



Global Governance Policy Ad Hoc Subcommittee

California Public Employees' Retirement System

Agenda Item 4a

November 18, 2015

ITEM NAME: Review Draft of Global Governance Principles within the Framework of the Program Core Issues – Third Reading

PROGRAM: Global Governance

ITEM TYPE: Total Fund – Action

RECOMMENDATION

Staff is presenting the third draft of 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. This update includes a first draft of the Introduction and Purpose section of the principles, along with updates to principle language on board tenure and regulatory effectiveness.

EXECUTIVE SUMMARY

This agenda item initiates the third of a four phase review of the Global Principles by the Global Governance Policy Ad Hoc Subcommittee (the Subcommittee). To date staff has 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).

STRATEGIC PLAN

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

INVESTMENT BELIEFS

This agenda item supports the CalPERS Investment Beliefs (Beliefs):

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

The third phase of the Global Principles review includes the following:

1. A first draft of updated Introduction and Purpose sections.
2. New principle amendments:
 - Board Quality: Diversity, Independence, and Competence – Director Tenure.
 - Regulatory Effectiveness – Properly Funded Regulators
3. Staff response to questions from the October 21, 2015 Subcommittee meeting.
4. Areas for future review and development.

Staff will present the Subcommittee with a fourth version of the Global Principles at the December 14, 2015 meeting.

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.

Misalignment with Investment Office strategic planning and the Board's adopted Global Principles can increase the risk of lack of clarity in implementation.

ATTACHMENTS

Attachment 1 – Global Governance Principle Revisions Presentation

Attachment 2 – Global Principles (Tracked Changes)

Attachment 3 – Global Principles (Clean Version)

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