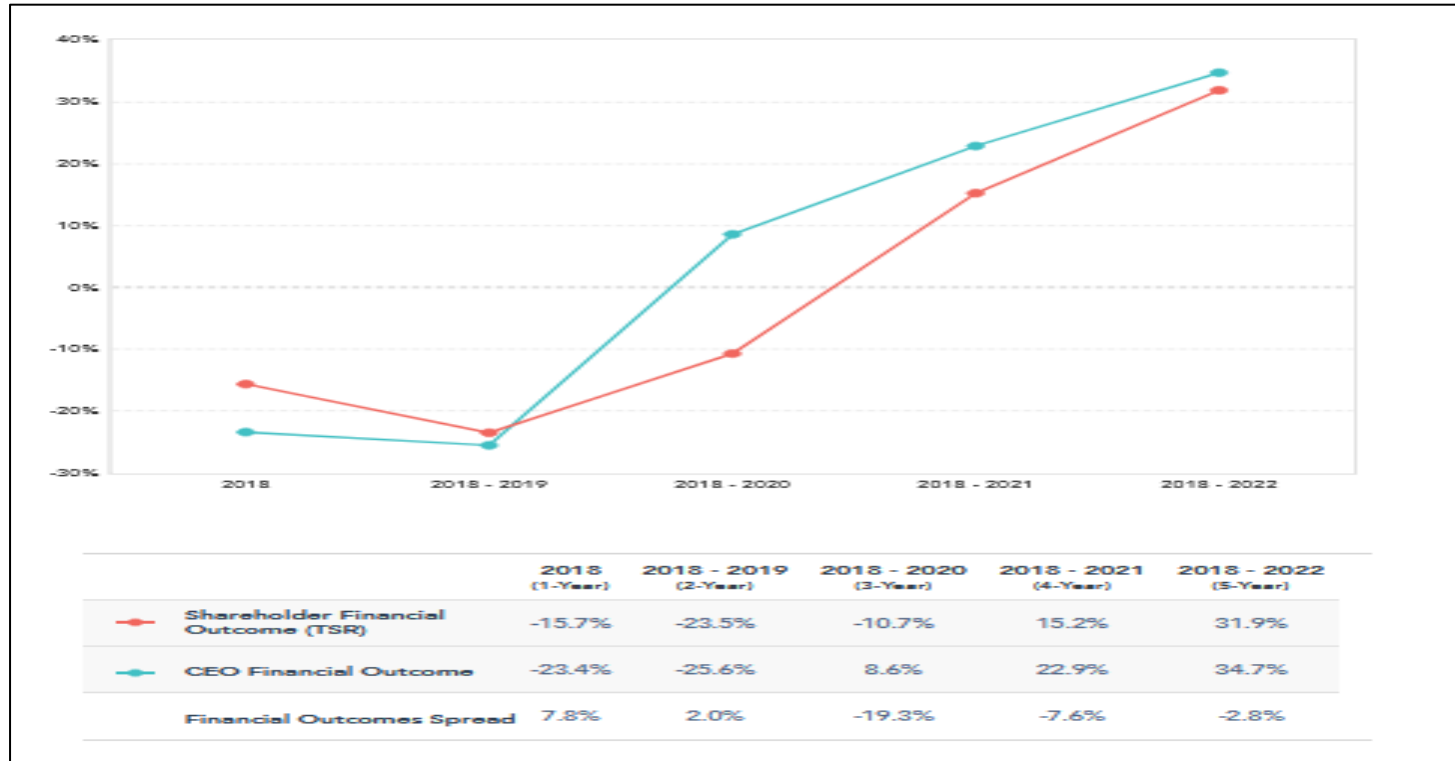
5-Year Annualized TSR (%)			5-Year Grant Date Fair Value Pay (\$)		
AZO	8/31/2023	27.0	<b>DLTR</b>	<b>1/31/2023</b>	<b>183,337,112</b>
TSCO	12/31/2023	22.7	BJ	1/31/2023	91,112,969
TGT	1/31/2023	20.9	TGT	1/31/2023	87,868,125
LOW	1/31/2023	17.0	BURL	1/31/2024	84,636,126
TJX	1/31/2023	17.0	TJX	1/31/2023	82,946,136
KR	1/31/2023	10.4	LOW	1/31/2023	81,447,369
ROST	1/31/2024	9.9	KR	1/31/2023	79,818,492
BBY	1/31/2023	7.1	BBY	1/31/2023	68,049,560
<b>DLTR</b>	<b>1/31/2023</b>	<b>5.7</b>	ROST	1/31/2024	66,461,812
DG	1/31/2024	3.8	DG	1/31/2024	64,991,431
M	1/31/2023	2.8	ACI	2/28/2023	63,285,472
BURL	1/31/2024	2.1	AZO	8/31/2023	62,501,905
KSS	1/31/2024	-13.1	M	1/31/2023	55,525,734
JWN	1/31/2024	-14.4	TSCO	12/31/2023	54,987,610
ACI	2/28/2023	N/A	KSS	1/31/2024	52,256,477
BJ	1/31/2023	N/A	JWN	1/31/2024	27,516,415



**Executive Compensation –  
Quantitative Review**

**CalPERS 5 Year Custom Model (P4P)**

➤ Financial Outcome Spread (Shareholder – CEO):



## Shareowner Proposals

### Types of shareowner proposals – Environmental, Social, Governance (ESG)

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- Staff will vote “for” or “against” individual shareowner proposals consistent with CalPERS Governance & Sustainability Principles:
- Common types of proposals voted “for”:

#### Environmental

Report on Climate Change, GHG Emission Disclosure, Climate Lobbying, Report on Plastics, Align Value Chain GHG Reductions w/ Paris

#### Social

Human Rights Standards, Racial Equity Audits, Freedom of Association, Child Labor, Political Spending, Diversity & Inclusion Report

