

MEETING
STATE OF CALIFORNIA
PUBLIC EMPLOYEES' RETIREMENT SYSTEM
BOARD OF ADMINISTRATION
INVESTMENT COMMITTEE
GLOBAL GOVERNANCE POLICY AD HOC SUBCOMMITTEE

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A P P E A R A N C E S

SUBCOMMITTEE MEMBERS:

Mr. Henry Jones, Chairperson
Mr. Bill Slaton, Vice Chairperson
Mr. J.J. Jelincic
Mr. Ron Lind
Ms. Betty Yee

BOARD MEMBERS:

Mr. John Chiang, represented by Mr. Frank Moore
Ms. Dana Hollinger
Ms. Priya Mathur

STAFF:

Ms. Anne Stausboll, Chief Executive Officer
Mr. Ted Eliopoulos, Chief Investment Officer
Mr. Matt Jacobs, General Counsel
Ms. Cheryl Edwards, Subcommittee Secretary
Mr. Bill McGrew, Portfolio Manager
Ms. Anne Simpson, Senior Portfolio Manager

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1 P R O C E E D I N G S

2 CHAIRPERSON JONES: Let's call the subcommittee
3 meeting to order, please. Where is Bill? Just a minute
4 before you take the role. We have Bill is missing.

5 Bill, if you can hear me, please come forward.
6 Thank you.

7 And I'd also like to -- okay. Now, would you
8 please take the role, please?

9 SUBCOMMITTEE SECRETARY EDWARD: J.J. Jelincic?

10 CHAIRPERSON JONES: Here.

11 SUBCOMMITTEE SECRETARY EDWARD: Henry Jones?

12 CHAIRPERSON JONES: Here.

13 SUBCOMMITTEE SECRETARY EDWARD: Ron Lind?

14 SUBCOMMITTEE MEMBER LIND: Here.

15 SUBCOMMITTEE SECRETARY EDWARD: Bill Slaton?

16 VICE CHAIRPERSON SLATON: Here.

17 SUBCOMMITTEE SECRETARY EDWARD: Betty Yee?

18 SUBCOMMITTEE MEMBER YEE: Here.

19 CHAIRPERSON JONES: Okay. Thank you. And also
20 note we have Frank Moore also joining us here for this
21 subcommittee meeting.

22 The first item on the agenda is to -- the action
23 item, approval of the May 20th Global Governance Policy Ad
24 Hoc Subcommittee meeting minutes.

25 SUBCOMMITTEE MEMBER JELINCIC: I'll move it.

1 SUBCOMMITTEE MEMBER YEE: Second.

2 CHAIRPERSON JONES: Okay. It's been moved by
3 Jelincic, second by Yee to adopt the minutes. I did note
4 the correction to the spelling of Slaton's name in the
5 minutes that I was looking at. So if you could correct
6 that, and with that -- okay. Thank you.

7 Okay. Then we go to the information consent
8 items. And you want to comment on the draft agenda
9 because we have a change in that, Ted, before we go
10 forward.

11 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes. Thank
12 you, Mr. Chair. On the draft calendar, we've -- you'll
13 see what's before you is the next scheduled meeting would
14 be in August. I believe it's the wish of the Committee
15 and the direction of the Chair to not have a ad hoc
16 Committee meeting in August, given other Board business
17 during August. So we'd shift each of the reviews one
18 month later.

19 So the August meeting would -- the items in
20 August would move to September, the September items would
21 move to October, and then really November would be a very
22 fulsome meeting to review the -- and discuss the
23 recommendations, and to take up the review of the process
24 by which CalPERS Board members are appointed to boards and
25 third-party organizations. And then December would be the

1 second reading of those topics.

2 CHAIRPERSON JONES: Okay. Thank you very much.
3 Okay. So then we're going to go to the Information Agenda
4 Item 4. But before we do, we will begin the substantive
5 review of the key components of what this Subcommittee has
6 been tasked to review, the CalPERS Global Governance
7 Principles and the federal policy and legislative
8 guidelines.

9 At the end of the year, we will take up the issue
10 of the process by which Board members are selected to
11 represent CalPERS as directors of third-party
12 organizations. As we start our review of the first
13 section of the global governance principles, what is
14 termed the core principles, I thought it would be good to
15 set the ground rules for how we will conduct our review.

16 Staff will gather input from this subcommittee on
17 each topic throughout the course of these important
18 discussions. For instance, today staff is seeking our
19 input on the core principles. We're seeking Board
20 direction on each section staff is suggesting we consider
21 simplifying the principles.

22 We should consider that recommendations as well
23 as whether there are any topics that are missing or should
24 be revised substantially. Let's avoid wordsmithing each
25 sentence and focus on the substantive.

1 Staff will take this input, together with the
2 input from the remaining sections, and ideally bring back
3 a proposed revised global governance principles in
4 November for the subcommittee to review.

5 If the comments are too numerous or if there's a
6 lack of consensus by the subcommittee, we may consider a
7 recommendation for further review. Ultimately, the
8 subcommittee feedback may inform several outcomes,
9 including a revised set of global governance principles, a
10 revised set of legislative guidelines, a new process for
11 which board members are selected to represent CalPERS as
12 directors of third-party organizations, and perhaps other
13 recommendations to the Investment Committee.

14 Today, we are discussing Section A of the global
15 governance principles, the core principles. And with
16 that, I'll turn it over to Ted.

17 CHIEF INVESTMENT OFFICER ELIOPOULOS: Terrific.
18 Thank you, Mr. Chair, members of the subcommittee.

19 (Thereupon an overhead presentation was
20 Presented as follows.)

