

Boards of Directors: The Buck Stops Where?

Global Conference 2010



Boards of Directors: The Buck Stops Where?

Monday, April 26, 2010; 11:00 AM - 12:15 PM

Moderator:

Andrew Ross Sorkin, Columnist, *The New York Times*; Author, *Too Big to Fail*

Speakers:

Christopher Ailman, Chief Investment Officer, California State Teachers' Retirement System (CalSTRS)

Kenneth Feinberg, Founder and Managing Partner, Feinberg Rozen LLP; Special Master, TARP Executive Compensation

Richard Ferlauto, Deputy Director, Policy, Office of Investor Education and Advocacy, Securities and Exchange Commission

Clifton Robbins, Founder and CEO, Blue Harbour Group

James Robinson III, General Partner, RRE Ventures

Key corporate governance issues

- Shareholders as owners – listening to their views
- Broker voting
- Board diversity
- Executive compensation
- Independent board chair
- Majority voting for directors
- Political giving
- Proxy access

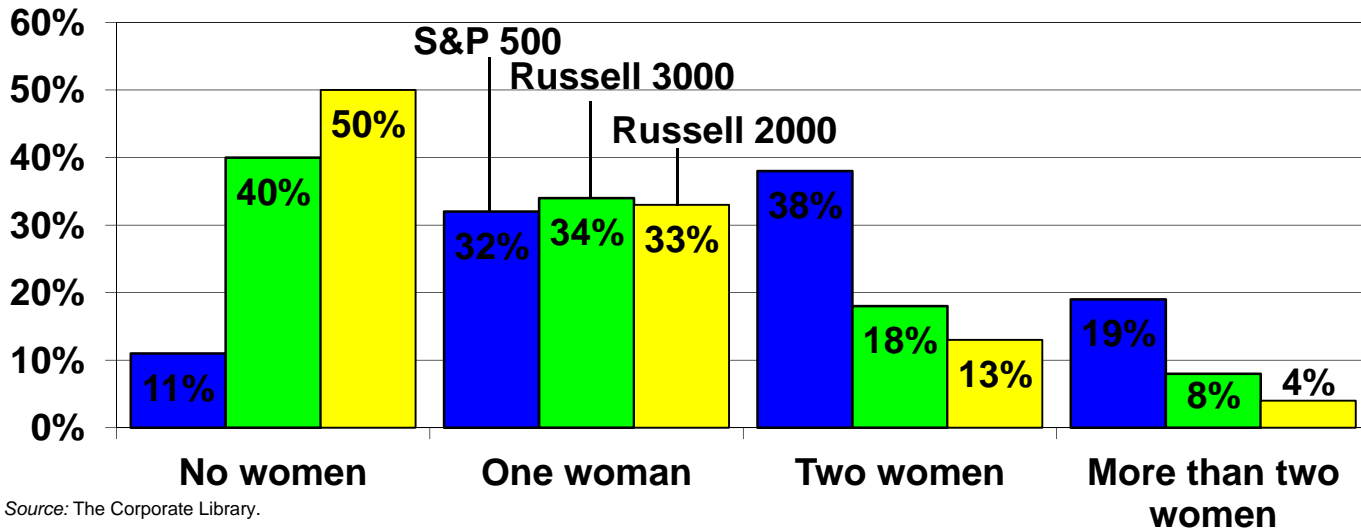
Over 35,000 directors served on public company boards in 2009

Revenue size of company (US\$)	Number of public companies	Total number of directors	Average number of directors
> \$10 billion	253	2,878	11.4
\$1 billion – \$10 billion	1,038	9,820	9.5
\$500 million – \$1 billion	477	3,998	8.4
\$100 million – \$500 million	1,119	8,877	7.9
\$50 million – \$100 million	468	3,648	7.8
\$10 million – \$50 million	587	4,252	7.2
<\$10 million (or not reported)	347	2,370	6.8
All public companies:	4,289	35,843	8.4

Source: Corporate Board Member.

