

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

ROBERT F. CARLSON AUDITORIUM
LINCOLN PLAZA NORTH
400 P STREET
SACRAMENTO, CALIFORNIA

WEDNESDAY, OCTOBER 21, 2015

11:01 A.M.

JAMES F. PETERS, CSR
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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, represented by Lynn Paquin

BOARD MEMBERS:

Mr. John Chiang, represented by Mr. Grant Boyken

Mr. Richard Gillihan, represented by Ms. Katie Hagen

Ms. Dana Hollinger

Ms. Priya Mathur

Mr. Theresa Taylor

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Mr. Matt Jacobs, General Counsel

Ms. Cheryl Edwards, Subcommittee Secretary

Ms. Anne Simpson, Investment Director

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

2 CHAIRPERSON JONES: We're going to convene the
3 Global Governance Subcommittee meeting. And the first
4 order of business is roll call, please.

5 SUBCOMMITTEE SECRETARY EDWARDS: Henry Jones?

6 CHAIRPERSON JONES: Here.

7 SUBCOMMITTEE SECRETARY EDWARDS: Bill Slaton?

8 VICE CHAIRPERSON SLATON: Here.

9 SUBCOMMITTEE SECRETARY EDWARDS: J.J. Jelincic?

10 SUBCOMMITTEE MEMBER JELINCIC: Here.

11 SUBCOMMITTEE SECRETARY EDWARDS: Ron Lind?

12 SUBCOMMITTEE MEMBER LIND: Here.

13 SUBCOMMITTEE SECRETARY EDWARDS: Betty Yee?

14 Lynn Paquin for Betty Yee?

15 ACTING SUBCOMMITTEE MEMBER PAQUIN: Yes, here.

16 CHAIRPERSON JONES: Okay. Thank you.

17 I'd also like to note joining us is Mr. Boyken,
18 Ms. Mathur, Ms. Taylor, and Ms. Hollinger for the
19 Committee meeting. Thank you.

20 Okay. So the next item on the agenda is consent
21 action item, approval of the minutes from September 16.

22 Do I --

23 COMMITTEE MEMBER LIND: Move approval.

24 CHAIRPERSON JONES: Moved By Mr. Lind.

25 VICE CHAIRPERSON SLATON: Second.

1 CHAIRPERSON JONES: Second by Mr. Slaton.

2 All those in favor?

3 (Ayes.)

4 CHAIRPERSON JONES: Opposed?

5 Hearing none. The item passes.

6 The consent item for information, I haven't
7 gotten any requests to move anything off of that agenda
8 item. So we'll move now to the Global Governance
9 Principles, the review draft of the Global Governance
10 Principles. Mr. Eliopoulos.

11 CHIEF INVESTMENT OFFICER ELIOPOULOS: There we
12 go. Is my microphone on.

13 Good afternoon. If I could get the attachment.

14 (Thereupon an overhead presentation was
15 presented as follows.)

16 CHIEF INVESTMENT OFFICER ELIOPOULOS: Great. So
17 I note it's been a long week -- a long half week.

18 (Laughter.)

19 CHIEF INVESTMENT OFFICER ELIOPOULOS: I'm going
20 to cover two slides on the -- of the deck, slides 2 and
21 slide 9, just to give you a foreshadowing. And then Anne
22 and I will be available for any questions or comments.

23 So slide 2 is here and I really want to just
24 underscore what today's objectives are. One, we've had a
25 chance to look at the new structure and framework of the

1 will be looked at later. And then I'll pause -- and then
2 we'll stop and we'll take questions on any of the work
3 that we've done. The previous pages that I just skipped
4 over give the page numbers where edits that were -- that
5 we have made were made, and certainly we can take any
6 comments on those if we missed anything.

7 So on page nine, first of all, the introduction
8 and purpose. We received good feedback last month on the
9 need to really focus on the introduction and -- the
10 introduction and purpose and make sure it sets the tone
11 for the entire document. We're working on that. And that
12 will be brought forward in the draft that this Committee
13 sees next month. So that's in November, you'll see the
14 newly drafted introduction and purpose.

15 Number 2, Board Quality and Diversity. That was
16 a topic that was brought up specifically director tenure
17 to explore term limits last month. It wasn't a change we
18 could make for this draft. But what we plan to do next
19 month, November, is we'll bring this Committee a draft of
20 proposed principles related to term limits for review and
21 comment. So that is a change -- or a proposed change that
22 we can fit within the timeline of November for final
23 action in December.

