

CalPERS Proxy Voting Guidelines

February 2023



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Introduction

The CalPERS proxy voting guidelines are supported by the [CalPERS Governance & Sustainability Principles](#) and we vote our proxies in a manner consistent with these principles and in the interests of our beneficiaries. These guidelines are intended to provide an overview of our general philosophy and approach to the most important and commonly presented proxy voting items. In general, we use a comprehensive approach when determining and evaluating proxy votes, taking into consideration issues such as investors' rights, board quality, compensation, corporate reporting, and regulatory effectiveness. The primary objective in exercising our ownership rights is to ensure that our portfolio companies are managed and governed in such a way as to generate long-term sustainable investment returns consistent with our [Total Fund Investment Policy](#) and [Investment Beliefs](#). As part of our analysis, we may also engage corporate issuers and other relevant parties to obtain additional information, perspectives and insights on certain proxy issues before making an informed voting decision.

We make all our proxy voting decisions independently and will apply discretion, when appropriate. We also publicly post our proxy votes on the [CalPERS website](#) in advance of each company's annual general meeting.

Our proxy voting guidelines are organized according to the seven sections, as outlined below:

- Director Elections
- Contested Elections
- Compensation
- Capital Structure
- Auditor and Audit-related Issues
- Other Issues
- Shareholder Proposals

Director Elections

We believe that high quality corporate boards should be comprised of mostly independent directors and be diverse with an appropriate balance of skills, expertise, and tenure. The following are common instances that typically will result in a withhold vote for a director:

1. Board Independence

We will withhold votes from directors who are not considered independent and serve on a board that is less than 50% independent.

2. Key Board Committee Independence

We will withhold votes from directors who are not considered independent and serve on key board committees. The key board committees are Nominating/Governance Committee, Audit Committee, and Compensation Committee.

3. Poor Attendance

We will withhold votes from directors who have poor attendance, that is, directors who fail to attend at least 75% of the aggregate board and key board committee meetings on which the director served, absent an appropriate explanation for any extraordinary circumstances.

4. Overboarded

We will withhold votes from directors who serve on an excessive number of boards. We consider directors overboarded in the following instances:

- The director is a non-executive director who serves on more than four public boards.
- The director is an executive director who serves on more than two public boards. In such cases, we will not withhold from the directors at the company where the director holds the executive position.

5. Board Diversity

On a case-by-case basis, where our engagements are not successful, we will withhold votes from directors who are nominating/governance committee members, board chairs, or long-tenured directors (greater than 12 years on the board) on boards that lack diversity and do not make firm commitments to improving the board diversity in the near term.

6. Climate Risk Oversight

For the largest GHG emitters in our portfolio, we will withhold votes from relevant committee members (and/or board leadership) who serve on a board that demonstrated a lack of board oversight related to climate-related risks. Consistent with our Climate Action 100+ engagements, we may consider elements of the Climate Action 100+ Benchmark to help inform our voting decisions.

7. Board Refreshment

We will withhold votes from directors who are nominating committee members on a board where more than one-third of the directors have a tenure of more than 12 years and less than one-third of the directors were appointed within the past 6 years.

8. Board Oversight

We will withhold votes from directors who serve on a board that demonstrated a lack of board oversight in its fiduciary duties and responsibilities.

9. Compensation-related Concerns

- We will withhold votes from directors who are compensation committee members in the same year that we vote against the advisory vote on executive compensation, also generally known as a say-on-pay vote, or other compensation plans. An exception applies to compensation committee members who have served on the board for less than one year.
- We will withhold votes from directors who are compensation committee members whenever an advisory vote on executive compensation has not been put up for shareowner vote. An exception applies to compensation committee members who have served on the board for less than one year.

10. Audit-related Concerns

- We will withhold votes from directors who are audit committee members and the company had audit-related issues such as a material financial restatement, internal control weaknesses or a qualified audit opinion in the recent past. An exception applies to audit committee members who have served on the board for less than one year.
- We will withhold votes from directors who are audit committee members and the company did not put the auditor for ratification. An exception applies to audit committee members in companies in Japanese markets or audit committee members who have served on the board for less than one year.
- We will withhold votes from directors who are audit committee members in the same year that we vote against the auditor ratification proposal. An exception applies to audit committee members who have served on the board for less than one year.