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: I'm joined
22 here by Anne Simpson, and we'll be presenting about 10
23 minutes worth of material for the Committee's
24 consideration. And then, as you mentioned and
25 underscored, we're really looking to get input from the

1 Committee on the materials will be presenting to you
2 today.

3 Today's agenda is to review, as the Chair
4 mentioned, Section A, which is labeled the Core Principles
5 of Global Governance. You'll see in the materials today
6 the word core used in a different -- a couple different
7 ways. And I want to take a minute just to linger on that,
8 and that word, so there's no confusion.

9 And, in fact, Anne Simpson will be covering this
10 topic again. The Section A in front of you today looks at
11 the now unified global governance principles. And that
12 was a body of work that the Investment Committee undertook
13 for really over a year of looking at a disparate set of
14 different principles that had been adopted over many
15 different years. Principally, they were these set of core
16 principles that we'll look at today. And there's 17 of
17 those. And we'll be looking at that, which were meant to
18 cover the entirety of the portfolio. Separately, and in
19 separate sets of policies and principles, were principles
20 with respect to the domestic global equity portfolio.
21 We'll be taking up that review now in September.

22 Also, once separate, but now unified, were a set
23 of principles that had to do with international holdings
24 and a subset of international holdings also separate of
25 the emerging market principles. So a lot of work over the

1 course of the last year to take those separate sets of
2 principles and place them in one document, which now
3 really affords this ad hoc committee the opportunity and
4 the leisure to look at one set -- one document.

5 So we have attached for the Committee today the
6 one set of global governance principles. Now, it's 100
7 pages, but they're 100 pages all in one place, which is an
8 improvement.

9 And really the opportunity before this Committee
10 now is to assess, as we go through each section, whether
11 or not we have the right level of detail. We have the
12 right level of substance, where there's anything missing,
13 any gaps, things that are not covered in each session --
14 section, and to ask any other questions about, you know,
15 the relevance of a given principle or not, and
16 importantly, to look at the entirety of the document now
17 and really identify whether or not there's some
18 duplication -- we think there is -- and overlap and use
19 this opportunity to recast the principles in a more
20 streamlined fashion than exists today.

21 It harkens back perhaps to the website design
22 work that we saw earlier today that, you know, over time
23 the website, I think, became cluttered with lots of
24 information, used an opportunity to redesign it. In this
25 way, I think we have an opportunity to look at the overall

1 global governance principles in this case and really
2 decide whether or not we can focus them more to meet the
3 Committee's objectives.

4 And that leads me to the last issue, which is
5 this notion of core principles and core issues. Today,
6 we're reviewing the core principles section of the global
7 governance principles, which were meant always to cover
8 really the entirety of the program. So they're
9 fundamental and -- really fundamental to how we design our
10 global governance work. And that's why we thought it
11 important just to spend this first meeting going over the
12 core principles.

13 The can be confusing issue, which is highlighted
14 in the first page of the staff report, and we really want
15 to focus on the Committee's attention to this, because we
16 think it might be a way to focus our attention going
17 forward, is at the very same time we've done so much work
18 on this set of core principles, we've also, in the
19 quarterly updates to the Investment Committee from the
20 Global Governance Program, gone over, what we call, the
21 core issues of the Global Governance Program.

22 So you see in the executive summary those core
23 issues are -- there are five, and those are investor
24 rights, Board quality and diversity, executive
25 compensation, corporate reporting, and regulatory

1 effectiveness. And when Anne begins her discussion with
2 you, we're going to -- you have that handouts, which shows
3 these in a picture format. That should look very familiar
4 to the subcommittee. We've seen it over and over in our
5 quarterly reporting, which really form the core of the
6 Global Governance Program.

7 And one of the really main takeaways, and I'll
8 leave it at this, is we think the Committee should
9 consider whether or not these core issues could -- these
10 five core issues can be a unifying construct or framework
11 to recast the 17 principles, and even the remainder of the
12 work in September on the domestic and international
13 program around these five issues.

14 That's the teaser. That's the setting the stage.
15 And with that, I would turn it over to Anne to begin the
16 discussion.

17 CHAIRPERSON JONES: Thank you.

18 SENIOR PORTFOLIO MANAGER SIMPSON: Thank you very
19 much, Ted. And, good morning, Chair of the -- and
20 Committee members. We really welcome --

21 CHAIRPERSON JONES: Excuse me, Anne. I just want
22 to acknowledge Priya Mathur has also joined us for this
23 discussion.

24 Okay. Thank you. Sorry about that.

25 SENIOR PORTFOLIO MANAGER SIMPSON: Thank you. As

1 Ted said, we really welcome this opportunity. This
2 document that we're looking at has evolved over time. It
3 captures much that is very important to CalPERS, but
4 different dynamics and different bits of the portfolio
5 different issues were addressed, and we've now got a very
6 long document. As Ted said, at least we've brought
7 everything together. That's good. It's all in one place,
8 but it's a very long document, and we think the structure
9 is complicated.

10 And what we'd like to propose to you is that we
11 use these five core issues, which are in this, what we
12 have called now, virtuous circle of good governance as
13 potentially being five chapters in a new document, which
14 would distill the content and keep those five chapters, as
15 Ted said, consistent across the whole portfolio.

16 I think when the Governance Program was being
17 developed many years ago. There was real virtue in saying
18 well what are the core principles that we think apply
19 everywhere in every market? Then there was a lot of
20 detail around the United States. That makes sense,
21 because CalPERS is in the U.S. and knows the market so
22 well. And I understand at one point there were other
23 country chapters, one for France, one for Japan. That was
24 then overtaken by the International Corporate Governance
25 Network's principles, which were more comprehensive.

1 And then, of course, CalPERS became a signatory
2 to important initiatives like the UN PRI, the global
3 compact, statements on climate change. And those are in a
4 set of appendices. So hence, we have the glorious 100
5 pages.