#### Governance

Proxy Access, Majority Voting, Separate Chairman & CEO, Annual Director Elections, Special Meetings



## Shareowner Proposals - Examples

### Examples of shareowner proposals voted “for” and “against”

#### ➤ Shareowner proposals voted “for”:

##### Environmental

- Southern Company AG 5/24/23
- Proposal Request for Scope 3 Emission Disclosures

##### Social

- Starbucks Corp AGM 3/23/23
- Proposal Regarding Freedom of Association Policy

##### Governance

- Citigroup Inc. AGM 4/25/23
- Proposal Separate Chair/CEO

#### ➤ Shareowner proposals voted “against”:

##### Environmental

- Microsoft Corporation AGM 12/7/23
- Proposal Request for Report on Climate Risk in Employee Retirement Options

##### Social

- Starbucks Corp. AGM 3/23/23
- Proposal Regarding Plant Based Milk Pricing

##### Governance

- Bank of New York Mellon AGM 4/12/23
- Proposal Regarding Severance Approval Policy



## Mergers & Acquisitions

**CalPERS votes mergers and acquisitions based on the best economic outcome as an investor**

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- The following are evaluated for these types of proposals:
  - Premium being offered
  - Economic merits and anticipated synergies
  - Independence of Board, or special committee
  - Tax and regulatory impact
  - Corporate governance changes



## Proxy Contests

**CalPERS votes Proxy Contests based on the best economic outcome as an investor**

- These types of meetings are infrequent
- Staff will engage both the management and dissident
- Primary factors considered to formulate a vote decision to support either management or the dissident:
  - Long-term company performance (financial and operational)
  - Corporate governance – investor rights, board and compensation issues
  - Strategy Review – evaluation of the management and dissident strategic plan
  - Qualifications and skill-set review (management and dissidents)

## Proxy Advisory / Research Firms

Firms provide research, data, and proxy voting recommendations

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### Glass Lewis

- Proxy Research
- We utilize the Glass Lewis “ViewPoint” voting platform to execute votes
- NPX Filings

### Institutional Shareholder Services (ISS)

- Proxy Research
- Voting Analytics

### Equilar

- Compensation Data
- Diverse Director Data Source

**Note:** CalPERS staff will review information provided by these firms, but only as a “resource”. The CalPERS Governance & Sustainability Principles guide all proxy voting decisions.

### Stewardship – Corporate Engagement

**We engage portfolio companies surrounding environmental, social and governance (ESG) factors to help create value over the long-term**



Our engagement activities fall under three broad categories:

- Routine – Ongoing interactions with companies, especially around annual meetings and post-meeting follow-up
- Initiative Based – These are related to CalPERS strategic and core initiatives
- Event Driven – Triggered by specific events and are centered around controversies or governance concerns