24 The next subject matter, you know, under the
25 umbrella of investor rights, we had some discussion around

1 related party transactions. The topic of the loser in a
2 judicial forum in litigation, that the loser in a
3 particular fight has to pay. And then a discussion
4 around -- further consideration around our principles with
5 respect to joint ventures. All good topics to explore.
6 For that set of items, we don't believe we'll be able to
7 come forward with new drafting language, you know,
8 within -- certainly not by November and not by December as
9 well. So those will be topics that we'll have to take up
10 for review into the future.

11 And we can have a little discussion about -- a
12 discussion of what the future means. But given the
13 workload of the Global Governance staff and what we have
14 before us, specifically the workshop in January, the proxy
15 season and the rest, we expect that later revision to
16 these principles would be a year from now, just to give a
17 sense of timeline.

18 Compensation. We had a discussion regarding
19 income inequality. The topic of share buybacks and
20 executive compensation and a review of performance metrics
21 linked to equity awards. There, certainly with respect to
22 income inequality, we have a symposium that will be put on
23 later next year. So we propose this set of topics or ones
24 we would take up later again a year from now.

25 Regulatory effectiveness. Here is the topic of

1 properly funding the financial regulators. That is
2 something that we propose to bring back next month in
3 November to add to the principles and take that up for
4 Committee discussion and action.

5 Capital Allocation. Again, here's the share
6 buyback and dividend issue. And that will take us more
7 time and work within the office to bring something back.
8 So that is also one for the future.

9 In fact, the remainder of the items, we propose
10 to take up again after next year. And those include
11 environment and climate change, specifically some
12 discussion regarding water related issues, and we expect
13 much to come out of the next year of discussion on
14 environment. And we think we would be better served by
15 taking up the whole -- the whole set of feedback and work
16 that we do over the course of the year before we suggest
17 revisions to the current policy.

18 On the total fund emphasis, this was a good
19 suggestion that, without doubt, the original principles,
20 as amended over the last couple decades, were equity
21 centric. And it will take us some time to think how to
22 reformat or reorient the document for the other asset
23 classes. Again, something we don't think we can
24 accomplish in a month. So that is something we'll need to
25 review and develop, and again would be ripe for

1 consideration at a future date.

2 Lastly, under human capital management, review
3 and development of the supply chain. Again, in
4 conjunction with the work we're going to be looking and
5 doing on income inequality and otherwise, it's something
6 that we would bring back later. So that is the proposed
7 approach. You can expect us to bring in November for
8 changes, what we think can be readied and be suitable for
9 action by the Committee in December and how we would
10 approach these topics into the future.

11 And with that, Anne and I can answer any
12 questions.

13 CHAIRPERSON JONES: Okay. Thank you. First, I
14 would just like to acknowledge Ms. Hagen has joined us
15 here for the meeting and call on Mr. Jelincic.

16 SUBCOMMITTEE MEMBER JELINCIC: I have some
17 specifics. But before I get to those, on the equity
18 focus, I think you're right it probably takes some time to
19 change the whole thing. But as you're going through it, I
20 think one of the things you may want to do is start
21 referring to investors. And so that may eliminate at
22 least some of it. And, you know, some of that change can
23 be made in the editing process and the reformation. So
24 that was the general observation.

25 And then I had some specifics, if I may?

1 CHAIRPERSON JONES: Okay.

2 SUBCOMMITTEE MEMBER JELINCIC: On the Purpose
3 Section, page five, you referenced the Koppes article, and
4 I'd still like to get a copy of that, the Rich Koppes
5 article. And if it's just sending me a link to it, that's
6 fine.

7 On the next page at the top, it's 27 of the iPad,
8 and the number at the bottom is six. I can't tell you
9 what the number at the top is. The first paragraph, you
10 know, has been there for a while. You're working on the
11 purpose. But one of the -- so as you go through that, one
12 of the things I want -- I would ask that you think about
13 is, it says we're going to use these principles, unless
14 they hurt us. And, you know, if we think that they're
15 going to hurt us, then maybe we've got the wrong
16 principles. And so I think you need to pay, you know,
17 some attention to that language.

18 On the next page, seven at the bottom, when you
19 access to director nominations, the -- in the second full
20 paragraph, "Therefore shareholder nominating director
21 candidates under access should adhere to the same". I
22 think that should be a minimum standard. They should at
23 least -- they should adhere to at least those standards.
24 Actually, we want to encourage more exposure, not less, so
25 I would offer that suggestion.

1 On page eight, the debt issuance, we may need to
2 work that some more to make more clear what we actually
3 mean by excessive debt leverage.

