

September 5, 1995

To Our Clients:

Corporate Governance

In its August 14, 1995 policy statement on corporate governance, in addition to reiterating its opposition to staggered terms for directors and its endorsement of a board publicly stating the criteria for choosing nominees for election as directors and "true" independence of directors, CALPERS has expanded its view of the monitoring role of directors to be, in its own words:

CALPERS will continue to support sufficient resources for independent directors, to provide the type of research and analysis that is now only available to management directors, and sufficient time be allotted at Board meetings to enable the directors to ask questions so as to better understand the company's operations.

This position by CALPERS is coincident with an article in the July-August 1995 issue of the Harvard Business Review by Gordon Donaldson recommending that a board undertake an annual strategic audit of the performance of the company.

If, as appears likely, CALPERS gets behind the strategic audit concept, it is likely that a strategic audit will become one of the principal efforts of activist institutional investors.

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