CalSTRS Proxy Vote: The Walt Disney Company

The Walt Disney Company ("Disney" or the "Company") has announced the annual meeting of shareholders, which will take place on March 6, 2013, in Phoenix, Arizona. The Company released its proxy on January 18, 2013. CalSTRS has reviewed the proxy and is releasing its votes in advance of the meeting. Below is a quick reference chart which reflects CalSTRS vote and a more detailed analysis follows.

Number	Proposal	Vote	Notes
1A	Elect Susan E. Arnold	AGAINST	Chair of the Compensation Committee
1B	Elect John S. Chen	FOR	
1C	Elect Judith L. Estrin	AGAINST	Long-standing director, since 1998
1D	Elect Robert A. Iger	AGAINST	Non-independent Chairman
1E	Elect Fred H. Langhammer	FOR	
1F	Elect Aylwin B. Lewis	AGAINST	Chair of the Governance and Nominating Committee
1G	Elect Monica C. Lozano	AGAINST	Long-standing director, since 2000
1H	Elect Robert W. Matschullat	AGAINST	Long-standing director, since 2002
1I	Elect Sheryl Sandberg	FOR	
1J	Elect Orin C. Smith	FOR	
2	Ratification of the Auditor	FOR	
3	Amendment to the 2011 Stock Incentive Plan	AGAINST	Removes the cap on the aggregate amount of bonuses ($55M) while retaining individual limits ($27.5M for CEO and $10M for others)
4	Advisory Vote on Executive Compensation	AGAINST	Multiple peers groups used and minimum thresholds prescribed in employment agreements
5	Shareholder Proposal: Access to the Proxy	FOR	
6	Shareholder Proposal: Separation of the Chair and CEO	FOR	

Votes Against Disney Directors

Nominee Arnold has served as Chairperson of the Compensation Committee during the past year, during which the Company has failed to address shareholder concerns regarding compensation, as demonstrated by the 43 percent against vote of last year's Say-on-Pay proposal. We believe Ms. Arnold as Chair of the Compensation Committee should be held accountable for the outcomes of the Committee's actions. We believe Ms. Arnold has failed in her capacity to serve shareholders and reform the compensation practices at Disney to provide for a better alignment of pay with performance.

Nominee Iger has served as Chief Executive Officer (CEO) since October of 2005, and was appointed as Board Chair and CEO in March 2012. He accepted, and we believe insisted on, the combined roles as part of his new employment contract. CalSTRS fundamentally supports the concept of an independent, non-executive Board Chair and therefore does not support Mr. Iger's nomination as Board Chair.

Nominees Estrin, Lozano, and Matschullat are all long-standing directors that have served since 1998, 2000, and 2002 respectively. Their experience on the Board during 2004-05, which led up to the ousting of then-CEO and Board Chair Michael Eisner and the separation of the Board Chair and CEO, should have provided them with the foresight to expect strong shareholder reactions to the recombination of these roles.

Nominee Lewis has served as the Chair of the Nominating and Governance Committee during the past two years, during which time the Company took measures to recombine the roles of CEO and Board Chair. The Governance and Nominating Committee has the primary responsibility to develop and implement policies related to corporate governance. CalSTRS believes the committee members were remiss in their responsibilities by not surveying shareholders prior to reversing a leadership structure that shareholders rejected just a few years earlier. Compounding this poor decision, the Board committed to this leadership structure through 2016 by granting Mr. Iger the Chairmanship in his employment agreement.

We were further concerned by the weak responsibilities afforded the Lead Director. For example, the Lead Director can only approve meeting agendas and information sent to the Board. This places an undue amount of control into the hands of one individual, the Board Chair. In addition, the Lead Director can only "provide advice with respect to the selection of Committee Chairs." This means that Mr. Iger now has ultimate authority over choosing the leader of the very committee that determines his compensation and the future makeup of the Board.

<u>Vote Against the Amendment to the 2011 Stock Plan</u>

CalSTRS generally supports compensation proposals designed to preserve tax deductibility under IRS Code 162(m). While the amendment preserves the tax deductibility of the plan it also removes a cap on the aggregate amount of bonuses awarded while retaining the individual limits ($27.5M for CEO and $10M for others). CalSTRS believes the aggregate cap provides an important safeguard against runaway compensation, especially since this award is delivered in cash to the executives, which does not help further the alignment between executives and shareholders.

Lastly, although a defeat of this proposal would not reaffirm the stock plan's eligibility under IRS Code 162(m), the Company will have one more year to bring this proposal to shareholders in order to retain tax-deductible eligibility.

Vote Against the Advisory Vote on Executive Compensation

CalSTRS has serious concerns about how the compensation program at Disney is structured and believes the long-term incentive compensation is profoundly flawed. We therefore believe the Advisory Vote on Executive Compensation warrants an against vote.

First, CalSTRS takes issue with the multiple peer groups used. Targeting pay to one group of peers while measuring performance against another is incompatible with striving to achieve a pay-for-performance alignment. Furthermore, we take issue with using the five major media companies as a primary peer group to target compensation. Four out of the five companies are controlled by a founder or family, of which none could be held up as adhering to the "gold standard" of corporate governance.

Secondly, we adamantly oppose the minimum thresholds stipulated in Mr. Iger's employment agreement. Mr. Iger's base salary increased to $2.5 million from $2.0 million, $1.5 million more than the tax-deductible limit. CalSTRS believes an overwhelming majority of an executive's compensation should be performance-based. When an executive's base salary is above the tax-deductible limit, the company fails to maximize shareholder return by fully utilizing the tax shields. Moreover, Mr. Iger's agreement provides for an annual equity award with a minimum grant date fair value of $15.5 million, 50 percent delivered in the form of options. In order to meet the minimum grant date value, in times when the stock is depressed this provision would require the number of options awarded Mr. Iger to increase. This seems counterintuitive to CalSTRS, because when the stock is down and shareholders have suffered, Mr. Iger receives more options with unlimited upside potential. It potentially creates a "heads I win, tails you lose" situation.

Shareholder Proposal: Access to the Proxy

As a matter of principle, CalSTRS believes all companies should provide a meaningful mechanism which allows long-term institutional investors to nominate directors to a company's proxy. The proxy access proposal at Disney requires a nominator to own at least 3 percent of outstanding shares for at least three years and candidates to not exceed 20 percent of the board. We believe this provides the proper balance to ensure that only long-term meaningful shareholders can take advantage of this right.

Given the governance and compensation concerns at Disney, CalSTRS believes access to the proxy would provide a significant tool with which to achieve desired change at the Company and in the boardroom.

Shareholder Proposal: Separation of Chair and CEO

As previously stated, CalSTRS has serious concerns about the leadership structure at Disney. We believe that the Governance and Nominating Committee failed in its role as our representatives in the board room by not involving shareholders before reversing a precedent that many see as a best standard in the marketplace.