4 On the next page, the proxy confidentiality,
5 which is 5C, did we -- one of the things that some
6 companies do that I'm aware of is that it's confidential
7 up until after the meeting. And I think there's some
8 value in post-meeting making management aware of how
9 people voted, because the concern is that we don't want
10 them twisting arms to change their vote. But afterwards,
11 I think there's some value in management knowing that this
12 particular institution was concerned about this issue.

13 And I have one other observation here, but I'll
14 skip on it. And it's just editing, and I'm sure you'll
15 get it, the footnotes numbers and notations -- but that
16 will come in due course.

17 CHIEF INVESTMENT OFFICER ELIOPOULOS: Right.

18 SUBCOMMITTEE MEMBER JELINCIC: But those were the
19 observations I wanted to share.

20 CHAIRPERSON JONES: Good. Thank you, J.J.

21 Mr. Boyken.

22 ACTING BOARD MEMBER BOYKEN: Thank you. Thanks
23 for the report and the explanation of what you're doing
24 with the policy.

25 The only comment I have is on the Board quality

1 and diversity, the Treasurer has mentioned specifically,
2 you know, with respect to tenure, term limits. But I
3 think, you know, our thinking has evolved, so if there's
4 other approaches to board refreshment, you know, don't
5 lock yourself into necessarily researching term limits.

6 CHAIRPERSON JONES: Thank you.

7 Mr. Lind.

8 SUBCOMMITTEE MEMBER LIND: Thank you. I think
9 this document is coming together quite nicely. And where
10 there are, you know, some points that I'd rather see
11 included now rather than later, I understand we're not
12 writing the Constitution here or the Magna Carta. So it's
13 a policy, a living breathing document, so I get the
14 timeline and I definitely support the approach.

15 One specific thing, and this may have been
16 covered by your remarks about cleanup, Ted. I appreciate
17 you dealing with one of the issues I raised last time
18 about the missing Sullivan Principles, but it was just a
19 cut and paste thing. And the way it's there as a context
20 issue. I'm sure you're going to pick that up and write it
21 in a consistent way.

22 Thank you.

23 CHAIRPERSON JONES: Okay. Mrs. Mathur.

24 BOARD MEMBER MATHUR: Thank you. I have sort of
25 a global overarching question, because I know at the

1 outset of this project, we talked about how to make it
2 less dense and more principles. And it doesn't feel like
3 we've gotten there or even that we're really going there.
4 It seems very detailed still.

5 And I guess it's just -- it's really just a
6 question as to what do we want this document to be? Do we
7 want it to be high level principles that guide the staff,
8 and then the staff set the criteria based on -- which is
9 constantly sort of evolving. As we saw from the proxy
10 voting -- proxy access issue, you know, CII has a
11 two-year. There's -- you know, the vacated rule was a
12 three-year.

13 So some of these things are sort of in flux. And
14 so I guess my question is, is it really the right choice
15 to have that level of detail in here or should we think
16 about something that's a step higher, and then, you know,
17 the staff could have some working documents obviously that
18 incorporate some of these rules or these triggers that we
19 use in assessing which companies we engage with and on
20 what subjects? It's really a philosophical question for
21 you.

22 CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll give
23 Anne a chance to discuss that as well. I think we're
24 in -- I think what we can accomplish between now and
25 December is to kind of live with the tension a bit between

1 principled and some very specific rules.

2 I think what we think about in terms of having
3 more specificity, at least at this stage, is to make sure
4 it's clear to the world what -- how we'll be voting on
5 certain issues, and what our -- you know, what our
6 approach is. That's not to say we can't do that with the
7 staff, you know, based set of rule-making. We could put
8 those on our website as well.

9 But I think we have erred a bit on the side of
10 having the rules articulated in a way that we hopefully
11 now at least that we're down to 30 some page, that we'll
12 be able to send to companies, send to our partners, and
13 they'll be able to access it and see it, but there is a
14 tension there.

15 BOARD MEMBER MATHUR: So then as we are thinking
16 about this introduction -- recrafting the introduction,
17 perhaps we would want to have a section that is more the
18 principles, and then have this be the guidelines
19 component, or something, so that we can have this high
20 level piece, which really reflects, you know, sort of the
21 next step down from our Beliefs, you know, kind of thing,
22 and bridges the gap maybe a little bit.

23 CHIEF INVESTMENT OFFICER ELIOPOULOS: Great.
24 That's great feedback to have. And we'll look at the
25 introduction and purpose next month, to see how we do.

1 BOARD MEMBER MATHUR: Great. Thank you.

2 CHAIRPERSON JONES: Okay. Lynn.

3 ACTING SUBCOMMITTEE MEMBER PAQUIN: Thank you. I
4 appreciate all the staff time and work on this document,
5 and also the update on the timing. And so we are very
6 much looking forward to the additional information on
7 share buybacks, and compensation as it comes forward.

