



Agenda Item 7a

May 19, 2014

ITEM NAME: Global Governance Program Review

PROGRAM: Global Governance

ITEM TYPE: Program Review – Information

EXECUTIVE SUMMARY

This agenda item provides the Global Governance Program (the Program) quarterly update on the following:

1. “Towards Sustainable Investment & Operations: Making Progress” Report
2. Principles for Responsible Investment (PRI) Assessment
3. Proxy Voting – Quarterly Update (January – March 2014)
4. Special Company Engagements
5. Emerging Equity Markets Principles – Issues for Review

STRATEGIC PLAN

This agenda item supports the goal of CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The Program review supports the Investment Committee (IC) in its oversight role to monitor performance, initiatives, and contributions to the System’s investment objectives.

BACKGROUND

The Program seeks good governance practices to ensure that CalPERS funds are being used for the benefit of our members to produce sustainable long-term, risk adjusted returns that pay pensions.

This quarterly update highlights recent work in the Program reflecting CalPERS Investment Belief 4, that long-term value creation requires effective management of three forms of capital: financial, physical, and human and Investment Belief 9 that risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error. The update also covers a review of the Emerging Equity Markets Principles (Policy) and proposed alternatives to amending the Policy.

ANALYSIS

1. “Towards Sustainable Investment & Operations: Making Progress” Report

The Global Governance team partnered with the Office of Public Affairs to draw together material across the Enterprise on sustainable investment and operations for our second report, “Towards Sustainable Investment & Operations: Making

Progress” (Attachment 2). The report focuses on our progress towards the goals we set in the first report, released in 2012, and illustrates our work across the Total Fund in each of the three forms of capital: financial, physical and human. This edition focuses on Investment Beliefs, the Sustainable Investment Research Initiative, our Cross Asset Class Team on Sustainable Investment, asset class initiatives and CalPERS progress in its own operations. The report was launched at the annual Ceres Conference in Boston, MA on May 1, 2014.

2. Principles for Responsible Investment (PRI) Framework

As a founding signatory to the PRI, CalPERS completes the reporting framework each year to demonstrate how we are implementing the six principles across all of our asset classes. The framework became mandatory for all signatories to complete in 2014. CalPERS is part of the review group and is represented on the PRI Board and Advisory Council. Input was received from all asset classes. CalPERS completed response will be made public after June 30, 2014. The PRI will also provide a confidential assessment of each signatory’s progress in implementing the Principles on a peer relative basis – highlighting areas and activities needing improvement.

3. Proxy Voting – Quarterly Update (January – March 2014)

CalPERS cast 1,444 votes at company meetings worldwide, supporting 92 percent of management proposals and 65 percent of shareowner proposals. Votes are cast in line with CalPERS Global Principles of Accountable Corporate Governance, as approved by the Investment Committee. Attachment 3 highlights examples over January through March of this year.

4. Special Company Engagements

Domino’s Pizza

Due to egregious pay practices at Domino’s Pizza, CalPERS voted against the company’s advisory vote on executive compensation and withheld vote from compensation committee chair Andrew Balson.

Duke Energy

CalPERS in partnership with the New York City Comptroller highlighted Duke Energy due to a coal ash spill that released 39,000 tons coal ash into North Carolina’s Dan River. The spill has raised serious concerns over Duke Energy Board’s oversight of environmental risk and director expertise as it relates to the coal industry.

Board Diversity

CalPERS and CalSTRS are engaging 160 California companies with no women on their boards making the business case for greater board diversity. Resources have been provided such as the National Association of Corporate Directors (NACD) Blue Ribbon Commission Report, "The Diverse Board: Moving From Interest to Action," details on the Diverse Director DataSource (3D) and best practices from our work with UnitedHealth Group to appoint an independent director to their Board. This is in addition to our engagement with the 41 S&P 500 companies to encourage greater board diversity.

CalPERS partnered with NACD to host a second event, on March 20, 2014. The discussion, "A Conversation with the People You Wish You Could Speak with Before Proxy Season."

CalPERS, CalSTRS and GMIRatings hosted a discussion forum titled, "Board Diversity: Why Investors Should Care" at the Council of Institutional Investors (CII) Spring Conference on May 8, 2014, to talk about the progress that has been made and how achieving greater diversity among board directors can be good for shareholders.

In collaboration with Amalgamated Bank, CtW Investment Group and UAW Retiree Medical Benefits Trust, CalPERS co-convened a second event at the CII Conference titled, "Promoting Good Human Capital Management for Long term Sustainable Value Creation." CalPERS discussed how our Investment Beliefs frame our approach to human capital management, with reference to our recent work on fair labor practices, diversity, and human rights in the governance program.

5. Emerging Equity Markets Principles – Issues for Review

CalPERS Statement of Investment Policy on Emerging Equity Markets Principles (Policy) raise a number of issues for consideration in light of CalPERS Investment Beliefs:

- CalPERS allocates capital to emerging markets across the Total Fund; yet, the Emerging Equity Markets Principles are managed by one asset class, Global Equity.
- The Emerging Equity Markets Principles (Attachment 4) only apply to capital managed by certain external Global Equity emerging markets managers. CalPERS allocates capital to external money managers or partners investing in emerging markets within other asset classes

- Two independent sets of principles – Global Principles of Accountable Corporate Governance (Attachment 5) and the Policy – pose the risk of inconsistent communication and application.

Staff is considering alternatives to amending the Emerging Equity Markets Principles and their application to investment decision making which could reflect:

- Transitioning ownership and implementation of the Emerging Equity Markets Principles from Global Equity to Global Governance, while considering broader coverage beyond just Emerging Markets.
- Applying the Emerging Equity Markets Principles to securities across the Total Fund rather than just to Global Equity Emerging Markets Managers.
- Harmonizing CalPERS Board's Global Principles of Accountable Corporate Governance with the Emerging Equity Markets Principles, which would foster consistency in line with CalPERS Investment Beliefs.

These changes would anchor all asset classes to a single uniformly applied set of principles and reflect CalPERS Investment Beliefs consistently across the total fund.

BUDGET AND FISCAL IMPACTS

Not Applicable

ATTACHMENTS

Attachment 1 – Global Governance Program Quarterly Update

Attachment 2 – “Towards Sustainable Investment & Operations: Making Progress”
Report Global Governance Program Quarterly Update

Attachment 3 – Quarterly Global Proxy Voting Update (Jan – March 2014)

Attachment 4 – Investment Policy for Emerging Equity Markets Principles

Attachment 5 – Global Principles of Accountable Corporate Governance Extract:
Emerging Markets, Global Sullivan Principles and the United Nations
Global Compact

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