6 And what we will be doing, as our Chair
7 explained, is taking each of this -- each section of the
8 current document to get your input, what's missing, what
9 do we need to update, what will we refresh? But what we
10 would really like to ask is that there's a bold move right
11 at the beginning of the process to say regroup all of this
12 thinking into the five core issues. And I apologize that
13 the word core is used twice, because I don't think you can
14 have two cores, can you, even in an apple. An apple has
15 one core and issues.

16 But -- so I just want to finish with taking you
17 around the circle in the core issues to get your feedback
18 as to whether you think this could be a good, new, simple
19 structure that would work for all markets. So we've
20 always said a core issue for CalPERS -- yes, could we put
21 that up, Ted.

22 (Thereupon an overhead presentation was
23 presented as follows.)

24 SENIOR PORTFOLIO MANAGER SIMPSON: Thank you very
25 much. It's up on the screen now.

1 So in this virtuous circle we're trying to
2 capture what are the most important issues that interact
3 to bring about effective governance?

4 The first is investor rights, and that's at the
5 top of the circle. And this makes sense, because we're
6 providing capital to companies or through investment
7 vehicles. It might be in the U.S. It might be in
8 emerging markets. It might be in Europe. But they're our
9 ability to protect our rights as an investor seems to us
10 to be fundamental wherever, whenever, however, we're
11 allocating capital.

12 So that would be our first chapter. We would
13 group all the statements around investment -- investor
14 rights and have -- we would envisage a statement about why
15 this is important, and then in bullet point form, and
16 perhaps some examples in boxes, regroup all this myriad
17 material that we have.

18 The second core issue is our focus on board
19 quality and diversity. And that makes sense, we think,
20 whenever, wherever, however we allocate capital too.
21 Because as providers of capital, we don't sit overseeing
22 the management of the enterprise, the entity, or the
23 investment vehicle. We rely upon a board of directors to
24 represent our interests. And that's true whichever market
25 we're in, however big or small the company. So we think

1 that's our second theme which is of critical importance.
2 We need boards that are independent, competent and
3 diverse. So the second chapter in the new structure, we
4 draw together all of the statements that we have around
5 board quality and diversity, and have that in one place.

6 The third element that we think is universal --
7 universally important to us across the portfolio is
8 compensation. So the nature of the incentives and their
9 ability to align interests with CalPERS is vitally
10 important, whether it's a company, an investment vehicle,
11 and investment manager. And this is, again -- I would say
12 I think all of these elements are contained in the
13 Investment Beliefs. I should have said that at the
14 beginning.

15 But getting incentives designed for the long
16 term, and how we do that, we think that could very
17 usefully be a third chapter in a new structure.

18 Coming around that circle, of course, having got
19 our investor rights, having got boards that can represent
20 us, having aligned incentives, well, the next question for
21 us is, well, how do we know what's going on? How do we
22 know that's all happening?

23 So our fourth issue is corporate reporting. And
24 that's not just ensuring we have high quality global
25 standards of accounting and rigorous independent audit,

1 it's also the place where we have a concern with ensuring
2 that environmental risks and opportunities are being
3 properly disclosed. And CalPERS does a lot of work in
4 this arena, whether it's through the international
5 financial reporting standards body, our call for
6 disclosure of risk by energy companies around climate
7 change. But this issue of corporate reporting is
8 universal, and we think it applies in every part of the
9 portfolio and in every market. So that would be chapter
10 4.

11 And then finally, we know that regulation
12 matters. We've got statements throughout the document
13 about the role of regulators, about market conduct, about
14 the rules of the game that we want, that we think will
15 protect us and make sure investor rights and boards and
16 compensation and reporting are all where they should be.
17 We think we should draw that all together and have a fifth
18 chapter on regulatory effectiveness.

19 The idea really here is that we've moved from
20 what we would like to do is move from a situation where
21 we've got core principles, domestic principles,
22 international, and then separate statements, and say,
23 these are the CalPERS Global Governance Principles, but
24 they're simple, they're well argued, there's clarity, and
25 brevity, certainly not 100 pages.

1 And then other organizations which CalPERS
2 supports, and encourages, and applauds, we envisage we
3 would reference their good work in one appendix as a list
4 of organizations where the Board has taken a decision to
5 support the work. But we wouldn't be, for example,
6 bringing ICGN's material in as our statement. We'd say
7 that's ICGN and we support ICGN, but this would belong to
8 CalPERS. This would be CalPERS clear, brief, and
9 comprehensive.

10 And I very much liked, as Ted said, the website
11 presentation they talked about user experience. And the
12 users here are CalPERS Board, and staff, our managers, our
13 stakeholders, the companies we invest in. There's a high
14 degree of public interest in what we do. And if we can
15 achieve clarity and brevity, I think it will put us in a
16 position to communicate much better to all those different
17 groups.

18 CHAIRPERSON JONES: Okay. We have a couple
19 questions on that note.

20 Mr. Slaton.

21 VICE CHAIRPERSON SLATON: Thank you, Mr. Chair.
22 I think this is great start. I think this is -- you know,
23 bringing both clarity and brevity are really important for
24 people to actually engage with what we say in writing, so
25 people actually read it.

1 And -- but just a couple of things jump out at me
2 here. In the one investor -- and I don't -- I agree with
3 the Chairman's comment, we're not going to wordsmith here,
4 but the investor rights is the only one of the five that
5 doesn't actually make a statement about what we want. All
6 it is is the fact part of it, so it doesn't talk about
7 what we mean by investor rights. So somehow reworking
8 that sentence so there's something that gets accomplished,
9 as a result, like the other four.

10 The other one was when you got to Board quality
11 and diversity, you actually said three things, and you
12 only have two up here. The one you don't have listed here
13 is independence. And I think the independence is just as
14 important as the quality and diversity issue. So, to me,
15 it's -- the way you said it verbally with all three I
16 think it's important.