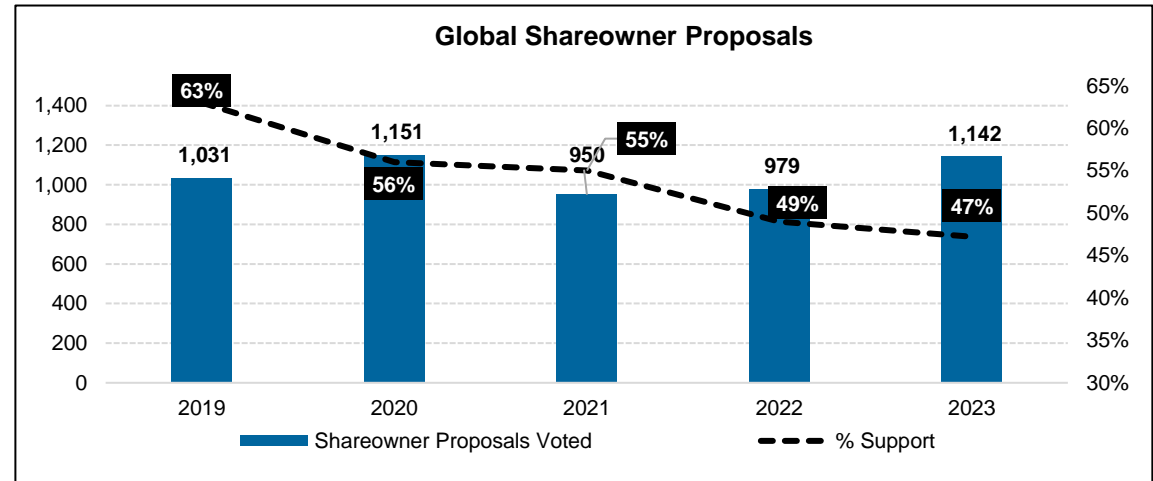
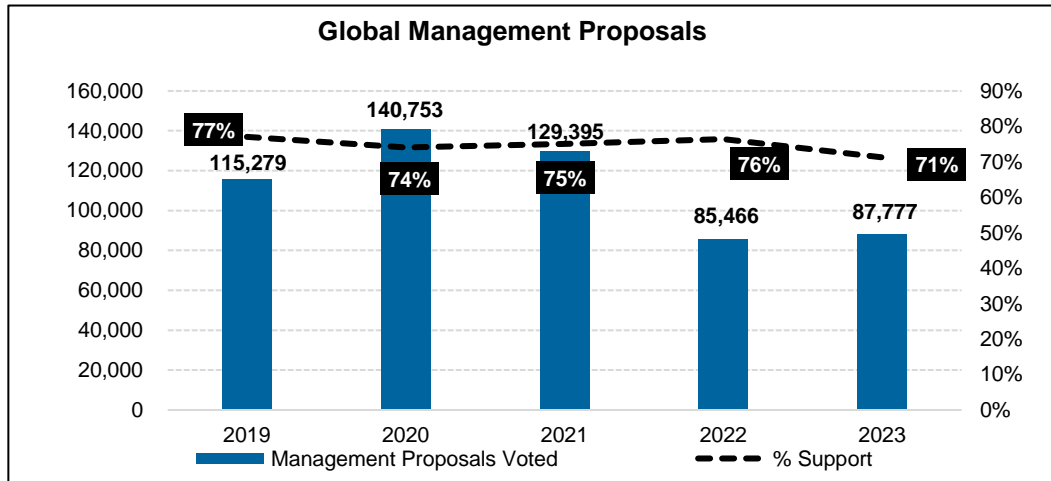
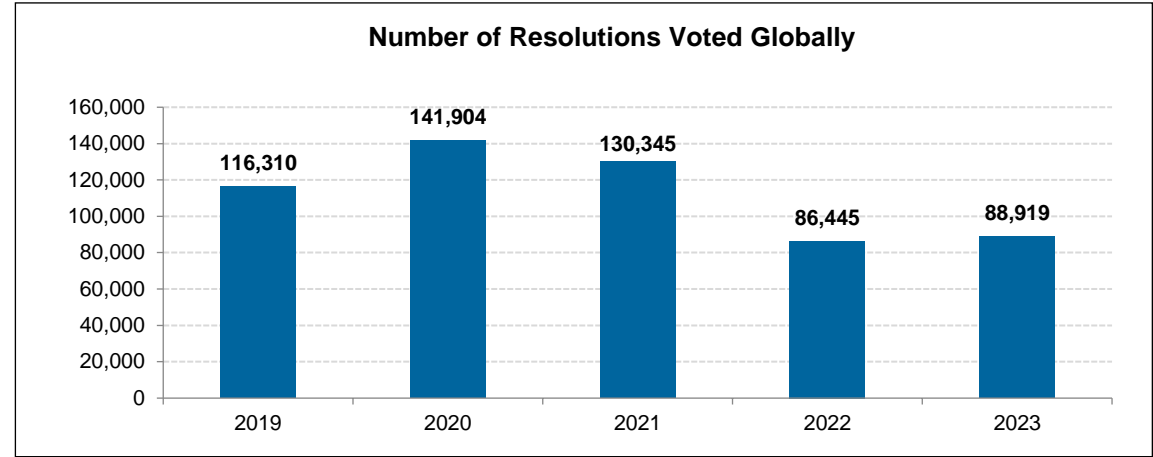
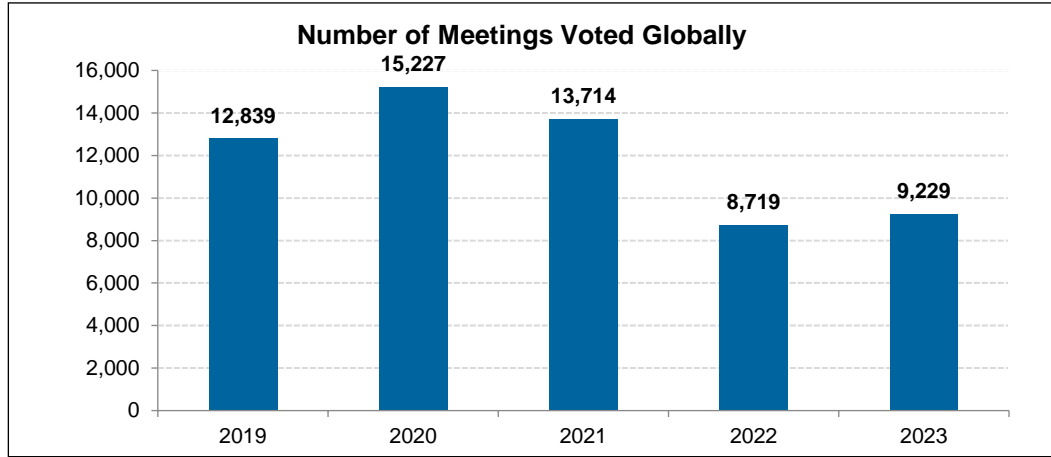
### Engagement Process