8 But I had a comment on the environmental and
9 climate change and would like to see clean air addressed
10 as well as the water issues.

11 And then finally a question in the corporate
12 reporting section, there's no explicit provision for the
13 availability of corporate books and records for
14 inspection. We were wondering if there should be on that
15 as well.

16 Thank you.

17 CHAIRPERSON JONES: Okay. J.J. just wants a
18 clarification on that last comment.

19 SUBCOMMITTEE MEMBER JELINCIC: Yeah. What do you
20 mean by a reference to corporate records and corporate
21 books?

22 ACTING SUBCOMMITTEE MEMBER PAQUIN: Just, I think
23 on -- this is on page 27 in the document, and just making
24 the provision that if there is any interest or any
25 interested party that wants access to these corporate

1 books and records that they are made available.

2 SUBCOMMITTEE MEMBER JELINCIC: Depending on how
3 broad that is, I may have some concerns there. I mean,
4 you don't -- you don't want -- who's the attorney who's
5 suing us all the time, going through saying I get it. I
6 should be able to go through all of IBM's corporate
7 records to look for things. So openness is one thing, but
8 I think we have to be careful who we craft that when we're
9 talking about companies.

10 CHIEF INVESTMENT OFFICER ELIOPOULOS: I'll take a
11 look at the topic, work with our Legal Office, and --
12 because there are legal rules around that very topic. But
13 let us take a look at it. If there's something that we
14 can clarify, we will.

15 CHAIRPERSON JONES: Okay.

16 SUBCOMMITTEE MEMBER JELINCIC: Thank you.

17 CHAIRPERSON JONES: Bill.

18 VICE CHAIRPERSON SLATON: Yeah. Two things.
19 First of all, I want to just add on to what Ms. Mathur
20 said. I think from an organizational standpoint, you go
21 from the general to the specific. And I think that will
22 help when people read this document that they can clearly
23 see, okay, these are the principles you're talking about
24 now. Operationally, here are the things we care about.

25 Just one item, and I mentioned -- I went over a

1 bunch of stuff with you the other day to save time at this
2 meeting. But just one of them I wanted to highlight, so
3 the rest of the Committee can hear it.

4 Page 17 under risk oversight, this goes to the --
5 we're trying to make a document that is not tied to a
6 specific moment in time. And so the preamble to number
7 13, I suggested some modification to that. I'm not going
8 to wordsmith it today. But rather than tie it to the, you
9 know, turmoil and economic uncertainties in financial
10 markets, which kind of ties us to a specific occurrence,
11 rather than we want a document that goes on in perpetuity.
12 So I suggested that some wordsmithing there would be
13 helpful. Thank you.

14 CHAIRPERSON JONES: Okay. Thank you very much.
15 Well, that's the feedback. And again, I want to
16 congratulate you on moving this document to where it is,
17 and I think it's coming together.

18 And my direction on this is the timeline that you
19 laid out is -- I'm directing you to follow that timeline.
20 And on the series of J.J.'s comments, I'm just going to
21 ask you to treat them like you have before. You noted
22 them and whether or not they're in, and why you didn't
23 include them when you come back with your graph showing
24 what the issue was, and what the response is, and what
25 page, et cetera, if it is addressed.

1 And similar, with some of the other questions.
2 Grant mentioned one and Ron had one. So similar, include
3 those on your update page.

4 And then to Priya's comment, I think that you've
5 indicated that you do plan to come back, as Bill also
6 indicated, come back with a global overview before you get
7 into the details. So I think that responds to all of the
8 questions that Committee members have. So that's the
9 direction, and good job.

10 INVESTMENT DIRECTOR SIMPSON: Thank you.

11 CHAIRPERSON JONES: Okay. Yeah, you got his --
12 the report that he asked for. It's in your notes too.

13 CHIEF INVESTMENT OFFICER ELIOPOULOS: Yes, we'll
14 get that to the Committee as a whole.

15 CHAIRPERSON JONES: Okay. Thank you. And this
16 meeting is adjourned.

17 (Thereupon California Public Employees'
18 Retirement System, Investment Committee, Global
19 Governance Policy Ad Hoc Subcommittee meeting
20 adjourned at 11:24 a.m.)

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

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

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

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

15 IN WITNESS WHEREOF, I have hereunto set my hand
16 this 27th day of October, 2015.

17
18
19
20 A handwritten signature in blue ink that reads "James F. Peters". The signature is written in a cursive style with a horizontal line under the first name.

21
22
23 JAMES F. PETERS, CSR
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