17 SENIOR PORTFOLIO MANAGER SIMPSON: Right. Thank
18 you. That's helpful.

19 CHAIRPERSON JONES: Very good.

20 Mr. Lind.

21 SUBCOMMITTEE MEMBER LIND: Thank you. I really
22 wasn't clear on the task that was before us and the
23 process, but now I am. And I think sort of using these
24 core principles as a -- you know, to set the framework for
25 the -- using the core issues to set the framework for the

1 core principles makes sense. And I like the way you sort
2 of talked through what we're going to do. My question is,
3 we've got these five one, two, three, four -- four, right?
4 Five core principles -- core issues. Those two core
5 things are still screwing us up here.

6 Based on some of the great work that we are
7 doing, is it -- I want to make sure that there is a
8 pathway, that there's some flexibility, because we may
9 determine, after all the work in, what, 18, 24 months from
10 now, that we're going to add income inequality as a core
11 issue. So what would be the process for sort of
12 dovetailing that into what we're doing? It would just be
13 another chapter. We wouldn't have to sort of reinvent
14 this whole process. Where do you think that stands, Anne?

15 SENIOR PORTFOLIO MANAGER SIMPSON: I'd like to
16 think about that. I think it's a very good question. The
17 literature review that we've done in preparation for that
18 project told us two things. One is that there's a piece
19 of the debate which is about public policy and regulation.
20 So potentially there's a reference in our regulatory piece
21 of the virtuous circle. And the literature has also told
22 us that how companies reward their staff has an impact on
23 the distribution of wealth. It's a silly, simple thing to
24 say, but it really does make a difference.

25 And we've run shareholder campaigns at companies

1 like Chipotle, where there's been very, very high pay at
2 the top, very poor performance, and we don't currently
3 comment on the very low pay at the bottom. But for an
4 efficient deployment of our capital, it's raised
5 questions.

6 So just at this early stage, I can see that a
7 topic like income inequality may live in two places, which
8 is at the company engagement level around compensation,
9 and it may also live in the regulatory sphere, because
10 there is a policy element to this as well.

11 Do you want to add to that, Ted?

12 CHIEF INVESTMENT OFFICER ELIOPOULOS: No, I think
13 that's very, very well stated. Our hope is that by
14 selecting these core issues over time, we're -- they're
15 flexible enough to take into account changing conditions
16 and changing policy adoptions by this Committee. So that
17 will be a test as we go through this, and something to
18 keep in your all's mind and contemplation, does this
19 framework work, because you're trying to build a frame
20 work that will last for a long time?

21 But having said that, as new things come along
22 we'll be constantly testing it. Our own judgment is that
23 these five core issues that together we've constructed
24 over time do a pretty good job. As we go through the 17
25 principles and the domestic principles and the

1 international principles and do this kind of test check
2 that you just did, we're able to reformat them,
3 recalculate them into these five chapters, and it makes
4 sense. But that's what this dialogue is about is to make
5 sure we're not losing important parts of the policy
6 framework by going to a simpler version.

7 Our hypothesis to the Committee is that we don't
8 believe we are. We gain more by the simplicity of it in
9 the organizational structure than we lose in missing an
10 opportunity or missing a subject matter that is important
11 to the Board.

12 SUBCOMMITTEE MEMBER LIND: Yeah, that makes
13 sense, because I think what we're saying is that -- so
14 let's say that we make some sort of decision about our
15 role or our perspective on incoming inequality, you know,
16 a couple years from now, rather than have to go through
17 all these different documents --

18 SENIOR PORTFOLIO MANAGER SIMPSON: Right.

19 SUBCOMMITTEE MEMBER LIND: -- and international
20 and, you know, and domestic and -- we've got one to go to
21 and sort of figure out how it kind of fits in, right?

22 CHAIRPERSON JONES: Good point.

23 Okay. Mrs. Mathur.

24 BOARD MEMBER MATHUR: Thank you. Overall, I
25 think this is a very sensible approach, but I do think we

1 need to make sure that it is within the context and
2 framework of long-term value creation, because that's
3 where issues like climate change and income inequality and
4 other economic issues that fall -- and these are sort of
5 the levers that we pull in order to address those
6 long-term issues, but those are risks and opportunities
7 for our fund that we face over the long term, that we
8 believe are important to consider in the construction of
9 our portfolio and how we execute on the global governance.
10 So that's comment number one.

11 Comment number two is I think one way to sort of
12 create space for income inequality as it comes down the
13 road is to change -- just to remove the word executive
14 from executive compensation. If we called that
15 compensation, then that leaves us sort of that space to
16 talk about compensation at all levels in an organization
17 and throughout the spectrum. So those are my two
18 comments.

19 Thanks.

20 CHAIRPERSON JONES: Very good. Thank you.

21 CHIEF INVESTMENT OFFICER ELIOPOULOS: I might use
22 that -- your first comment very well taken to address the
23 issue of the introduction and the purpose. We did not put
24 before the subcommittee the introduction and purpose
25 section. We started with the core principles, because we

1 really wanted to set up this discussion around core issues
2 and core principles.

3 But certainly, what Ms. Mathur just mentioned is
4 very appropriate to make sure is underscored in either
5 just one introduction or a purpose section. And we'll
6 take that commentary back. And our plan is to bring back
7 the purpose and introduction statements either in a
8 September or in November, so it's not lost on us.

9 BOARD MEMBER MATHUR: Very good.

10 CHAIRPERSON JONES: Okay. Ms. Yee.

11 SUBCOMMITTEE MEMBER YEE: Thank you, Mr.
12 Chairman.

13 I appreciate Ms. Mathur's change on compensation.
14 That's exactly what I was going to suggest, and also
15 within the spirit of just trying to achieve some
16 flexibility with respect to how broadly we can look at
17 some of these issues.

