CALSTRS

HOW WILL YOU SPEND YOUR FUTURE?

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

Principles for Executive Compensation

Introduction

CalSTRS is a long-term investor and has been involved in corporate governance issues such as executive compensation for over two decades.

The following executive compensation principles are intended to serve as an intellectual framework for a fuller discussion of the matter and as an aid in more effective evaluation/regulation of executive compensation. These principles are general in nature and are not intended to dictate the form or substance of any investor's voting policies regarding executive compensation; CalSTRS' detailed guidelines on executive compensation can be found in its corporate governance policies on its website at www.calstrs.com.

CalSTRS believes that a thorough review of pay practices is an important fiduciary duty that both boards of directors of corporations and institutional investors should exercise with diligence and care.

1) Philosophy

The company should have a clear overarching compensation philosophy. The philosophy should promote an alignment of interests between management and shareholders. The company's compensation philosophy should intend to create long-term value while not incentivizing excessive risk taking. The company philosophy should be flexible enough to allow for reasonable and fair compensation in changing market conditions.

Compensation Committee: The compensation committee should be responsible for developing the philosophy and ensuring that it becomes part of the company culture. Roles and responsibilities of members, committee makeup, and information gathering and processing should also be addressed.

Plan Elements: The company philosophy should address total compensation as well as the relative mix of base, bonus, and long-term incentive elements of the plan. Additionally, the company philosophy should address the use of cash, equity, and equity-like compensation.

Risk management: The company philosophy should address the risks to compensation expenditures as well as risk posed by compensation metrics. Part of this risk analysis should include the issue of unintended drivers or consequences related to incentive compensation.

2) Design

The design of the company's compensation policy should be comprehensive and discuss in detail all relevant components. A significant portion of plans should be performance based. Discussion should include why certain elements were used as well as why certain elements were not incorporated.

Incentive and Bonus: The policy should contain the intended forms of incentive and bonus compensation. Additionally, the policy should discuss the rationale for use of guaranteed bonuses, the types of metrics used, and the rationale behind adjusted performance metrics and non-financial metrics.

Equity Compensation: The policy should address each form of equity and equity-like compensation and the company's overall objectives in utilizing these tools. Discussion of award structures, including the size, timing, valuation, and terms of grants should be included. Additionally, the company's approach to equity ownership and retention guidelines should be included.

Dilution & Repricing: Companies should provide clear policies on repricing and how compensation plans might lead to dilution of existing shareowners.

Contractual Arrangements: The policy should contain the parameters by which the company will utilize employment agreements, severance agreements or other contractual arrangements including post-employment agreements.

3) Transparency

CalSTRS believes that a well articulated compensation plan enhances efficiency and may reduce the instances in which the company and investors are surprised by outcomes related to the compensation program, thereby reducing the negative reaction in the marketplace to compensation related events.

Full disclosures: Companies should provide full disclosure of plans and how they are intended to be used.

Plain English: Philosophy, plans, and disclosures should be easily understood and presented in plain English.

4) Accountability

CalSTRS believes that the compensation committee is ultimately responsible for designing, implementing, monitoring, and evaluating the executive compensation program.

Roles and responsibilities: Clearly defined responsibilities of the compensation committee demonstrate rigor in creating and implementing compensation plans. The compensation committee charter should clearly outline these roles and responsibilities.

Shareholder Approval: Compensation plans, repricing of awards within plans, and an annual advisory vote on compensation should always be submitted for shareholder approval.

5) Independence

The compensation process should be conducted by independent compensation committee members utilizing only independent advisors and compensation consultants.