



Global Governance Policy Ad Hoc Subcommittee

California Public Employees' Retirement System

Agenda Item 3

May 18, 2015

ITEM NAME: Global Governance Policy Ad Hoc Subcommittee Purpose and Approach

PROGRAM: Global Governance & Legislative Affairs Division

ITEM TYPE: Information

EXECUTIVE SUMMARY

At its April 2015 meeting, the Investment Committee (Committee) approved establishment of the Global Governance Policy Ad Hoc Subcommittee (Subcommittee), the Subcommittee Delegation Resolution (Attachment 1), and scope of work to be completed by December 31, 2015. This agenda item:

1. Seeks Subcommittee feedback on a proposed project work plan (Attachment 2).
2. Initiates the Subcommittee's scope of work with a review of the overall structure of the Statement of Investment Policy for Global Governance and Global Governance Principles (Attachment 3).

STRATEGIC PLAN

This agenda item is not part of the CalPERS Strategic Plan.

BACKGROUND

At its March 2015 meeting, the Committee consolidated three legacy policies into the Statement of Investment Policy for Global Governance. In addition, the Committee approved new Legislative and Policy Engagement Guidelines (Attachment 4). Several important issues related to these documents were raised by Committee members at the meeting. The Chair directed staff to return at the next meeting with a recommendation to establish a subcommittee to provide a full vetting of those issues.

At its April 2015 meeting, the Committee established the Subcommittee consisting of Henry Jones, JJ Jelincic, Ron Lind, Bill Slaton, and Betty Yee. The Subcommittee's Delegation Resolution has been amended to reflect feedback provided by the Committee, authorizing the Subcommittee to make the following recommendations to the Committee by December 31, 2015:

1. Modifications to the Statement of Investment Policy for Global Governance
2. Modifications to the Legislative and Policy Engagement Guidelines
3. Process for determining when CalPERS Board members can represent the organization as directors of third party organizations, and
4. Evaluation of establishing the Subcommittee on a permanent basis.

ANALYSIS

The Statement of Investment Policy for Global Governance contains CalPERS Global Governance Principles (Principles) as Attachment A. The Principles are reviewed and approved by the Board annually, providing the framework by which staff:

1. Executes shareowner proxy voting responsibilities,
2. Engages investee companies to achieve long-term sustainable risk-adjusted returns, and
3. Requests internal and external managers of CalPERS capital to take the Principles into consideration when making investment decisions.

The Principles have evolved over time and have grown into a lengthy and complex document. They are structured in four sections with nine appendices:

- A. Core Principles which are relevant to all companies and markets.
- B. Domestic Principles which refer to US companies.
- C. International Principles which are developed by the International Corporate Governance Network.
- D. Joint Venture Governance Principles which are relevant to joint ventures that are financially large or strategically significant to public traded companies in which CalPERS is a shareowner.

The appendices contain statements developed as a more detailed account of a particular issue or which have been issued by third party organizations that have been included in the Principles approved by the Board:

- A. United Nations supported Principles for Responsible Investment
- B. The Global Sullivan Principles
- C. United Nations Global Compact Principles
- D. Council of Institutional Investors Corporate Governance Policies
- E. Definition of an Independent Director
- F. Independent Chair/Lead-Director Position Duty Statement
- G. Global Framework for Climate Risk Disclosure
- H. Ceres 14-Point Climate Change Governance Checklist
- I. Joint Venture Governance Guidelines.

The Legislative and Policy Engagement Guidelines are a separate document which is intended to summarize CalPERS' perspectives on various policy issues across the Enterprise, and relate to issues affecting the system as a whole, investments, health care and retirement. They are intended as a point of reference for CalPERS staff and federal representatives.

The following work program is proposed for the Subcommittee to complete its scope of work as authorized by the Delegation Resolution:

2015 Timeline	Subcommittee Work Plan
May	<ul style="list-style-type: none"> • Elect Chair of Subcommittee • Review: 2015 Project Calendar describing approach and completion timeline • Review: Overall structure of Global Governance Policy with attached Global Governance Principles
June	<ul style="list-style-type: none"> • Review: Section A – “Core” Principles
July	<ul style="list-style-type: none"> • Review: Section B – “Domestic” Principles
August	<ul style="list-style-type: none"> • Review: Section C – “International” Principles
September	<ul style="list-style-type: none"> • Review: Section D – “Joint Venture Governance” Principles • Review: Appendices – Global Governance Principles
October	<ul style="list-style-type: none"> • Review: Legislative and Policy Guidelines for Investments
November	<ul style="list-style-type: none"> • Review: Process by which CalPERS Board members are appointed to Boards of third party organizations
December	<ul style="list-style-type: none"> • Agree: Recommendations to Investment Committee for review of Global Governance Policy and Principles, and Legal and Policy Guidelines. • Consider whether the Subcommittee should be established on a permanent basis.

BUDGET AND FISCAL IMPACTS

Work associated with this Subcommittee is expected to be addressed with existing staff and Subcommittee resources.

BENEFITS/RISKS

Creating the Subcommittee with a clearly defined scope, approach, and work plan will help ensure that its work is carried out in an efficient manner. The risk of not clearly defining the scope, approach, and work plan could impact the Subcommittee’s ability to achieve its authorized delegation.

ATTACHMENTS

- Attachment 1 – Global Governance Policy Ad Hoc Subcommittee Delegation Resolution
- Attachment 2 – Proposed 2015 Calendar
- Attachment 3 – Global Governance Policy and Principles
- Attachment 4 – Legislative and Policy Guidelines

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