18 I actually liked this construct a lot, because as
19 I was going through the policy itself, I think the
20 structure of it was a little awkward with respect to the
21 expansion or additive nature of the domestic and
22 international principles to the core principles. And so
23 to be able to incorporate all that, and be very clearly
24 about what our expectations are I think is really a great
25 step forward. So looking forward to the conversation.

1 I also wanted to say something about the
2 long-term value creation, because -- and just kind of the
3 long-term orientation about how we view things generally.
4 It -- and we'll get into that when we get into some of the
5 specific core principles. But I think this whole
6 orientation of long-term sometimes get lost because we're
7 so focused on kind of the -- kind of the immediate
8 expectation, whether it's, you know, looking at near-term
9 returns or looking at, you know, whatever other challenges
10 are near term.

11 But as we look at who we are as an investor, and
12 even with issues like global climate change, I think it's
13 really important to really keep that as a core, that, you
14 know, we're not being knee jerk, we're not -- we
15 understand that change takes time. Even the degree of our
16 engagement and the tenor of our engagement is really to
17 hopefully move things for, you know, long-term value
18 creation. So I just would like to see more of that be
19 kind of the spirit of how we're looking at conducting our
20 global governance.

21 CHAIRPERSON JONES: Okay. Also, I'd like to
22 recognize Ms. Hollinger has also joined us here at the
23 table.

24 Mr. Jelincic.

25 SUBCOMMITTEE MEMBER JELINCIC: Well, I had made

1 the same comment about executive compensation, broadening
2 it out. Generally, I really kind of like this approach.
3 I'm wondering if maybe we -- because there really is core
4 to so much, we may not want to create a little bubble for
5 Investment Beliefs, because they kind of float to this
6 whole thing. And you had already mentioned the
7 introduction and the prep -- or the purpose.

8 The -- one of -- just from a process viewpoint as
9 we go through this, I want to encourage people to -- we'll
10 go through, you know, core principles today, and next time
11 it's domestic principles. But when we do domestic, it may
12 very well trip something back in core, and so I want to
13 encourage people to keep the previous ones in mind.

14 And the other thing that I'm aware of is we've
15 got a number of contradictions in it. And in here we talk
16 about the importance of what -- you know, one chair one
17 vote. Yet, that's not really reflected in how we invest.
18 In here, we talk about the importance of annual elections.
19 And I think it's in the international we talk about how
20 board elections ought to be at least every three years.

21 Well, if it's annual, it's more than every three,
22 but there's -- so it's not contradictory, but it's not a
23 real consistency. And I think we need to be aware of
24 those and look through it. And so I think the approach
25 that you've suggested of going, you know, each section at

1 a time will help capture that, as long as people keep in
2 mind the back issues.

3 And on the appendixes we have now, in the
4 international, we incorporated -- we just basically
5 plopped it in. But I think there's some value to the
6 listing these different agreements and principles, and --
7 but as an appendix, as -- and maybe label it a resource,
8 just so that again it is in one place where people can
9 find it, and they won't really count it towards the
10 hundred pages. But I think there is some value to keeping
11 them there, even if just -- even if it is as a resource.

12 CHAIRPERSON JONES: Okay. Mr. Slaton.

13 VICE CHAIRPERSON SLATON: Yeah. J.J. raised a
14 point, and I want to make sure I understand where we're
15 trying to go to. I kind of -- I thought I heard you say
16 we're trying to go to a set of principles that both apply
17 to domestic and to global. Now, where everybody is on
18 those paths obviously is different, but it seems to me
19 there's value in having one path. This is where we want
20 everyone to go. You just may not be there yet --

21 SENIOR PORTFOLIO MANAGER SIMPSON: Right, yes.

22 VICE CHAIRPERSON SLATON: -- and therefore
23 require more work. Am I understanding it correctly? Is
24 that the direction we're trying to go?

25 SENIOR PORTFOLIO MANAGER SIMPSON: Yes. You put

1 it very well. What we would like is to have one set of
2 principles with a clear structure on core issues, which we
3 consider apply in all markets, rather than highlighting
4 slightly different things in different places.

5 VICE CHAIRPERSON SLATON: Yeah, I agree with
6 that. I think that sends a very -- a clearer message.

7 SENIOR PORTFOLIO MANAGER SIMPSON: Right. And I
8 think what's happened in the last 10 years, even in the
9 global governance community, is we've seen convergence
10 around principles. Countries have different legal
11 traditions, they have different ownership structures, but
12 wherever we are, our view, at this stage, even thinking --
13 well, Japan is our second or third largest market. We're
14 doing a lot of investigation in Japan as an option for the
15 enhanced focus list at the moment.

16 And this work is thinking through a good
17 governance structure in Japan. I think 10 years ago there
18 was a fear that there would be -- the view of the
19 investors would be their home country bias would mean that
20 they crashed around in an insensitive way in the local
21 market. And I think the progress that we've made globally
22 through groups like ICGN, and through the establishment of
23 PRI, I think there's a consensus around the core issues
24 that we've got here.

25 I would not feel uncomfortable talking about

1 these issues in Brazil, or China, or Japan, or South
2 Africa. And we would have partners in all of those
3 markets who understood that this is a shared ambition.
4 It's not something cooked at home at CalPERS.

5 VICE CHAIRPERSON SLATON: So once -- and I agree,
6 and once we get this done, then I just want to put a
7 marker out that I, for one, will hopefully be looking for
8 some strategic measurements of a different future from
9 where we are today in these markets, so that we can know
10 what we're trying to get to.

11 Thank you.

12 SENIOR PORTFOLIO MANAGER SIMPSON: Thank you.

13 CHAIRPERSON JONES: Very good. Okay.

14 Ms. Mathur.

15 BOARD MEMBER MATHUR: Thank you. I appreciate
16 where you're trying to go with this -- these appendices or
17 this consolidation to one appendix. I do think there's a
18 difference between sort of trade organizations of which we
19 are a member, like CII or ICGN, and actual principles or
20 statements that we sign up to, such as the Principles of
21 Responsible Investing, or the -- some of the climate
22 statements that we've signed on to.