Females are underrepresented on corporate boards

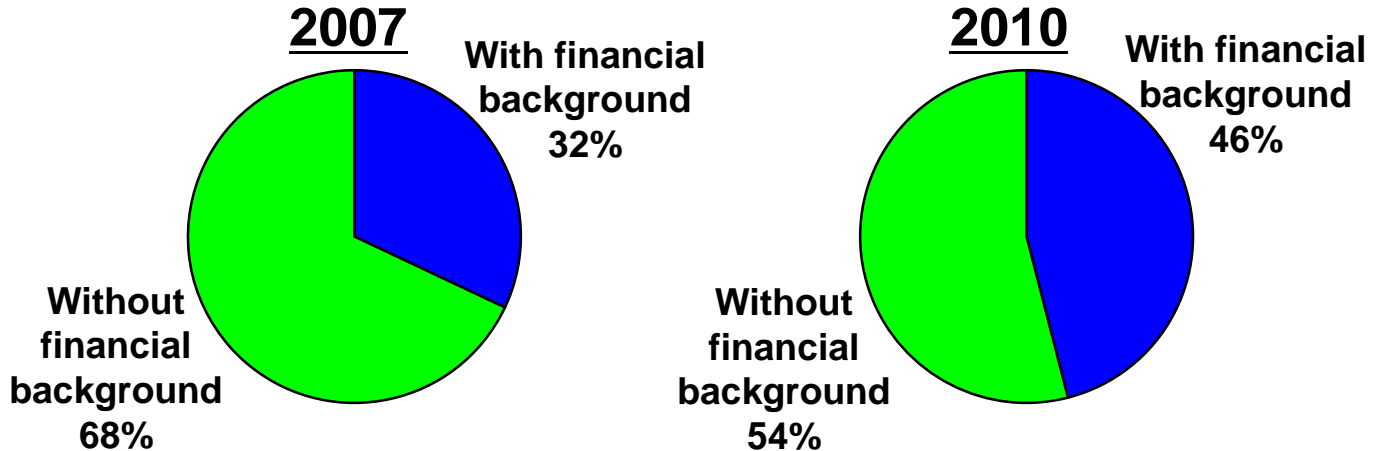
Percent of companies in index



Source: The Corporate Library.

More banks now have outside board members with financial expertise

Percent of outside directors with/without a financial background:

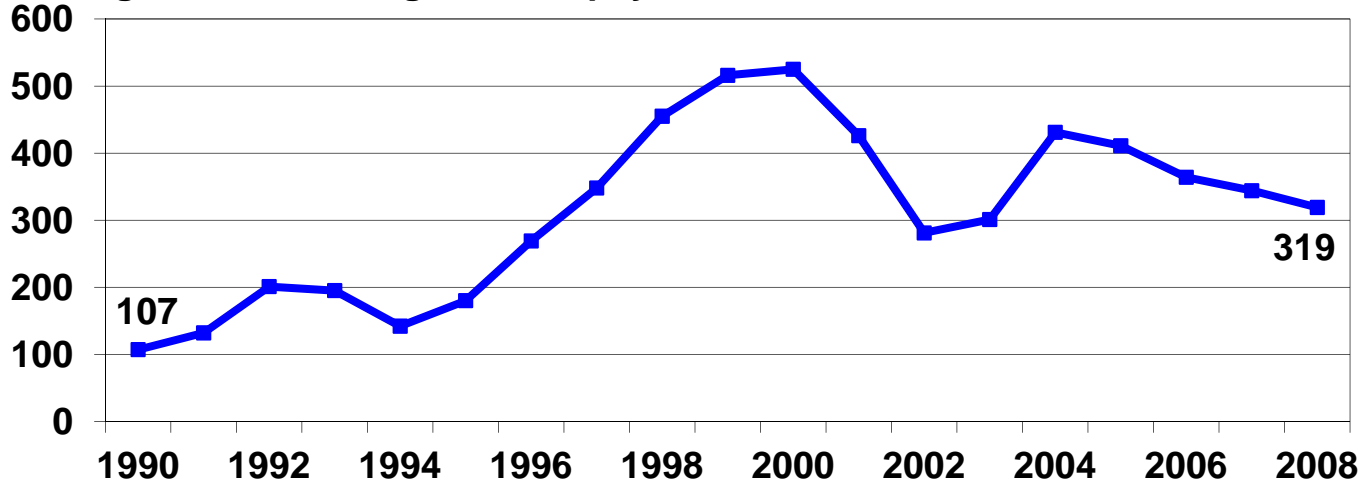


Source: Moody's Investors Service, "Bank Boards in the Aftermath of the Financial Crisis" (March 21, 2010).

Note: Survey is of 20 large global banks.

Average CEO pay was 319 times the pay of an average U.S. worker in 2008

Average CEO to average worker pay ratio



Source: United for a Fair Economy and Institute for Policy Studies.