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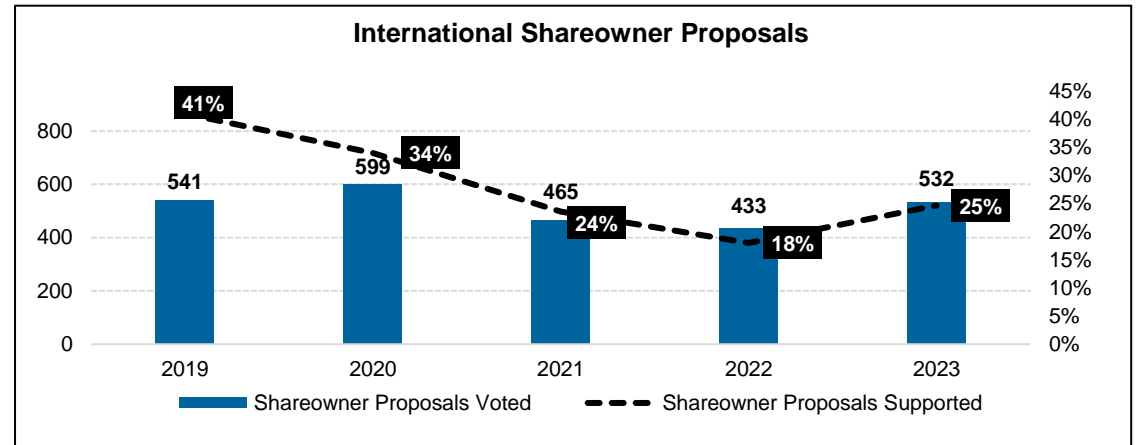
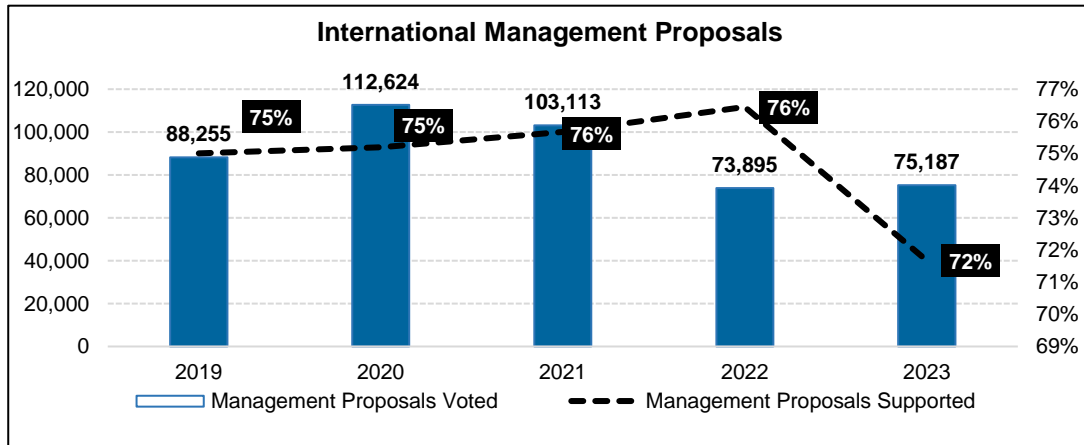
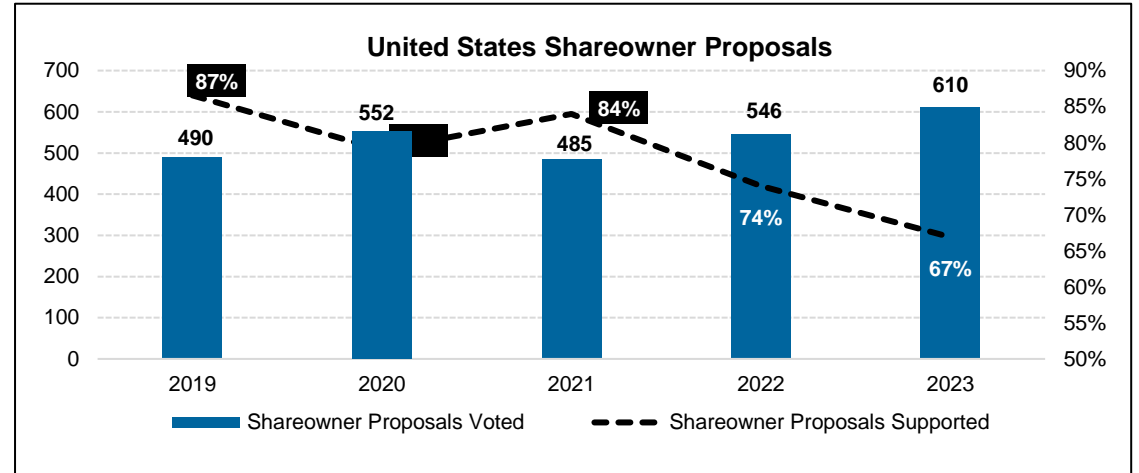
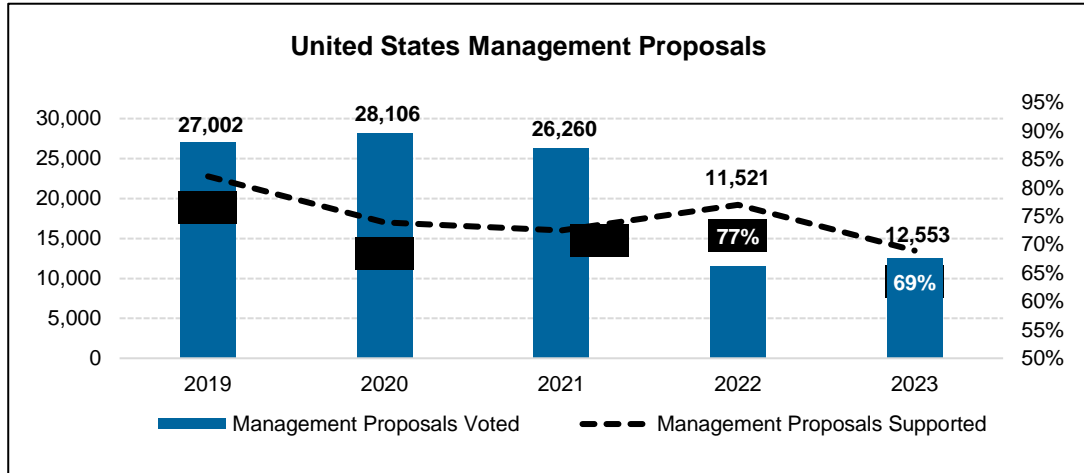
The following framework guides our engagement program:

- Principles and Policy: Are the issues supported by CalPERS Investment Beliefs, Governance & Sustainability Principles, or other Investment Policy?
- Materiality: Does the issue have impact on the company's risk/opportunity within the portfolio framework?
- Definition and Likelihood of Success: Is success likely, in that our action will influence an outcome that can be measured?
- Capacity: Do we have the expertise, resources, and standing to influence an outcome?