11. Board Accountability

- We will withhold votes from incumbent directors on a board that amended or adopted a shareholder rights plan, also known as a poison pill, without shareholder approval.
- We will withhold votes from directors who are nominating committee members on a board that amended or adopted the company's bylaws, articles or charter that would materially and adversely impact shareholder rights without shareholder approval.

12. Board Not Responsive to Shareowners

- We will withhold votes from directors who received less than majority support in the previous year.
- We will withhold votes from directors who are nominating committee members on a board that failed to remove directors who received less than majority support at the prior board election.
- We will withhold votes from directors who are nominating committee members on a board that failed to act on a shareholder proposal that received majority support in the prior year.

13. Multi-Class Share Structure and Unequal Voting Rights

- We will withhold votes from directors who are nominating committee members on a board with a multi-class share structure and unequal voting rights when the company does not provide a reasonable sunset of the multi-class share structure.

Contested Elections

We vote contested elections on a case-by-case basis. In addition to considering the following factors, we may engage both the company's management and the dissidents to obtain additional information, perspectives and insights before formulating a vote decision.

- Corporate governance, which includes a review of investor rights, board-related issues, and compensation issues.
- Long term company performance, which includes an evaluation of the company's long-term financial and operational performance relative to its peer index.
- Strategy review, which includes an evaluation of the management and dissidents' strategic plan, the track record of management and dissidents, the board candidate qualifications relative to the strategic plan, and capital allocation.

Compensation

We believe well-designed compensation programs can be a powerful and effective tool to incentivize executives and employees and appropriately align their interests with those of shareowners to enhance long-term shareowner value. We generally vote proposals related to compensation on a case-by-case basis after consideration of various factors. Our voting guidelines on compensation should be read in conjunction with [CalPERS' Executive Compensation Analysis Framework](#).

1. Advisory Vote on Executive Compensation (Say on Pay)

We generally support say-on-pay proposals that demonstrate the compensation plan is well-structured and shows an appropriate pay-for-performance alignment over a long-time horizon.

We consider long-term to be at least 5 years, and preferably 10 years. We use both a quantitative and qualitative approach to review compensation plans.

a. Quantitative Review

Our quantitative review includes an assessment of the company's pay-for-performance alignment using our proprietary 5-year realizable pay model (CalPERS P4P model). Our pay-for-performance analysis ensures that the quantum of executive compensation is reasonable on an absolute basis, as measured relative to the company's own historical performance over 5 years, and on a relative basis, as measured relative to its peers over a 5-year period. We will consider an against vote for the say-on-pay proposal if we identify a misalignment in pay-for-performance in the compensation plan.

b. Qualitative Review

Our qualitative review includes an assessment of the design and structure of the compensation plan. We will consider an against vote for the say-on-pay proposal if, among others, some of the following pay features, are included in the compensation plan:

- Short vesting periods and insufficient holding periods for long-term equity awards*
- Short performance periods for long-term equity awards
- Use of similar metrics for short-term and long-term incentive plans
- Use of adjusted metrics or non-GAAP metrics on compensation plans without sufficient justification and prominent disclosure of the reconciliation with GAAP metrics. We believe that the regulatory requirement for companies to report their earnings based on Generally Accepted Accounting Principles (GAAP) accounting is appropriate for consistency and comparability
- Lack of policy prohibiting the use of derivative instruments that work to eliminate executives' underlying equity exposure
- Single-trigger change-in-control payments. We believe that any provisions providing for compensation following change-in-control events should be "double-triggered," that is, such provisions should stipulate that compensation is payable only: (a) after a control change takes place, and (b) if a covered executive's job is terminated or downgraded because of the control change
- Excessive severance provisions and excise tax gross-ups. We believe excise tax gross-ups should not be permitted in compensation programs; executives should be responsible for paying their own excise taxes
- Lack of a comprehensive clawback policy. We believe that companies should develop and disclose policies to recoup compensation made to executives during periods of fraudulent activity, inadequate oversight, misconduct including harassment of any kind such as sexual harassment, or gross negligence, which impacted or is reasonably expected to impact financial results or cause reputational harm

- Discretionary pay, one-time awards, and guaranteed bonus without sufficient justification
- Lack of comprehensive disclosure of the incentive plan structure and features that prevents shareholders from being able to prospectively assess how pay scales with performance, and retroactively assess pay outcomes given the performance outcomes.