23 And so perhaps, you know, maybe it's just a
24 reference to a link on our website or -- but having that
25 somehow incorporated, that these are things we've actually

1 behind on to, and that we are committed to as an
2 organization, which might not be fully reflected in these
3 six core issues, I think, would be a good idea, if they're
4 not, you know, in their entirety included in the appendix.

5 But just listing the organizations to me is not
6 sufficient, because certain principles, statements have
7 more power because we've actually signed on to them than
8 the general activities of an organization of which we
9 might be a member.

10 SENIOR PORTFOLIO MANAGER SIMPSON: Yes. And my
11 thought was that this document would be on the website.
12 It's the main way it would be read is on-line, and that
13 you'd have a link to the statements that CalPERS has
14 supported. And I think we may want to refresh this list,
15 because there's some statements that have since been
16 supported and aren't there. So I think there's been a bit
17 of ad hockery about which ones are in an appendix and
18 which ones aren't. So I absolutely agree with you.

19 When CalPERS has thrown its weight behind an
20 initiative, that has impact. And it's important people
21 understand what we're doing. But I think having all of
22 the documents listed out separately has posed a
23 question -- let me give you an example where maybe that's
24 the right distinction. It's a good point you make where
25 we're just a member of a body, and where the Board's

1 approved something is a different thing.

2 So let's say CII has to do a lot consensus
3 building between many different types of investors, they
4 may find their point of consensus with the membership at a
5 different place to CalPERS.

6 I would say CalPERS is in a leadership role
7 often, which is right, given our size and values, and
8 trade bodies have to move more gently and slowly. So you
9 may find that what the trade body is saying doesn't
10 reflect what we're saying in our own principles.

11 So maybe we can think more about that, and see
12 whether the distinction in the appendix ought to be, as
13 you say, where CalPERS has put its -- the full force and
14 credit of the pension fund behind something. That's very
15 different from just being a member.

16 BOARD MEMBER MATHUR: Actually, your point is
17 well taken that we don't want to have to bring this
18 policy, or set of principles, to the Committee every time
19 we sign onto something. So perhaps having a link to where
20 all of the things we've signed onto are housed. And then
21 that could be refreshed with actually bringing the
22 principles before the Committee. Maybe that's the more
23 practical way to accomplish that.

24 But I leave it to you to sort of figure out the
25 niceties of it, but I just wanted to make that point.

1 CHAIRPERSON JONES: Okay. Mr. Jelincic.

2 SUBCOMMITTEE MEMBER JELINCIC: Yeah. Bill, maybe
3 I didn't make myself clear. I am not advocating that we
4 wind up with a different set for international and
5 domestic. I was simply saying procedurally we're going to
6 do A, B, C. And when you're looking at C don't forget
7 what we -- was in A and B, because it may trip something
8 that may lead to a change back to this core. And that
9 was -- so it was a process, not a goal.

10 CHAIRPERSON JONES: Okay. Thank you. Okay. So
11 that's on that round that real good input, I'm sure.

12 SENIOR PORTFOLIO MANAGER SIMPSON: Thank you.

13 CHAIRPERSON JONES: And this is a good start,
14 especially with these five elements. And so they've
15 become

16 SUBCOMMITTEE MEMBER JELINCIC: At least think
17 about a sixth, the Investment Beliefs.

18 CHAIRPERSON JONES: Yes, right.

19 SENIOR PORTFOLIO MANAGER SIMPSON: If I could
20 come back to Ted's point that we want to talk about the
21 preamble, what's the framing statements?

22 My thought is that the Investment Beliefs will
23 frame the whole document. And I think Priya put it
24 beautifully, she said these are the levers. These are the
25 things where change can occur, but the Investment Beliefs

1 would be the framing of the whole document, because the
2 Investment Beliefs aren't an action. Whereas, there is
3 action to be taken on all of these core issues.

4 If we believe these things in the Investment
5 Beliefs being long term, long-term value, multi-faceted
6 risk, then these are the things that we focused on with
7 action to do something, which should fulfill the
8 investment beliefs. But that's where we are now, and this
9 is a process, so --

10 VICE CHAIRPERSON SLATON: And I agree. In some
11 way, you may want to do the introduction and the purpose
12 after you've done the document.

13 SENIOR PORTFOLIO MANAGER SIMPSON: Yes, that was
14 our thought.

15 SUBCOMMITTEE MEMBER JELINCIC: But the current --
16 there's some changes that need to be done in these, but...

17 CHAIRPERSON JONES: Okay. So that's -- okay. So
18 we -- now, are you going to go to the next section here
19 and report --

20 CHIEF INVESTMENT OFFICER ELIOPOULOS: A question
21 for the Committee. I know the time is late. So we -- the
22 17 core principles are certainly in the attachment and in
23 our staff report. We highlighted some of the types of
24 clean-up work and grouping we would do. So we could go
25 through them or we could just pause and see if there's any

1 questions by the Committee members on any of the specific
2 principles. We're glad to do -- you know, we're glad to
3 do either.

4 CHAIRPERSON JONES: So what is the pleasure of
5 the Committee? You want to go through each one now or you
6 want to just wait and see -- and reread -- if you haven't
7 read them, read them and then see whether or not there's
8 any feedback later.

9 Just minute.

10 Mr. Jelincic.

11 SUBCOMMITTEE MEMBER JELINCIC: Yeah, I would like
12 to take your report and do Core Principles 1, and have you
13 kind of explain what it is I'm reading, because when I got
14 to the example at the top of page two, I got confused.
15 And what I thought I understood, I didn't understand. But
16 I assume that the format is consistent throughout. So
17 maybe go through one and explain to me what it is I'm
18 looking at. That would be helpful to me.