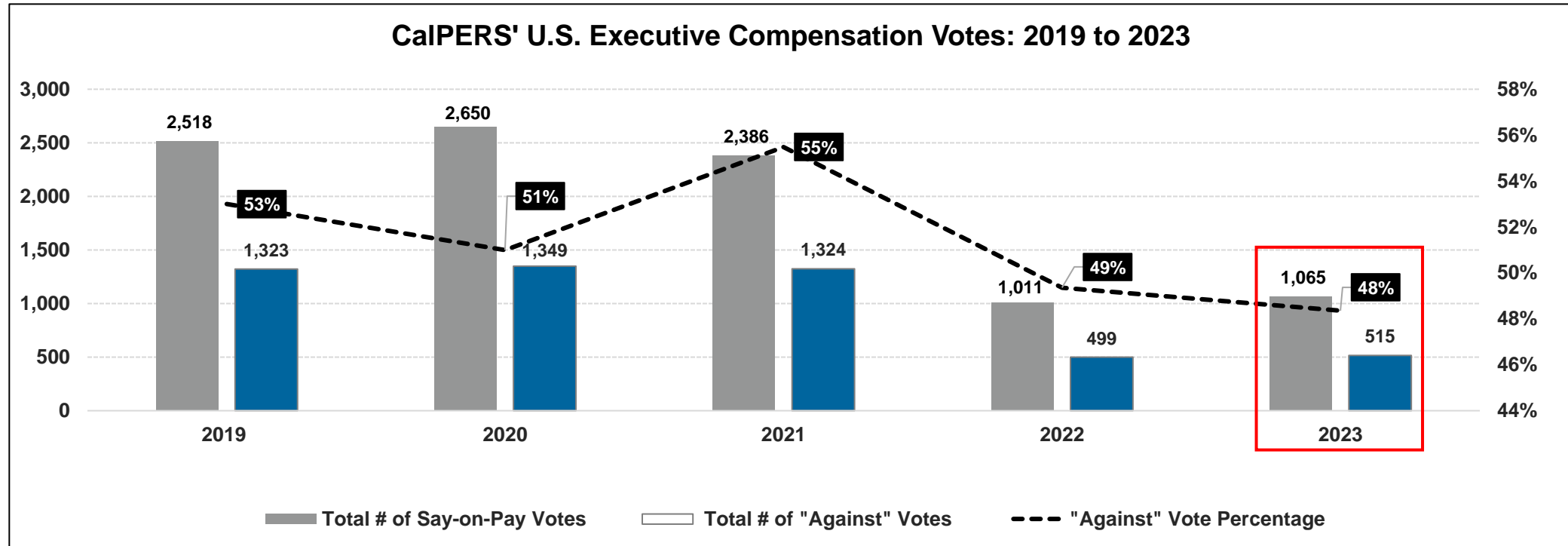
# CalPERS Proxy Voting | Global Vote Record – 2019 to 2023



