



Agenda Item 8b

February 17, 2015

ITEM NAME: Proposed Establishment of the Statement of Investment Policy for Global Governance and Integration of Existing Policies – Initial Review

PROGRAM: Global Governance

ITEM TYPE: Policy & Delegation – Information

EXECUTIVE SUMMARY

This agenda item presents the initial review of a Policy to support alignment between the Investment Beliefs (Beliefs), the Program's strategic management, and the Investment Policy Revision Project. The item seeks feedback from the Investment Committee (Committee) regarding approval to establish one, new Statement of Investment Policy for Global Governance (Policy), which simplifies the governance of the Investment Office by consolidating three existing policies – Attachment 1 summarizes goals and key revisions.

STRATEGIC PLAN

This agenda item supports the CalPERS Strategic Plan goal to cultivate a high-performing, risk-intelligent and innovative organization. The proposed policy revisions will ensure that CalPERS is able to effectively achieve the System's investment objectives through clear and actionable investment policies.

BACKGROUND

In October 2013, the Committee adopted the Statement of Investment Policy for Investment Beliefs. Staff is responsible for reporting to the Committee on Program strategy and its consistency with the Beliefs.

During the November 2013 Annual Program Review, staff committed to reviewing existing policy documents governing the Program. Staff currently manages the Program in alignment with three policies: Global Proxy Voting (includes the Global Principles of Accountable Corporate Governance); Corporate Governance Director Nominations; and, Emerging Equity Markets Principles.

At its May 2014 Program Review to the Committee, staff raised issues related to the Global Equity Statement of Investment Policy on Emerging Equity Markets Principles (EEM Principles) including inconsistency of applying different sets of principles and manager expectations to a single asset class when CalPERS deploys capital to investment strategies through multiple asset classes and geographies. The

Committee expressed support for staff to return at a later date with an alternative approach to implementing the EEM Principles.

ANALYSIS

Establishing one, simplified Policy is in alignment with the 2014-16 Investment Office Roadmap, Target Operating Model, and the Investment Policy Revision Project.

The proposed Policy (Attachment 2)

1. Reflects Committee support for transitioning ownership and implementation of the Statement of Investment Policy on Emerging Equity Markets Principles from Global Equity to Global Governance and application of one set of Global Governance Principles across the Total Fund – as proposed by staff at the Committee's May 2014 meeting.
2. Reflects alignment with CalPERS' Beliefs.
3. Consolidates three existing Statements of Investment Policy: Global Proxy Voting (Attachment 3), Corporate Governance Director Nominations (Attachment 4), and Emerging Equity Markets Principles (Attachment 5).
4. Supports the Investment Policy Revision Project – an initiative of both the 2014-16 Investment Office Roadmap and Target Operating Model.

Wilshire Associates' Opinion Letter, responding to the proposed Policy, is provided as Attachment 6.

Upon adoption of the Policy, pending Committee feedback, staff will develop operating procedures that will support the Program.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS AND RISKS

Staff's recommendation is consistent with the Target Operating Model objectives to design, develop, and implement a robust operating model that minimizes complexity, improves transparency, and strengthens processes, systems, governance, and controls. Approving the requested policy changes will enhance transparency into investment and financial markets policy making processes and strategy.

The risks of not approving this Policy include lack of clarity and direction in aligning CalPERS Investment Beliefs with the Board's Investment Policies. A misalignment with Investment Office strategic planning can increase the risks of missed opportunities and ambiguous implementation.

ATTACHMENTS

- Attachment 1 – Summary of Key Policy Revisions
- Attachment 2 – Proposed Global Governance Statement of Investment Policy
- Attachment 3 – Repealed Statement of Investment Policy for Global Proxy Voting
- Attachment 4 – Repealed Statement of Investment Policy for Corporate Governance
Director Nominations
- Attachment 5 – Repealed Statement of Investment Policy for Emerging Equity
Markets Principles
- Attachment 6 – Wilshire Associates Opinion Letter

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