



**ICGN**

International Corporate Governance Network

## **Welcome Speech: Anne Stausboll, Chief Executive Officer, CalPERS, USA**

On behalf of CalPERS, as well as our colleagues at CalSTRS, we're honored to be hosting this conference. We're going to hear from a wonderful keynote speaker this afternoon, Mary Jo White, Chair of the U.S. Securities & Exchange Commission. Her thoughtful leadership has been essential to our recent success, and I know we're all looking forward to hearing her comments.

This afternoon I'd like to celebrate the progress everyone here has made over the last 30 or so years in promoting good corporate governance and long-term sustainable economies. I'm going to tell the story of the long battle for proxy access that we have fought here in the US, our recent breakthroughs, and some lessons learned. Many of you are probably familiar with CalPERS, but for those who aren't, let me start with a quick snapshot of who we are and how we fit into this community. We're the largest public pension fund in the U.S.; we invest and deliver pension benefits to about 1.7 million public sector workers. CalPERS was founded in 1932, but it was only in 1967 that our governing law permitted us to invest in common stocks. Over the past 50 years our investments in publicly-held companies have grown to over 50 percent of our portfolio. Our fiduciary duty demands that we protect the portfolio that underpins promised pension benefits. In 1985 we co-founded the Council of Institutional Investors to promote the best interests of shareowners in the U.S. I'm proud that CalPERS has also been a part of ICGN since its formation in 1995, when a global governance agenda was embraced to reflect the international markets we invest in.

Turning now to the history of our fight for proxy access. Chief among our governance challenges in the US has been the drive for board accountability. One of our major efforts in recent years has been to win the right of "majority voting." It's amazing that in the U.S., until recently, owners could only vote "yes" to approve management's candidates for the board, and could not vote against them. We worked long and hard with many members of CII and ICGN to bring majority voting to most of the largest companies in our portfolio so that we have the right to vote "no," where appropriate, on the directors that management puts forward. But majority voting is not enough. As owners we also want to be able to put candidates on to the ballot. The U.S. is virtually alone in international markets in not giving investors this fundamental right as owners to nominate directors to corporate boards and it's been our longstanding priority to gain that access.

Access to the proxy helps assure that we have high-quality corporate boards. Diverse boards with directors who are independent, strategic thinkers on long-term issues, like climate change, that can impact the sustainability of their companies. Over the years, several roadblocks have prevented us from being able to exercise this fundamental right to nominate directors through access to the proxy. Historically, federal rules prohibited shareowners from placing the names of their own director candidates on public company proxy cards. This meant that long-term shareowners who wanted to run their



own qualified candidate had to pursue a full-blown election contest, a prohibitively expensive action for most asset owners.

The proxy has been a focus of CalPERS' corporate governance efforts for nearly three decades. In the late '80s and early '90s, we began working with the SEC on numerous proxy changes, including removing limitations on communication among shareowners, a reform the SEC adopted in 1992. Rich Koppes, former General Counsel of CalPERS (who is here today and first hired me at CalPERS) was among the leaders of this early movement. By the time we adopted our first CalPERS Global Corporate Governance Principles in 1999, we had firmly established our objectives of board accountability and proxy access. Jumping ahead to 2009, and in the wake of the economic crisis, a Shareholder Bill of Rights Act was introduced to Congress. It supported governance measures such as "say on pay", shareholder input on board elections, heightened risk oversight, and the all-important proxy access but it was never enacted. Then in 2010, the SEC, despite significant opposition, issued a rule that provided long term shareowners, with a three percent ownership threshold, the ability to place a limited number of director nominees on the company's proxy. That rule finally enabled us to nominate and elect directors to company boards. So it was extremely disappointing when the SEC rule was vacated in a court challenge mounted by the Chamber of Commerce and Business Roundtable.