# CalPERS Proxy Voting | Proposal Support Level Globally – 2019 to 2023



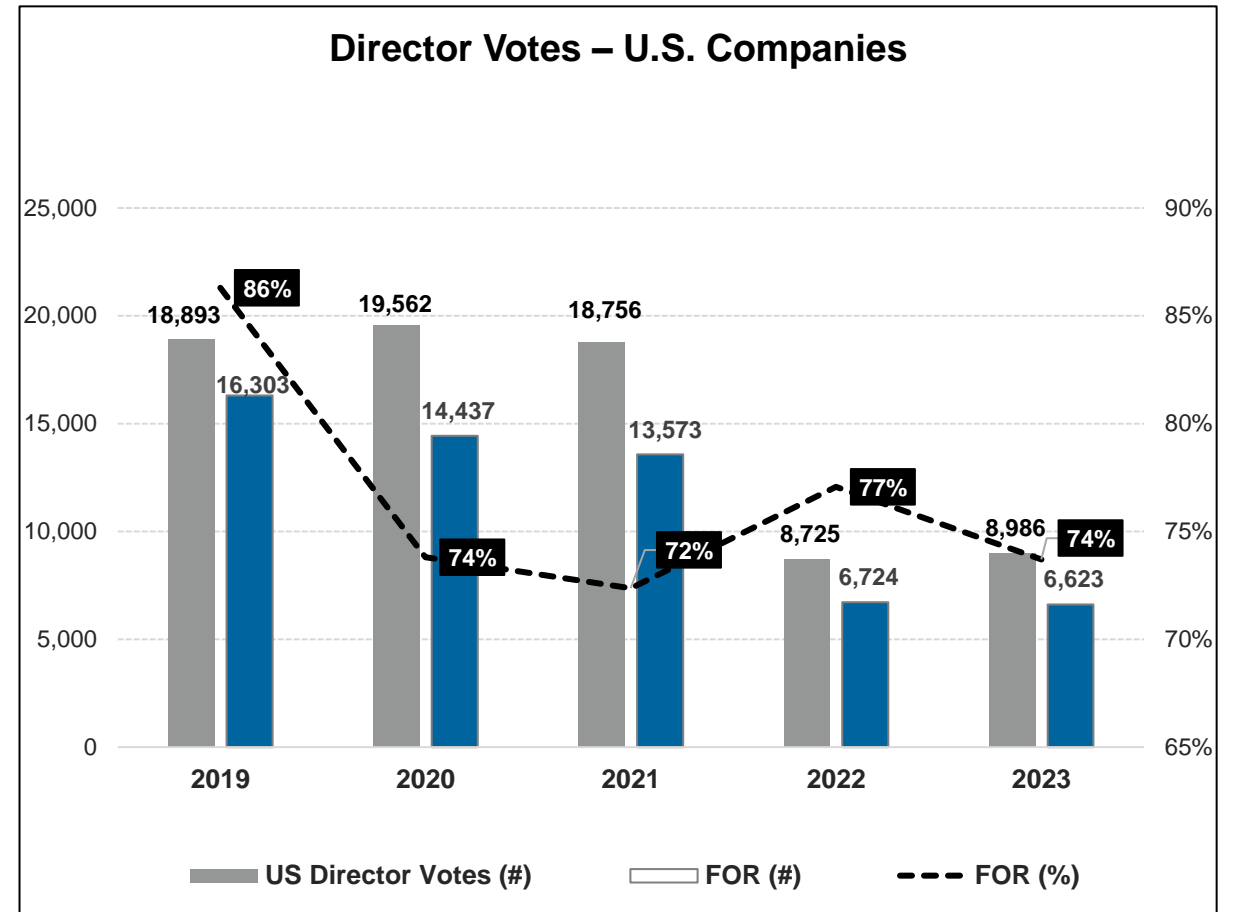
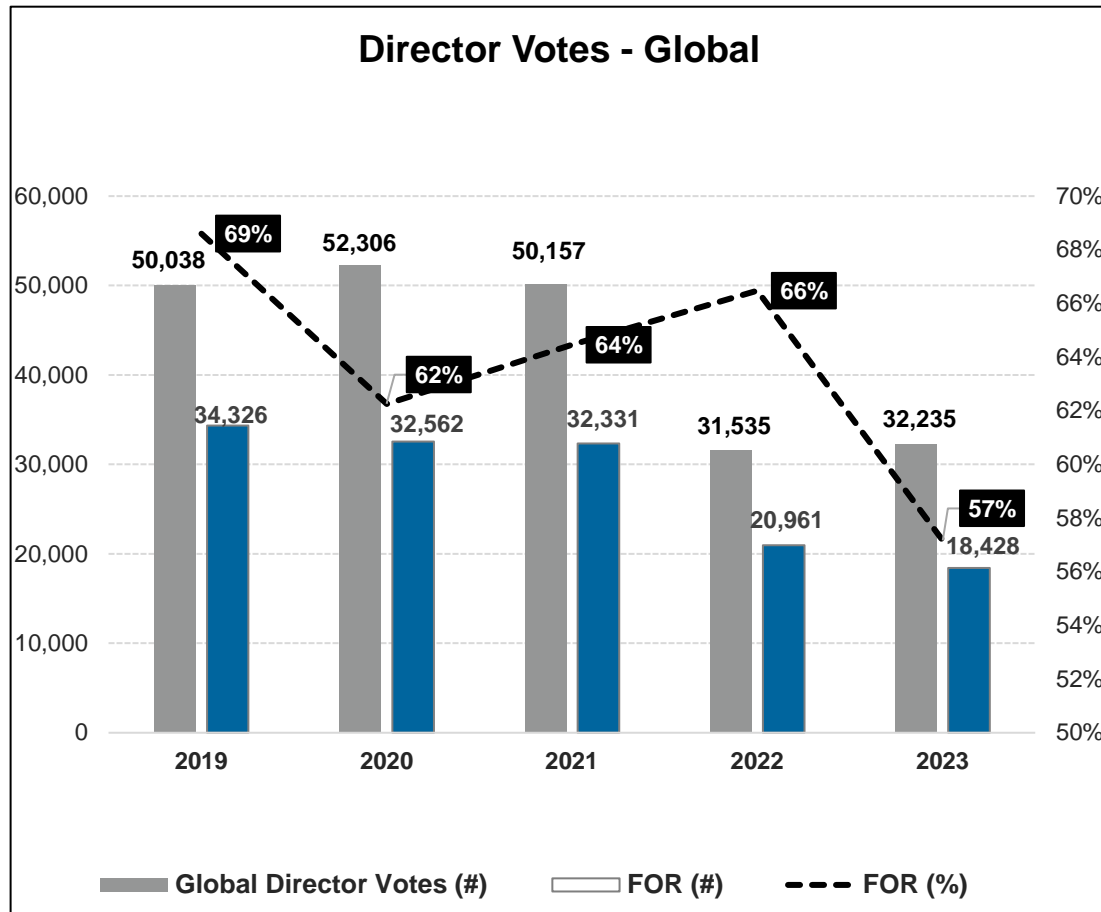
## CalPERS Proxy Voting | U.S. Executive Compensation Votes



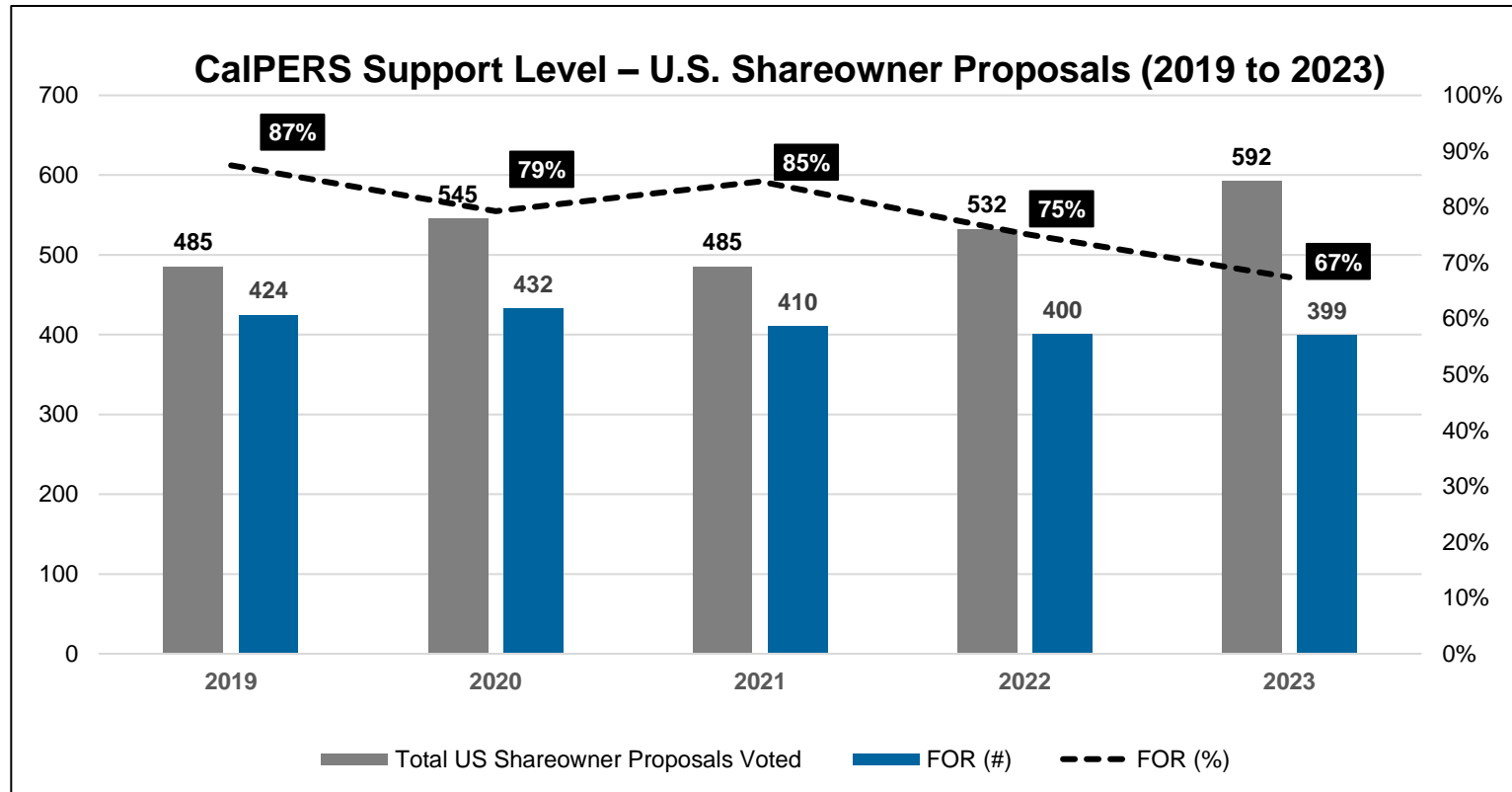
- Director Accountability: CalPERS opposed 1,236 compensation committee members



