



Agenda Item 8a

May 18, 2015

ITEM NAME: Global Governance Program and Environmental, Social, and Governance Manager Expectations Update

PROGRAM: Global Governance

ITEM TYPE: Program Review – Information

EXECUTIVE SUMMARY

This agenda item provides a quarterly update on the Global Governance Program's (Program) priorities for 2015: climate risk; proxy access, to allow shareowners the ability to nominate candidates to the Board of portfolios companies; and a project to explore income inequality.

The item also includes a report on a major project of the Cross Asset Class Team on Sustainable Investment to develop manager expectations on environmental, social and governance issues (ESG) which reflect CalPERS Investment Beliefs, the Global Governance Principles and United Nations supported Principles of Responsible Investment. This work has resulted in the development of Sustainable Investment Draft Guidelines for internal and external managers in each asset class, across the Total Fund.

STRATEGIC PLAN

This agenda item supports the goal of CalPERS Strategic Plan 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 improved governance practices across markets and by companies 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.

This quarterly update highlights recent work in the Program reflecting CalPERS Investment Belief 2 that a long term investment horizon is both a responsibility and an advantage; 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

Through this quarterly update, staff is providing the Program's:

1. Progress to implement three 2015 strategic priorities: proxy access, engaging on climate risk, and a project to explore income inequality.

Proxy Access has long been a central issue for CalPERS, as a fundamental shareowner right to ensure board accountability. Working closely with other investors, CalPERS is making the issue a priority by filing proposals, engaging companies, regulators, proxy voting firms and solicitation efforts to ensure there is a high voting turnout.

Climate change has been identified in CalPERS Investment Beliefs as an example of a risk which is not captured by traditional measures, such as volatility or tracking error. CalPERS has been actively engaging energy sector companies in the Carbon Asset Risk Initiative and contributing thought leadership through participation in investor coalitions, such as the Ceres led Investor Network on Climate Risk, focusing upon the policy agenda to support mitigation of risk and expansion of opportunity due to climate change. A central objective is to have carbon pricing introduced and the termination of public subsidies to the fossil fuel industry. The goal is to catalyze market forces to better address the risks and opportunities that are presented.

Staff has begun to explore the issue of income inequality and its relevance to long term investment. Recognizing staff resources being dedicated to the newly created Global Governance Policy Ad Hoc Subcommittee through the remainder of 2015, staff plans to coordinate an Income Inequality Symposium proposed to be held during the winter 2016/2017. The Symposium will seek to enhance our understanding of whether – and, if so, how – income inequality impacts institutional investors' long-term ability to deliver sustainable, risk adjusted returns.

2. An update on a major project of the Cross-Asset Class Team on Sustainable Investment to develop manager expectations on environmental, social and governance issues (ESG) which reflect CalPERS Investment Beliefs, the Global Governance Principles and United Nations supported Principles for Responsible Investment.
3. An overview of global proxy votes cast for Q1, 2015 (January – March) in which staff voted 1,542 meetings.
4. Wilshire analysis of the performance for companies has engaged through its Focus List Program.

BUDGET AND FISCAL IMPACTS

Not Applicable.

BENEFITS/RISKS

The Program supports CalPERS fiduciary duty to provide sustainable, risk adjusted returns for its members. The risks relate to not fulfilling Board policies and principles.

ATTACHMENTS

Attachment 1 – Global Governance Program and Environmental, Social and Governance Manager Expectations Update

Attachment 2 – Overview of Global Proxy Votes Cast – Q1 2015

Attachment 3 – Wilshire Update to the “CalPERS Effect”

Attachment 4 – Wilshire Letter: Corporate Governance Engagement Analysis

ANNE SIMPSON
Senior Portfolio Manager, Investments
Director of Global Governance

THEODORE ELIOPOULOS
Chief Investment Officer