However, another channel was still available; the ability to file shareholder proposals at companies, one by one, calling for the voluntary introduction of proxy access through an advisory shareowner vote. CalPERS and other investors began filing and winning these proposals. What followed was a bold initiative from the New York City Comptroller, the Board Accountability project. In 2015 New York filed proposals at 75 companies, and CalPERS entered into a partnership to both jointly engage these companies, and to run full proxy solicitations to get out the vote. In response, Texas-based Whole Foods issued a "no action" letter request, asking the SEC to allow them to exclude the proposal from the ballot and substitute their own, much more restrictive, proposal. The SEC staff initially agreed to Whole Foods' request. But after many shareholders challenged the ruling the SEC, under Chair White's leadership, intervened and suspended these "no action" letters and allowed shareowner proposals to go forward on proxy access.

This ruling opened the door that had been locked for so many years to institutional investors. Our 2015 proxy access resolutions were very successful, and this year we continued in another, joint effort with the New York City Comptroller's Office, and our efforts are paying off. Over 200 leading companies have introduced proxy access following shareowner proposals - and the bulk of these have won a majority of investor support. I'm pleased to report that a growing number of companies are introducing proxy access without it going to a vote, a groundbreaking development. Just a couple of years ago, only six U.S. companies had a 3 percent proxy access bylaw in place. That number has now grown to over 215. Recent adopters include major oil and gas companies including Chevron, Conoco Philips, and Occidental ...as well as other major



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companies like Apple, Microsoft, Johnson & Johnson, GE, Amazon, Wells Fargo, AT&T, and Coca-Cola.

The progress has been very exciting and we are now turning our attention to how we will use our new access to ensure the sustainability of our portfolio. We know that strong governance, along with effective management of environmental and human capital factors, increases the likelihood that companies will perform over the long-term and manage risk effectively. So we intend to use our new right to ensure that we have more corporate boards that are diverse, independent, and focused on sustainability and long-term issues like climate change.

I'd like to focus for a moment on diversity and climate competence and why they are so timely and critical. Report after report is showing that diversity leads to better financial performance. Companies with diversity within their organizations have better talent management, greater access to capital, better relations with stakeholders, and more sustainable profits. Let me cite a couple of statistics from recent reports presented to the CalPERS Board; companies in the top quartile for racial and ethnic diversity are 35 percent more likely to have returns above their respective national industry medians. And the return on equity of companies with a woman on the board has averaged higher than for all-male boards. Simply put, diversity drives performance and it's good for business. We're also advocating for heightened reporting and disclosure standards on board diversity, through a petition to the SEC, from CalPERS and other asset owners led by North Carolina. We are very appreciative of Chair White's positive response in public comments she made late last year.

We also want to ensure that our portfolio companies are considering the risks and opportunities associated with climate change and the inevitable transition to a low carbon economy. The signing of the historic Paris Agreement was a powerful global green light on climate change. To achieve its goals, the world must invest an average of one trillion dollars a year in clean energy for several decades. That requirement opens the door for worldwide investment in clean technology innovations. The Paris Agreement also increases pressure on companies to disclose their carbon risks and better measure the impact of climate change on their business. That's why we need climate competent board members who are committed to making sure their companies have long-term strategies to address the world's transition to a low carbon economy.

So as we celebrate our progress on proxy access and its connection to sustainability, what have we learned? Our success is due in large part to our collective efforts, an area in which we continue to improve and learn how to better leverage coalitions and partnerships with organizations like ICGN. And we have learned that often it takes pursuing several different paths at once to gain ground. Paths like shareholder resolutions, shareholder engagement and support from regulators, such as the SEC. The changes we seek, often take time, patience and partnership to realize. That's why it's so important that we're all here today to share resources and learn from one another.



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Before I close I'd like to acknowledge the ICGN for its outstanding leadership. Your tireless efforts to advance public policy, provide expertise on governance issues, and connect investors, companies, and other stakeholders through forums like this, are invaluable. I applaud your ground-breaking work on integrated reporting to bring together financial and sustainability factors. The Global Stewardship Principles, which provide a framework for responsible practices on ESG. And the revised ICGN Integrated Business Reporting Guidance, which will support our company engagements on the importance of ESG for long-term investing.