Shareholder Bill of Rights Act of 2009

- Introduced by Senator Charles Schumer
- Would provide shareholders with enhanced authority over the nomination, election, and compensation of public company executives
- Would require:
 - “Say-on-pay” and approval of golden parachutes for companies subject to U.S. proxy rules
 - Proxy access for companies subject to U.S. proxy rules
 - Independent chairman
 - Annual elections
 - Majority voting
 - Risk management committee

Say on Pay

- Allows shareholders an annual vote on executive compensation
- Proposed say-on-pay legislation:
 - Corporate and Financial Institution Compensation Fairness Act of 2009 (passed the House)
 - Shareholder Bill of Rights Act of 2009 (introduced in the Senate)
- Some companies have already adopted say on pay
 - In 2007, Aflac became the first publicly traded company to do so

S&P 500 CEOs received high executive pay in 2008 despite economic crisis

Average total compensation (2008):	\$10.1 million
Decline in CEO compensation (vs. 2007):	4.4%
Decline in corporate profits (vs. 2007):	10.1%
<i>Ratio between average CEO pay and:</i>	
Average U.S. worker pay	319-to-1
Minimum wage	740-to-1

Source: Institute for Policy Studies.

Top ten financial bailout recipients

2008 executive compensation



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Company	Total CEO pay	Total pay of top five executives (US\$ millions)	TARP funds
American International Group	\$13.3	\$26.9	\$69,830
Citigroup	\$38.2	\$93.7	\$50,000
Bank of America Corporation	\$9.0	\$36.5	\$45,000
JPMorgan Chase & Co.	\$35.7	\$76.1	\$25,000
Wells Fargo & Company	\$9.0	\$32.1	\$25,000
Goldman Sachs Group	\$43.0	\$183.6	\$10,000
Morgan Stanley	\$1.2	\$35.7	\$10,000
PNC Financial Services Group	\$8.6	\$24.8	\$7,580
U.S. Bancorp	\$6.8	\$20.1	\$6,600
SunTrust Banks	\$8.1	\$21.3	\$4,850

Source: Institute for Policy Studies.

Nine major banks gave out \$33 billion in bonuses in 2008, despite \$81 billion in losses

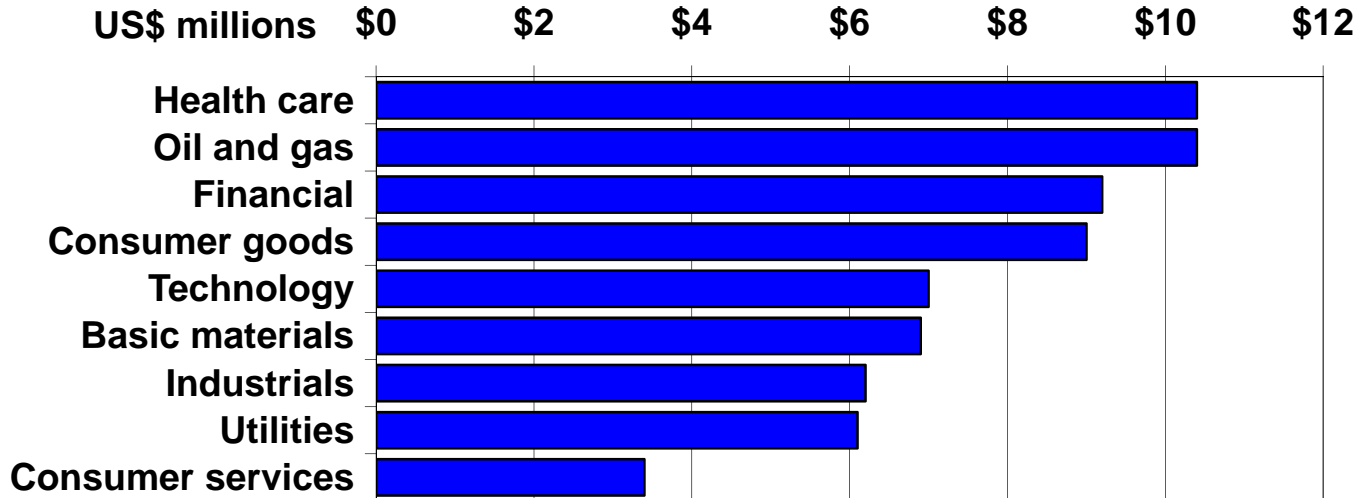
Bank	Earnings/(losses) (US\$ billions)	2008 bonus pool (US\$ billions)
JPMorgan Chase	\$5.6	\$8.7
Citigroup	(\$27.7)	\$5.3
Goldman Sachs	\$2.3	\$4.8
Morgan Stanley	\$1.7	\$4.5
Merrill Lynch	(\$27.6)	\$3.6
Bank of America	\$4.0	\$3.3
Wells Fargo	(\$42.9)	\$1.0
Bank of New York Mellon	\$1.4	\$0.9
State Street	\$1.8	\$0.5
TOTAL	(\$81.4)	\$32.6

Source: New York Attorney General's Office.

