



Agenda Item 7a

September 15, 2014

ITEM NAME: Global Governance Program Update and Financial Markets Overview

PROGRAM: Global Governance

ITEM TYPE: Program Review – Information

EXECUTIVE SUMMARY

Due to time constraints at the August 2014 Investment Committee this item is being re-presented. This item provides a quarterly update and overview on the following Global Governance (Program) areas:

- 1) Financial Markets
- 2) Environmental, Social and Governance (ESG) Integration
- 3) Principles & Proxy Voting

STRATEGIC PLAN

Enhancing the Program's financial markets engagement strategy supports CalPERS' Strategic Plan goal to develop financial market reform principles to influence global legislative and regulatory engagement and policy development.

This agenda item also supports the CalPERS Strategic Plan goal 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.

The update provides an overview of the Financial Markets work stream, which supports Investment Belief 2 that a long time investment horizon is a responsibility and an advantage. A long time horizon requires that CalPERS: Advocate for public policies that promote fair, orderly and effectively regulated capital markets.

The 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.

ANALYSIS

1) Financial Markets Overview

- *Refreshed Financial Markets Principles*
CalPERS' 2014-16 Business Plan includes an initiative to develop Financial Market Reform Principles. This item proposes refreshed Principles of Financial Regulation Reform that CalPERS developed in conjunction with U.S. pension funds in 2009.
- *Policy Engagement*
Program staff will also coordinate strategic engagements with policymakers on the following issues that have been identified as priorities by Investment Office senior staff: derivatives, credit rating agencies and housing finance reform. To evolve to the post-crisis environment in global financial markets policymaking, CalPERS' strategy needs to be focused and relevant. CalPERS will continue to support current policy through its membership of partner organizations and positions with regulatory bodies.

2) ESG Integration

- *Cross Asset Class Team on Sustainable Investment Accomplishments*
The Investment Office has established a Cross Asset Class Team to foster integration of relevant ESG factors. The team has developed a purpose statement and work program, which includes seminars, collaboration with the Global Peer Exchange of major asset owners, and the formation of a working group on portfolio monitoring tools and data evaluation.
- *Manager Expectations*
The Cross Asset Class Team continues to lead the work on developing a set of internal and external manager expectations. Staff has set out a three phase approach, which moves us towards clarifying definitions, understanding internal and external best practices, establishing processes and practices that are asset class specific and sharing best practices with our global peers and networks.

3) Principles and Proxy Voting

- *Voting Execution (April – June 2014)*
CalPERS Investment Policy for Global Proxy Voting states that proxy voting rights must be diligently exercised as part of our fiduciary duty. Staff reviews information provided by companies, market experts, investors, and proxy advisory firms to ensure votes are cast in line with CalPERS Global Principles of Accountable Corporate Governance. Attachment 2 provides a summary report of CalPERS proxy voting for the second quarter of 2014.

BUDGET AND FISCAL IMPACTS

Not applicable.

ATTACHMENTS

Attachment 1 – Global Governance Program Update & Financial Markets Overview

Attachment 2 – Proxy Voting Quarterly Update (April – June 2014)

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