

Corporate Governance at Work
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- CalPERS endorses the following statement on its website:
- “The choice of a common stock is a single act; its ownership is a continuing process. Certainly, there is just as much reason to exercise care and judgment in being a shareholder as in becoming one.”
 - Security Analysis, Graham and Dodd, 1934.
- All companies experience inevitable periods of stock price appreciation and decline—these periods occur both for well managed and poorly managed companies.
- Accountable governance may mean the difference between prolonged periods of decline and responding quickly to a new course of action.

With this perspective in mind, CalPERS established the term: “Shareowner”

- CalPERS first coined this term in internal documents in 1990.
- “Share Ownership embodies two important principles. First, the term **shareowner** reminds all interested parties—executives, directors, creditors—who is the ultimate owner of the company. Second, with the acknowledgement of share ownership comes the obligation to continue to exercise ownership rights in a public company.”
 - Robert Carlson, Charles Valdes, and Mark Anson: Share Ownership: The Foundation of Corporate Governance,” Journal of Investment Compliance, 2004.
- But now, this term has been adopted by the CFA Institute in its corporate governance manual for CFA Charter holders, and will now become part of the worldwide curriculum to obtain a CFA Charter.

Why Corporate Governance?

- CalPERS firmly believes that good corporate governance is linked with good corporate performance.
- Five years ago, the Investment Staff presented to the CalPERS Board of Trustees a business plan to maximize the value of CalPERS’ corporate governance program.
- The plan was simple: use CalPERS’ expertise in corporate governance to extract greater value from its investments.
- The plan called for a greater commitment of investment capital to a governance style of investing.

CalPERS Corporate Governance Investment Program

- Has Two Prongs:
 - CalPERS’ Annual Focus List
 - CalPERS Investments in Corporate Governance Style Funds

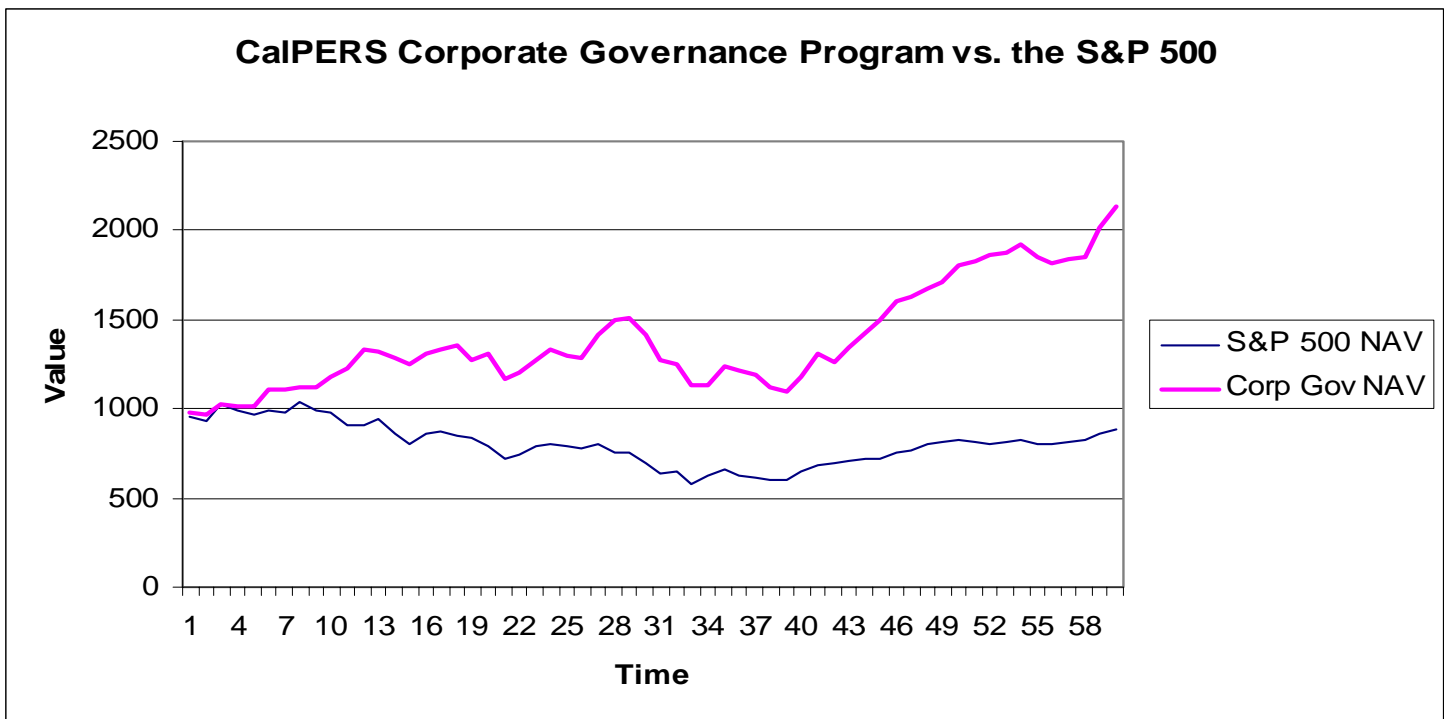
1. Focus List Performance:

CalPERS Focus List: Cumulative Excess Returns

	T-180 to T-90	T-90 to T	T to T+90	T to T+180	T to T+365
Mean CER	-0.18%	6.20%	12.93%	29.40%	59.36%
T Statistic	-0.04	1.46	3.03	4.21	4.91

These are *excess returns* associated with CalPERS' Focus List items. Excess returns are returns that are earned *over and above* the rate of return an investor would demand for holding the stock of a public company. So, CalPERS' Focus List has generated an average annual out performance of 59% for those companies that it targets. This is a significant alpha driver.

2. CalPERS Corporate Governance Funds Performance:



CalPERS corporate governance investments have generated an annual compound return of 16.9% over the last five years, handily beating the average return to the S&P 500 of -2.3% during this time period.

- This is another significant alpha driver for CalPERS.
- In fact, CalPERS corporate governance program has been the best performing sub-asset class in the Global Equity portfolio.
- And its correlation with the US stock market is 0.01!