Median total direct CEO compensation by industry 2009



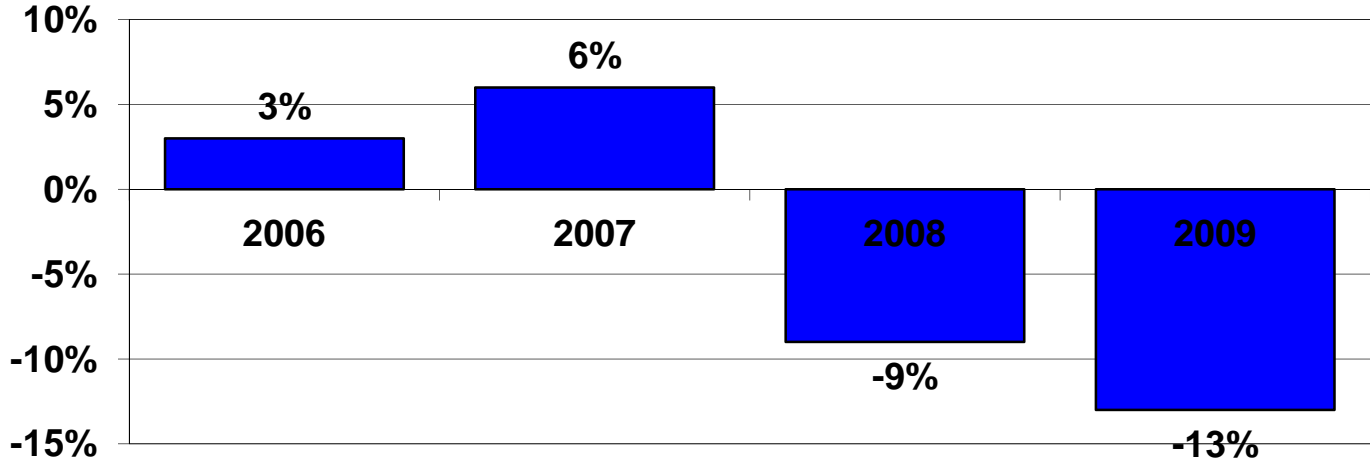
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Source: Hay Group.

Median CEO pay declined by 13 percent in 2009

Percent change in median CEO pay



Source: Equilar.

Top ten highest paid CEOs vs. company performance 2009

Executive	Company	Total direct compensation (US\$ millions)	Company performance (total return)
Lawrence J. Ellison	Oracle	\$84.5	-14%
J. Raymond Elliott	Boston Scientific	\$33.4	+16%
Ray R. Irani	Occidental Petroleum	\$31.4	+38%
Mark V. Hurd	Hewlett-Packard	\$24.2	+25%
James T. Hackett	Anadarko Petroleum	\$23.5	+63%
Alan G. Lafley	Procter & Gamble	\$23.5	-13%
William C. Weldon	Johnson & Johnson	\$22.8	+11%
Miles D. White	Abbott Laboratories	\$21.9	+4%
Robert A. Iger	Walt Disney	\$21.6	-9%
Samuel J. Palmisano	IBM	\$21.2	+58%

Source: Equilar.

Clawback policies are now more common

Fortune 100 companies



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Year	Percent of companies with clawback policies
2006	17.6%
2007	42.1%
2008	64.2%
2009	72.9%

Source: Equilar.

CalPERS Focus List

- CalPERS Corporate Governance team each year:
 - Identifies 15–20 companies in their domestic equity portfolio that exhibit poor economic performance and corporate governance.
 - Focuses on reforming the companies' governance practices to positively impact shareowner wealth.
- Emphasis on:
 - Accountability
 - Transparency
 - Independence
 - Discipline

Source: CalPERS website.

CalSTRS and corporate governance

- CalSTRS believes that good corporate governance is essential to the safety of its portfolio.
- Actions taken include:
 - Support of the Sarbanes-Oxley legislation
 - Encouragement of the SEC's efforts to adopt regulations to rein in lax business practices
 - Discussions with corporate leaders to express CalSTRS' interest in good corporate governance practices
 - Litigation to pursue financial and governance reforms

Source: CalSTRS website.

Pay for performance?

WSJ and Hay Group analysis of compensation vs. performance

