



Global Governance Policy Ad Hoc Subcommittee

California Public Employees' Retirement System

Agenda Item 4a

October 20, 2015

ITEM NAME: Review Draft of Global Governance Principles alignment with Program Core Issues – Second Reading

PROGRAM: Global Governance

ITEM TYPE: Total Fund – Action

RECOMMENDATION

Staff is presenting the second draft of proposed changes to the Global Governance Principles (Global Principles) that arranges the principles into five chapters – one for each of CalPERS' core issues: Investor Rights, Board Quality, Compensation, Corporate Reporting, and Regulatory Effectiveness. Staff has included a response to the issues raised in the first reading and proposes a number of areas for further review and development.

EXECUTIVE SUMMARY

This agenda item initiates the second of a four phase review of the Global Principles by the Global Governance Policy Ad Hoc Subcommittee. During the first review staff presented the subcommittee with a set of restructured Global Principles into five "core issues" – 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). During the second and remaining phases of the project staff will refresh the consolidated Global Principles while maintaining content and draft language for new issues raised.

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 requires 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 Slaton 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 second phase of the review staff wanted to provide updates on the following:

1. Highlight framework for a new Introduction and Purpose
2. Staff response to questions from the September 21, 2015 board meeting.
3. Identify principles under review and any related gaps for further development.

Attachment 2 provides a detailed account of the edits made within the second round of amendments (which contains all tracked changes to the Global Principles).

The Subcommittee will have two more opportunities to review the Global Principles at the 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 – Global Principles Tracked Changes

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