19 CHAIRPERSON JONES: Okay.

20 SENIOR PORTFOLIO MANAGER SIMPSON: I'm sorry, I
21 didn't hear the second part of your question. Could you
22 repeat it?

23 SUBCOMMITTEE MEMBER JELINCIC: If you look at two
24 of five, there's Core Principle 1 that continues onto the
25 next page. And if you could walk me through what it is

1 you're saying, because when I got to the example at the
2 top of the next page, I suddenly got confused and
3 wasn't -- was not certain I understood what you were
4 trying to say.

5 But I assume that that same pattern works through
6 all -- you know, is consistent, so walking through one
7 should explain what I'm looking at in all the others.

8 SENIOR PORTFOLIO MANAGER SIMPSON: I think that
9 the consideration that we're flagging here is that
10 although we talk about the three forms of capital from
11 physical capital is one of them, and we have language
12 scattered throughout the document on the environment, we
13 don't, in the core principles as they're currently
14 drafted, set out clearly what we mean, and that I think is
15 the -- there's nothing more clever than that. It's that
16 to us this seems an area where we need to be more
17 explicit.

18 We have an enormous amount of activity going on,
19 and take climate risk as an example -- or climate change,
20 risk and opportunity. We've got a big program of work
21 around advocacy to change market pricing, calling for
22 carbon pricing, being very actively involved on regulatory
23 issues. We're also very active on corporate engagement,
24 and we're quite specific about what we want companies to
25 be doingBut we don't -- in the current draft, that work is

1 quite recent. The current draft doesn't reflect that.

2 So we're essentially saying the Subcommittee may
3 want to consider a dedicated core principle relating to
4 physical capital. So when we funnel all of this material
5 into the new five chapters structure, we think we're quite
6 light on what we say and do around environmental issues.

7 SUBCOMMITTEE MEMBER JELINCIC: I'm still
8 confused, but I will let that sink for a while.

9 CHAIRPERSON JONES: Okay. Ms. Yee.

10 SUBCOMMITTEE MEMBER YEE: I kind of would like to
11 walk through this a bit, because I mean our timeline for
12 getting this completed is tight. The section is not that
13 long. And I think what might be helpful to Anne and the
14 team is just some impressions that we have of what's maybe
15 missing or what might not be getting proper addressed that
16 might help shape us going forward. Is that okay?

17 CHAIRPERSON JONES: Okay.

18 SUBCOMMITTEE MEMBER YEE: I don't think it will
19 take a long time.

20 CHAIRPERSON JONES: Okay. And so I think that
21 will be the direction we'll move. But before we do, I
22 have a couple more questions.

23 Bill.

24 VICE CHAIRPERSON SLATON: Yeah, and I think
25 that's fine to walk through. But again, in the initial

1 instructions that the Chair talked about wordsmithing, you
2 know, to avoid that. You know, I think these -- you've
3 already got some commentary on these five. I would -- I
4 think it's more productive eventually for you to do a
5 straw delineation of this of how you would put these
6 things under the five, and then let us critique that and
7 decide do we see something missing rather than trying to
8 reconstruct from what exists today. So that's my thought.

9 CHAIRPERSON JONES: Good point. Good point.
10 Mrs. Mathur.

11 BOARD MEMBER MATHUR: Yeah, I'm not a member of
12 the Committee, but I would agree with that, that perhaps
13 an actual mapping -- you know, put up a straw person and
14 then actually map where the current principles sort of are
15 housed within the new construct would probably be a more
16 useful -- might be more useful than going through it,
17 because I think you've already heard that we think that
18 you're going in the right direction. And that's -- so
19 this seems like getting a little too specific to me.

20 CHAIRPERSON JONES: Yeah, I've asked Bill McGrew
21 to join me, because Bill has been on the program since
22 2001, and been part of the evolution as -- and also has
23 drafted the agenda items. So if there is something
24 specific, we'd be happy to talk to you either now or
25 later.

1 CHAIRPERSON JONES: Yeah, and I think the point
2 Bill made and Priya made is a very good one in terms of
3 coming back, but I think also it's important to make sure
4 the Committee members understand. And so I think it is
5 worthy to at least go through one, so we have the
6 framework of what we're going to be dealing with as we go
7 forward.

8 CHIEF INVESTMENT OFFICER ELIOPOULOS: So why
9 don't I -- maybe I can propose this. And we said at the
10 creation of this subcommittee that we'd be fluid based on
11 the discussion. And I think bringing in September this
12 straw person revised global policy is what we should do.
13 So we come back organized around the five core issues, and
14 that would -- that would cover the core principles as well
15 as domestic and international, which will give the ability
16 for the Committee then to see the difference between the
17 two.

18 I think that would be more effective listening to
19 the discussion, because Mr. Jelincic's point is well
20 taken, you really have to go through the exercise of
21 looking at Core Principle 1, and seeing its description in
22 the core principles around the three forms of capital.
23 And then go through the exercise of reorganizing it into
24 straw person policy, so you can see the threads of what
25 was taken from the domestic principles, and the threads of

1 what's taken from the international principles, and how it
2 either -- it will either work or it won't work better or
3 worse.

4 And until we do that, it's going to be too
5 difficult for the Committee to maybe give us information
6 one by one. So I think that might be a good shift of how
7 to approach this, if the Committee is comfortable with it.

8 CHAIRPERSON JONES: Okay. And I think that's
9 great, but I still don't want to leave hanging.

10 SUBCOMMITTEE MEMBER YEE: That's okay. I mean, I
11 can provide my input separately. I just thought it would
12 be helpful, to the extent we had impressions about what
13 was missing or where there was a lack of emphasis that
14 might be helpful, but I can do that on my own. We don't
15 need to take time to do that. It's fine.