# CalPERS Proxy Voting | Director Voting Support Levels – 2019 to 2023

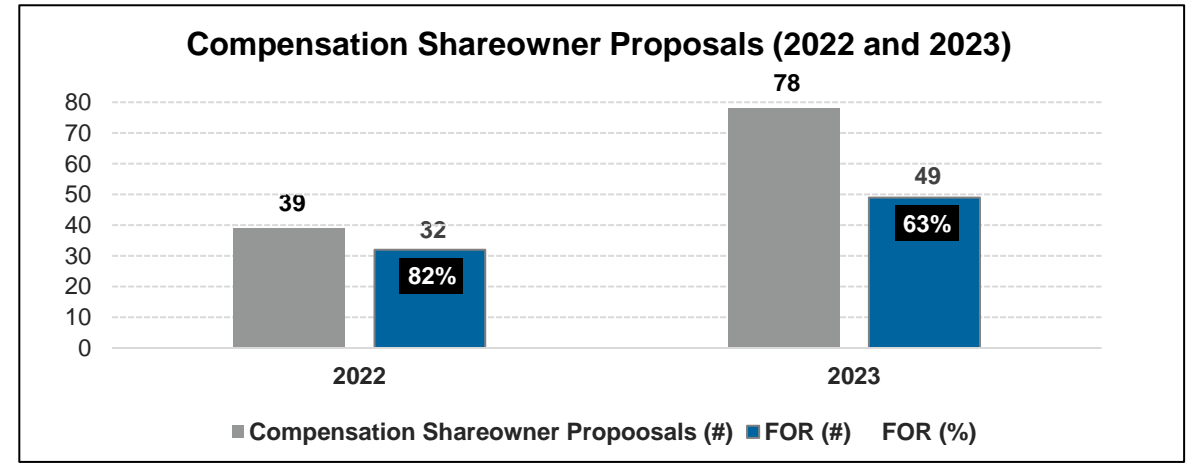
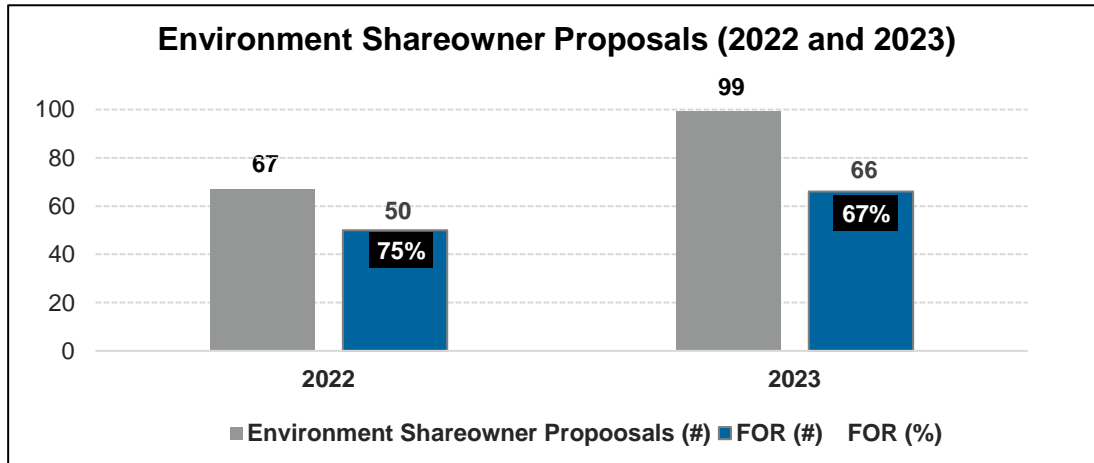
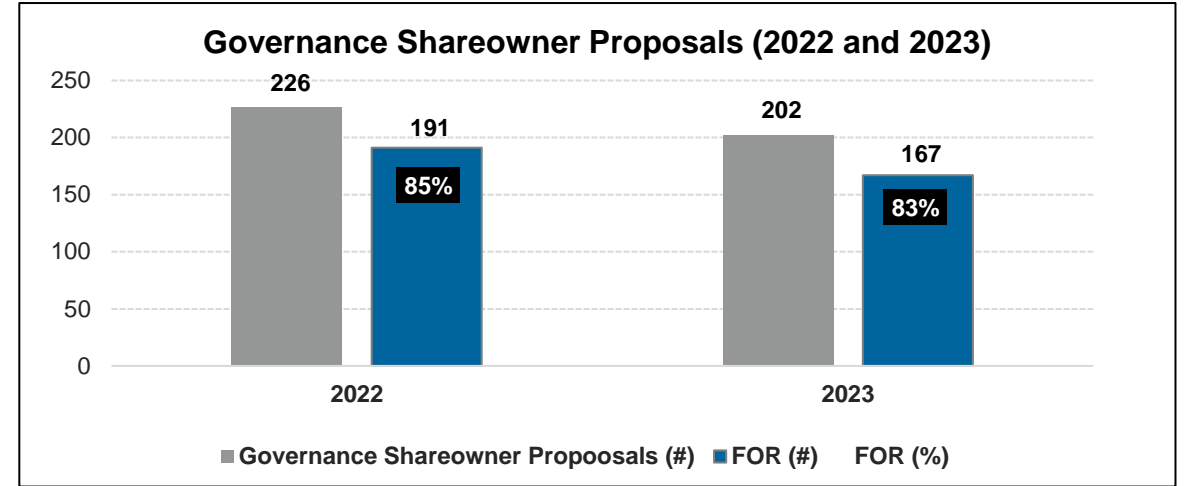
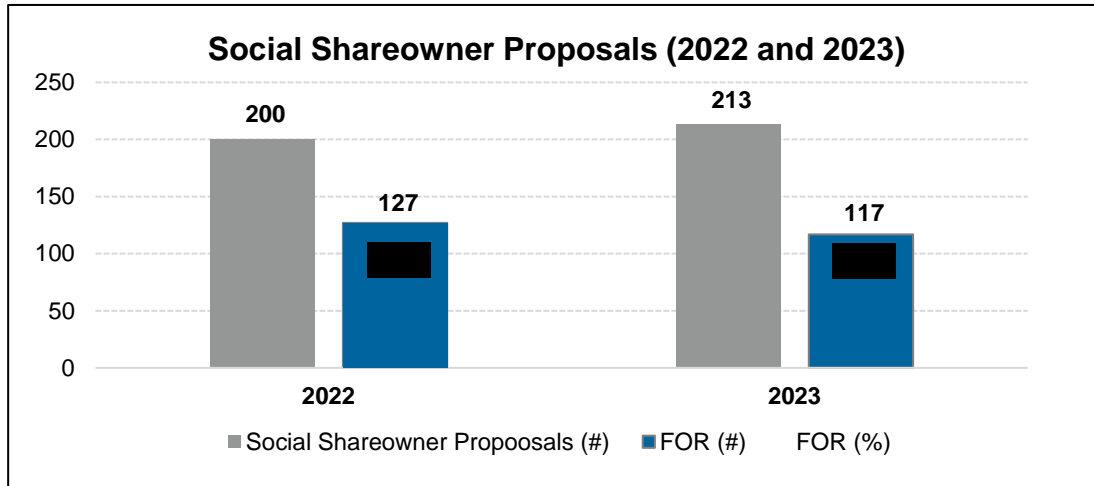


