



Agenda Item 6b

October 13, 2014

ITEM NAME: Revision of the Global Equity Policy and Incorporation of Corporate Governance Program and Developmental Investment Fund Policies

PROGRAM: Global Equity

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the revised “Global Equity Policy” as shown in Attachment 1, repeal of the Corporate Governance Program (Attachment 2) and the Developmental Investment Fund (Attachment 3) Policies. The consultant opinion letter is provided as Attachment 4.

EXECUTIVE SUMMARY

The Global Equity Policy was presented to the Investment Committee for initial review on September 15, 2014.

The revised Global Equity Policy includes the following changes based on feedback from the initial review by the Investment Committee:

- On page 3 of 9, number 7 at the top of the page, added “e.g.,” in parentheses for clarification of information coordinated with other asset classes.
- On page 4 of 9 under the “Active strategies are deployed...” section, number 2, we replaced the words “business strategy” with “environmental or social related issues”.
- Changed the approval date to October 13, 2014.

Changes made to the Global Equity Policy based on the Investment Committee’s feedback are denoted with yellow highlighting within Attachment 1.

Staff seeks approval of the Global Equity Policy to establish clear investment documentation for the asset class.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan to improve long-term pension and health benefit sustainability. The review of the revised policies will ensure that

CalPERS is able to effectively achieve the System's investment objectives through clear and current investment policy documentation.

INVESTMENT BELIEFS

This agenda item supports Investment Belief 5 which states CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution. As stated above, having clear, current investment policy documentation ensures CalPERS is able to effectively achieve the System's investment objectives.

BACKGROUND

In December 2012, the Investment Committee approved a single, simplified Global Equity Policy while repealing nine program/strategy policies related to external and internal investment management. The goal of the simplified policy was to focus on the total Global Equity portfolio strategy rather than on the individual underlying programs.

ANALYSIS

Incorporating these policy revisions will continue the policy simplification process by consolidating the total Global Equity program goals into one policy focusing on the total portfolio, rather than individual programs.

Specifically, the revised policies:

- Repeals the Developmental Investment Fund Policy and incorporates staff responsibilities of developing investment strategies into the Global Equity Policy.
- Repeals the Corporate Governance Program Policy and incorporates Global Principles of Accountable Corporate governance into the Global Equity Policy.
- Clarifies that when directed by the Board to divest or reinvest, the policy benchmark will be adjusted.
- Clarifies the definition and limits on leverage.
- Adds and clarifies the Global Equity strategy selection and allocation governance process incorporating the Global Equity Investment Review Committee and Capital Allocation Committee.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

Approving the requested policy changes will enhance transparency into investment processes and strategy. The risk of not approving this policy include lack of clarity and direction to staff as they invest the Global Equity portfolio thereby increasing the risks of missed opportunities and ambiguous implementation.

ATTACHMENTS

- Attachment 1 – Revised Global Equity Statement of Investment Policy
- Attachment 2 – Repealed Statement of Investment Policy for Corporate Governance Program
- Attachment 3 – Repealed Statement of Investment Policy for Developmental Investment Fund
- Attachment 4 – Consultant Opinion Letter – Proposed Changes to the Global Equity Policy

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