

# CONTROLLER STEVE WESTLY

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## **Westly: Link CEO Pay to Performance**

*Controller Asks CalSTRS to Develop Executive Compensation Strategy*

SACRAMENTO – State Controller Steve Westly called today for the State Teachers’ Retirement System (CalSTRS) to set responsible standards to encourage companies to link the pay of top executives to long-term company performance.

Controller Westly, who serves on the CalSTRS board, called for the pension fund to seek shareholder approval of corporate compensation policies and press for disclosure of executive contracts in clear and simple language.

“Shareholders shouldn’t pay Hall of Fame salaries to executives who post minor-league results,” Westly said. “There’s simply no excuse for companies to grant exceptional pay packages to poor-performing management.”

In a letter to Chairman Gary Lynes and other CalSTRS members, Westly called for the fund to develop a comprehensive strategy on the issue, including developing a corporate governance watch list for poor performing companies.

“We should make clear that companies that are underperforming their peers should not be overcompensating their executives,” Westly said in the letter. “Similarly, CalSTRS should recognize companies with model executive compensation policies as the leaders that they are.”

Controller Westly also called for the fund to engage other institutional investors and corporate compensation consultants in establishing “best practices” for corporate governance. He said he would be addressing the issue at the July meeting of CalSTRS.

Text of letter follows.

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**STEVE WESTLY**  
California State Controller

June 28, 2004

Gary Lynes, Chairman and  
Members, California State Teachers Retirement System  
7667 Folsom Boulevard  
Sacramento, CA 95851

Dear Chairman Lynes and Members:

Excessive executive compensation is a significant concern for all shareholders. Although we have made some meaningful improvements to our proxy voting guidelines, CalSTRS has no comprehensive strategy for holding companies accountable for their executive compensation policies. I believe that we must aggressively engage on the issue.

First, we need to look at executive compensation as a comprehensive program, not just a set of guidelines to use when voting proxies. The foundation of our program should be four simple concepts:

1. Executive compensation policies should link a substantive portion of compensation to achieving key performance targets;
2. Executive compensation policies should be fully transparent to shareholders and should be regularly submitted for shareholder approval;
3. Executive compensation should be evaluated over an appropriate time period (e.g., three to five years), not at just a single point; and
4. Executive contracts should be disclosed in easy-to-understand language in the proxy statement to allow shareholders to evaluate the link between pay and company performance.

Second, CalSTRS needs a corporate governance watch list that focuses on excessive compensation. We should make clear that companies that are underperforming their peers should not be overcompensating their executives. Similarly, CalSTRS should recognize companies with model executive compensation policies as the leaders that they are.

Third, CalSTRS should engage other institutional investors and corporate compensation consultants to establish "best practices" for corporate governance. By pursuing an executive compensation strategy beyond casting votes at shareholder meetings, CalSTRS will have real impact on public companies that will result in real payoffs for our fund.

I will be addressing this issue at the July CalSTRS meeting. I look forward to hearing your ideas about executive compensation and steps that CalSTRS can take to bring about meaningful reform in this area. If you would like to discuss these ideas before the July meeting, please call Toni Symonds at (916) 445-2636.

Sincerely yours,

Original signed by:

STEVE WESTLY  
California State Controller

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