



# Global Governance Policy Ad Hoc Subcommittee

California Public Employees' Retirement System

---

## Agenda Item 4a

September 16, 2015

**ITEM NAME:** Review Draft of Global Governance Principles Alignment with Program Core Issues

**PROGRAM:** Global Governance

**ITEM TYPE:** Total Fund – Action

### RECOMMENDATION

Staff is presenting a “first” draft of proposed structural changes to the Global Governance Principles (Global Principles) by arranging the principles into five chapters – one for each of CalPERS’ core issues: Investor Rights, Board Quality, Compensation, Corporate Reporting, and Regulatory Effectiveness. Staff is seeking feedback from the Global Governance Policy Ad Hoc Subcommittee on the recommended structural changes to the Global Principles.

### EXECUTIVE SUMMARY

This agenda item initiates the first of a four phase review process of the Global Principles by the Global Governance Policy Ad Hoc Subcommittee. During this process staff will be restructuring the existing Global Principles into five “core issues” while moving away from a structure which differentiates the principles by Core, Domestic, and International markets with various third party references (CII, ICGN, and other appendices). While completing this process staff will also consolidate and remove any duplicative principle language while maintaining the content of the existing Global Principles document moving forward.

### STRATEGIC PLAN

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

### INVESTMENT BELIEFS

This agenda item supports the CalPERS Investment Beliefs (Beliefs) including direct alignment with the following:

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**

At its March 2015 meeting, the Investment Committee (Committee) established the Subcommittee consisting of Henry Jones, JJ Jelincic, Ron Lind, Bill Slaton, and Betty Yee at its April 2015 meeting for the purpose of reviewing CalPERS’ Global Principles. At its May 2015 meeting, the Subcommittee elected Henry Jones to serve as Chair, and Bill Slayton to serve as Vice Chair of the Subcommittee while agreeing to its scope and work plan to make the following recommendations to the Committee by December 31, 2015.

## **ANALYSIS**

For the first round, revisions were made with three objectives in mind:

1. Simplify – reorganized principles into five chapters, remove duplications and integrate Appendices as Principles
2. Consolidate – slimmed existing Appendices from nine to one, keeping the Principles for Responsible Investment (PRI) as Appendix A
3. Update References – framed by the Board adopted Investment Beliefs

Attachment 3 provides a detailed account of the changes being proposed within this first round of amendments and can be used as a guide alongside Attachment 4, which contains all tracked changes to the Global Principles.

The Subcommittee will have three opportunities to review the Global Principles at the October, November and December meetings.

## **BUDGET AND FISCAL IMPACTS**

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

## **BENEFITS/RISKS**

Review of CalPERS Global Principles 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. Identified amendments will enhance transparency into investment and financial markets policy making processes and strategy.

A misalignment with Investment Office strategic planning and the Board's adopted Global Principles can increase the risks of missed opportunities and ambiguous implementation.

**ATTACHMENTS**

Attachment 1 – Global Governance Principle Revisions Presentation

Attachment 2 – Original Global Governance Principles

Attachment 3 – Overview of Revisions

Attachment 4 – Global Principles Tracked Changes

Attachment 5 – Proposed Global Governance Principles

---

ANNE SIMPSON  
Investment Director  
Global Governance

---

THEODORE ELIOPOULOS  
Chief Investment Officer