# CalPERS Proxy Voting | U.S. Shareowner Proposal Support Levels 2019 to 2023



\*\*Excludes shareowner proposals categorized as “miscellaneous” within proxy reporting\*\*

## CalPERS Proxy Voting | U.S. Shareowner Proposal Support Level by Issue 2022 and 2023



## CalPERS Proxy Voting | Most Common U.S. Shareowner Proposals – 2023

Most Common Social Proposals	Proposals (#)	FOR (#)	FOR (%)
Reviewing Political Spending or Lobbying	51	40	78%
Human Capital Management	30	15	50%
Racial Equity Audit	23	10	43%
Compliance with International Human Rights Standards	22	20	91%
Drug Pricing/Distribution	11	5	45%

Most Common Environmental Proposals	Proposals (#)	FOR (#)	FOR (%)
Report on Climate Change	35	16	46%
Report and Reducing Greenhouse Gas Emissions	30	30	100%
Environmental Report	13	9	69%
Climate Lobbying	9	9	100%

Most Common Governance Proposals	Proposals (#)	FOR (#)	FOR (%)
Separate Chair CEO	78	71	91%
Right to Call a Special Meeting	35	31	89%
Eliminate Supermajority Provisions	13	13	100%

Most Common Compensation Proposals	Proposals (#)	FOR (#)	FOR (%)
Regarding Golden Parachutes	41	21	51%
Race/Gender Pay Equity Report	12	12	100%
Restricting Executive Compensation	13	10	77%

# CalPERS Corporate Governance Resources

## CalPERS Corporate Governance Website:

<https://www.calpers.ca.gov/page/investments/corporate-governance>

- **Corporate Engagements** – <https://www.calpers.ca.gov/page/investments/corporate-governance/corporate-engagement>
  - ✓ Board Diversity
  - ✓ Climate Risk Oversight
  - ✓ Executive Compensation
  - ✓ Japan Board Independence
  
- **Proxy Voting** – <https://www.calpers.ca.gov/page/investments/corporate-governance/proxy-voting>
  - ✓ Vote Disclosure Trends (new)
  - ✓ Governance and Sustainability Principles (45 pages)
  - ✓ Proxy Voting Guidelines (15 pages)
  - ✓ Notable Proxy Votes
  - ✓ Global Proxy Voting Decisions
  - ✓ Executive Compensation Analysis Framework (28 pages)