16 CHAIRPERSON JONES: Yeah. Why don't you take a
17 few minutes. I just hate to leave it hanging, you know.
18 And I think the direction though is as Bill and Priya had
19 mentioned, but I also think that, you know, just a little
20 flavor of what this document is, and then we'll be
21 finished for the day.

22 SENIOR PORTFOLIO MANAGER SIMPSON: All right.
23 Thanks very much. So for the purposes of providing an
24 example, I think that's -- is that where we are? We'll --
25 would you -- is there a particular principle that you'd

1 like us to talk through or shall I just begin at number
2 one?

3 CHAIRPERSON JONES: Just number one.

4 SENIOR PORTFOLIO MANAGER SIMPSON: Start at
5 number one in the traditional way.

6 CHAIRPERSON JONES: And just one.

7 SENIOR PORTFOLIO MANAGER SIMPSON: Just one.

8 So Core Principle number 1 puts sustainability at
9 the heart. And I think this speaks to the focus upon the
10 long term and its language, which is drawn from the
11 Investment Beliefs. But I'm going to ask Bill to add
12 extra color to this, because the task that he had was
13 taking statements in the emerging markets principles, and
14 these principles, and our separate policy on director
15 appointments and blending it in a way that reflected the
16 Investment Beliefs.

17 So, Bill, can I ask you to address number one and
18 explain what's been brought from where and why it looks
19 the way that it is does?

20 PORTFOLIO MANAGER MCGREW: Yes. Thank you, Anne.
21 Bill McGrew, Investment Office staff, Global Governance.

22 You know, J.J. brings up a very interesting point
23 in how you pose that question and the example that we
24 used. And to respond to that one point here real quick,
25 as we balance what a final document is going to look at,

1 we want to be sure that we don't lose site of the
2 importance that we, as an organization, have placed on
3 physical capital or the environment engaging on climate
4 risk, for example, and equally as important human capital.
5 The role that human capital plays in where we allocate
6 capital, whether it's through labor, whether it's through
7 the use of employees and safety practices, for example,
8 which come from the Investment Beliefs.

9 And so, in a way, I mean kind of keying off of
10 what we've heard here, you could look at this
11 sustainability, Core Principle number 1, as a direct
12 reflection of one of our Investment Beliefs. And in a
13 way, that would then filter up into a preamble, or a
14 purpose, or an introduction paragraph that touches on the
15 Investment Beliefs, this being one of them.

16 And I think when we merged this into this version
17 here, we wanted to be sure that for the first time the
18 enterprise recognized the importance of, to Priya's point,
19 long-term value creation, and to Betty's point long-term
20 value creation, is the effective management of financial
21 capital, physical capital, and human capital.

22 So that's really -- it sounds like really good
23 preamble language, that when we bring back this straw
24 person draft, that might filter better up into that
25 purpose language.

1 So that's just a little bit of context behind
2 that.

3 CHAIRPERSON JONES: Okay. Okay.

4 CHIEF INVESTMENT OFFICER ELIOPOULOS: Okay.

5 Another example is if you look at, you know, amongst the
6 17 principles, you'll notice that transparency is
7 referenced four or five times, and that's because of the
8 cobbling together, at different points of time. So Core
9 Principle number 3 begins the -- you know, the types of
10 transparency. It's an important topic, of course, but I
11 think we can do a better job of organizing these pieces.

12 So you have, sort of, financial reporting
13 standard transparency in 3, and then later in the document
14 in point number 10, we really get to some transparency
15 items that were really targeted for the emerging markets
16 and came out of our emerging market principles.

17 And not to belabor it, but then number in 17 when
18 we looked at what's important to us in the financial
19 markets at large, Point A we bring in a notion of
20 transparency in the financial markets. It just gives you
21 a sense there's duplication in the 17, and we'd -- we
22 think there's probably just one transparency piece that we
23 likely would need. So we're trying to give the Committee
24 a flavor of how we'll consolidate. So the transparency is
25 a good one, where we have in too many different spots, and

1 we'll bring it into one.

2 The other examples are harder to pull together,
3 which is pulling out of the domestic principles and the
4 international principles, there you will see transparency
5 sections as well. You'll see human capital and physical
6 capital references in the others. So the staff report was
7 saying we need to go through all three of them and pull
8 them into one spot. And that's really what the job will
9 be in putting the straw person report together.

10 I think those are the main ones we called out in
11 our staff report, transparency and the first one.

12 CHAIRPERSON JONES: Okay. And I think that's
13 very good. I think the first direction, I think as Bill
14 and Priya suggested, is a straw man approach and then we
15 can begin to move forward through our work here as a
16 Subcommittee.

17 So is there -- are there any other comments or
18 information that we need to move forward?

19 Okay. Seeing none.

20 And if there's no other comments -- and let me
21 see, this is a -- we don't have -- public comments. Are
22 there any members of the public who would like to speak?

23 Seeing none.

24 Therefore this meeting is adjourned.

25 /////

(Thereupon California Public Employees'
Retirement System, Investment Committee, Global
Governance Policy Ad Hoc Subcommittee meeting
adjourned at 12:42 p.m.)

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C E R T I F I C A T E O F R E P O R T E R

I, JAMES F. PETERS, a Certified Shorthand Reporter of the State of California, do hereby certify:

That I am a disinterested person herein; that the foregoing California Public Employees' Retirement System, Board of Administration, Investment Committee, Global Governance Policy Ad Hoc Subcommittee meeting was reported in shorthand by me, James F. Peters, a Certified Shorthand Reporter of the State of California, and was thereafter transcribed, under my direction, by computer-assisted transcription;

I further certify that I am not of counsel or attorney for any of the parties to said meeting nor in any way interested in the outcome of said meeting.

IN WITNESS WHEREOF, I have hereunto set my hand this 23rd day of June, 2015.

JAMES F. PETERS, CSR
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