*We consider long-term to be at least five years. In practice, we typically accept 3-year cliff vesting schedules with an additional 2-year holding requirement as being equivalent to a 5-year vesting period. In general, we are not supportive of equity awards with ratable vesting structures. Furthermore, CalPERS will most likely vote against compensation plans where a significant portion of total equity awards vest in less than three years and/or includes ratable vesting, unless an additional holding period is in place. To discourage short-term focus ahead of separation, we also prefer longer post-separation holding periods (i.e. two years).

2. Equity Plan

We vote on equity plan proposals on a case-by-case basis. We may vote against an equity plan proposal if the company has a significant pay-for-performance misalignment, as determined by the CalPERS P4P Scorecard. Also, we will review multiple quantitative tests that evaluate dilution, burn rate and percentage of equity grants awarded to executives relative to peers. Additionally, we review for any other structural features, which may include evergreen provisions, single trigger equity change-in-control provisions, repricing or buyout provisions, and equity grants made at less than full value.

3. Director's Compensation Plan

We generally support director compensation proposals that do not excessively pay directors for serving on the board and do not include options or other performance-based awards.

4. Change-in-control Payment

We vote these types of proposals on a case-by-case basis after review of the amount and terms of the change-in-control payments. We believe that any provisions providing for compensation following change-in-control events should be "double-triggered," that is, such provisions should stipulate that compensation is payable only: (a) after a control change takes place, and (b) if a covered executive's job is terminated or downgraded because of the control change.

Capital Structure

1. Mergers & Acquisitions

We vote merger and acquisition proposals on a case-by-case basis. Consideration is based on the review of the following: strategic and financial rationale for the transaction; valuation of the transaction; sale process; independence of board, or special committee, recommending the

transaction; independence of financial advisor and financial opinion for the transaction; Corporate governance changes; and tax and regulatory impacts.

2. Asset Purchases/Sales

We vote asset sale or purchase proposals on a case-by-case basis. We evaluate the following: transaction prices; fairness opinion; financial and strategic benefits; impact on the balance sheet and work capital; the negotiation history and process; potential conflicts of interest; other alternative for the business; and non-completion risk.

3. Authorization to Issue Shares

We vote these proposals on a case-by-case basis. We consider the rationale provided by the company for issuing the additional shares.

4. Share Repurchase

We generally support share repurchase proposals, provided that a reasonable rationale is given.

5. Reincorporation to a Different State

We vote these proposals on a case-by-case basis after reviewing the rationale and evaluating the changes to shareowner protections and the company's corporate governance.

6. Amend Bylaws or Article of Association

We vote these proposals on a case-by-case basis after reviewing the potential impact on shareholders' rights and value.

Auditor and Audit-Related Issues

1. Auditor Ratification

We generally ratify the auditors recommended by the company unless the non-audit related fees for services provided by the auditors are excessive and exceed 50-percent of the total audit fees paid.

2. Financial Statements

We generally support the routine voting item seeking shareholder approval of the company's financial statements unless there are appropriate reasons to vote otherwise.

Other Issues

1. Employee Stock Purchase Plan

We generally support proposals related to employee stock purchase plans.

2. Board Size

We support proposals seeking to set the board size or range for the board size.

3. Related Party Transactions

We vote these types of proposals on a case-by-case basis, with consideration given to transactions that are reviewed by independent committees and are completed at arm's length or independently, such that they are not beneficial to directors and/or insiders at the company or shareowners' expense.

4. Meeting Adjournment

We generally vote against proposals to adjourn a meeting, except in instances, where it is related to a merger or acquisition that we support.

5. Transact Other Business

We vote against proposals granting company permission to transact other business as a voting item at the annual shareowner meeting.

6. Other Voting Issues

We use appropriate judgment and analysis on various miscellaneous issues on a case-by-case basis in a manner consistent with our Governance & Sustainability Principles. We will vote against ballot items without sufficient disclosure of information.

Shareholder Proposals

We consider shareholder proposals on a case-by-case basis in a manner consistent with our Governance & Sustainability Principles and after consideration of various factors, such as level of board oversight, overall disclosure level, and the risks related to the company's legal, financial, regulatory, reputation and/or operations.

