



Agenda Item 6b

March 16, 2015

ITEM NAME: Adoption of the Global Governance Policy and Integration of Legacy Policies

PROGRAM: Global Governance

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve proposed Statement of Investment Policy for Global Governance (Policy), which includes revised Global Governance Principles as shown in Attachment 2, and repeal three legacy Policies. Wilshire Associates' Opinion Letter is provided as Attachment 6.

EXECUTIVE SUMMARY

The proposed Policy was presented to the Investment Committee (Committee) for initial review on February 17, 2015. The Committee commented that staff was on the right path and did not request any changes to the proposed Policy at the time of the initial review. Establishing one new Policy, simplifies the governance of the Investment Office by consolidating three existing policies – Attachment 1 summarizes goals and key revisions.

Staff presented the item as the first of two phases and plans to return during its next Global Governance Program (Program) Annual Review with procedures in alignment with the Investment Policy Revisions Project. The procedures will ensure robust internal control oversight and governance framework for Policy implementation – procedures will include ESG Manager Expectations being developed by the Cross-Asset Team on Sustainable Investment.

STRATEGIC PLAN

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

INVESTMENT BELIEFS

This agenda item supports the CalPERS Investment Beliefs (Beliefs) by providing a framework for Program strategic management and to support organizational priorities. The proposed Policy directly integrates the following Beliefs into Program decision making and management:

1. Investment Belief 2 – A long time investment horizon is a responsibility and an advantage. Long time horizon requires that CalPERS advocate for public policies that promote fair, orderly and effectively regulated capital markets.
2. Investment Belief 3 – CalPERS' investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.
3. Investment Belief 4 – Long-term value creation require effective management of three forms of capital: financial, physical and human. CalPERS may engage investee companies and external managers on their governance and sustainability issues, including governance practices, risk management practices, human capital practices, and environmental practices.
4. Investment Belief 9 – Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error. As a long-term investor, CalPERS must consider risk factors, for example climate change and natural resource availability that emerge slowly over long time periods, but could have a material impact on company or portfolio returns.

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 polices: 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:

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’ Investment 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.

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/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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