Governance Proposals

1. Proxy Access

We support proposals allowing shareowner access to the director nomination process and the company's proxy materials for long-term investors or a group of long-term investors who own in aggregate three percent of the company's voting stock for at least three years to nominate up to 25 percent of the board.

2. Majority Vote for Director Elections

We support proposals for the adoption of a majority voting standard for directors in uncontested elections.

3. Simple Majority Vote Requirements

We support proposals requiring a simple majority vote requirement for bylaw and charter amendments and all other matters that may materially impact shareholder rights and requiring shareowner approval. We vote against proposals requiring supermajority requirements, except in situations where they are intended to protect minority shareholders and where there are unequal voting rights.

4. Independent Chair

We generally support proposals requesting the separation of the CEO and chair roles. We believe that the board should be chaired by an independent director and that CEO and chair roles should only be combined in very limited circumstances.

5. Annual Elections

We support proposals for the declassification of the board to allow for directors to be elected annually.

6. One-share/One-vote

We support proposals requesting a one-share/one-vote.

7. Special Meetings

We support proposals requesting the right to call a special meeting.

8. Right to Act by Written Consent

We support proposals requesting the right to act by written consent.

9. Poison Pills

We support proposals seeking shareholder approval before amending or adopting a shareholder rights plan, as known as a poison pill.

10. Cumulative Voting

We always support proposals requesting for cumulative voting for director elections to be in compliance with California Government Code 6900.

11. Exclusive Forum

We vote against proposals seeking to establish an exclusive forum provisions since we oppose restrictions on shareowners to pursue derivative claims and participate in the selection of appropriate venue.

Environmental Proposals

1. Environmental and Sustainability

We generally support proposals seeking greater disclosure of a company's environmental

practices. We also support proposals seeking greater disclosure of a company's environmental risks and liabilities as well as its opportunities and strengths in this area.

2. Greenhouse Gas Emissions

We generally support greenhouse gas emission proposals, such as those requiring companies to disclose risk factors regarding existing or pending legislation that relates to climate change and assess whether such regulation will likely have any material effect on the company's financial condition or results, the impact of which is not limited to negative consequences but should include new opportunities as well.

3. Energy Efficiency

We generally support proposals requesting energy efficiency proposals. We consider the following: the current level of disclosure related to energy efficiency policies, initiatives, and performance measures; the company's level of participation in voluntary energy efficiency programs and initiatives; the company's compliance with applicable legislation and/or regulations regarding energy efficiency; and the company's energy efficiency policies and initiatives relative to industry peers.

4. Water Supply and Conservation

We generally support proposals related to water supply, such as those seeking disclosure of water supply dependency or preparation of a report pertaining to sustainable water supply for company operations.

Social Proposals

1. Diversity

We generally support diversity proposals requesting the company to provide additional information and disclosure at the board, management and employee levels, and where its diversity lags those of its peers or the population.

2. Political Contributions and Expenditures

We generally support proposals surrounding disclosure of political contributions and expenditures, particularly in instances where there is no board oversight of such activities, and the company does not provide adequate disclosure of the amount, the trade groups or special interest organizations, and the rationale for the contributions or expenditures.

3. Equal Employment Opportunity

We support proposals requesting the adoption of best practice related to EEO activities.

4. Global Labor Standards

We support proposals requesting a company to issue reports on its corporate standards for doing business abroad and to adopt mechanisms for ensuring vendor compliance with these

standards. The standards include policies to ensure that workers are paid sustainable living wages and children are not used as forced labor.

5. Community Impact Assessments

We vote these types of proposals on a case-by-case basis. A support vote may be warranted for proposals requesting a report on a company's policies in this area by evaluating the company's current disclosures, industry norms, and the potential impact and severity of risks associated with the company's operations.

6. Supply Chain Risk

We generally support proposals requesting disclosure of supply chain risks, such as those seeking for more information to better understanding risks to the company through its materials purchasing and labor practices. For example, allegations of sweatshop labor or child labor can harm sales and reputation, so knowledge of the company's policies for preventing these practices are highly relevant to shareowners. Consideration is given to the terms of the proposal against the current company disclosures and industry standards, as well as the potential severity of risks.

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