

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

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

WEDNESDAY, NOVEMBER 18, 2015
1:00 P.M.

JACQUELINE TOLIVER, 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

Ms. Betty Yee, represented by Lynn Paquin

BOARD MEMBERS:

Ms. Priya Mathur

Mr. John Chiang, represented by Mr. Frank Moore

Ms. Theresa Taylor

STAFF:

Ms. Anne Stausboll, Chief Executive Officer

Mr. Ted Eliopoulos, Chief Investment Officer

Ms. Anne Simpson, Investment Director

Mr. Todd Mattley, Investment Office

Ms. Cheryl Edwards, Subcommittee Secretary

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

2 CHAIRPERSON JONES: I'd like to call the
3 Global Governance Subcommittee to order.

4 The first order of business is to call the
5 roll, please.

6 SUBCOMMITTEE SECRETARY EDWARDS: Henry Jones?

7 CHAIRPERSON JONES: Here.

8 SUBCOMMITTEE SECRETARY EDWARDS: Bill Slaton?

9 VICE CHAIRPERSON SLATON: Here.

10 SUBCOMMITTEE SECRETARY EDWARDS: J.J.

11 Jelincic.

12 SUBCOMMITTEE MEMBER JELINCIC: Here.

13 SUBCOMMITTEE SECRETARY EDWARDS: Ron Lind?

14 CHAIRPERSON JONES: Excused.

15 SUBCOMMITTEE SECRETARY EDWARDS: Betty Yee,
16 represented by Lynn Paquin.

17 ACTING SUBCOMMITTEE MEMBER PAQUIN: Here.

18 CHAIRPERSON JONES: Okay. And I'd also like
19 to acknowledge that Ms. Mathur and Ms. Taylor and
20 Mr. Moore are also in attendance at the meeting.

21 The next action item is the approval of the
22 minutes from the October meeting.

23 Do I have a motion?

24 SUBCOMMITTEE MEMBER JELINCIC: Moved.

25 CHAIRPERSON JONES: Moved by Mr. Jelincic.

1 ACTING SUBCOMMITTEE MEMBER PAQUIN: Second.

2 CHAIRPERSON JONES: Second by Ms. Paquin.

3 Discussion?

4 Seeing none.

5 All those in favor say aye?

6 (Ayes.)

7 CHAIRPERSON JONES: Opposed?

8 None. The item passes.

9 And then there's the consent item for
10 information. And no request to move anything up, the
11 consent items for information, so we move to Item 4,
12 Global Governance Principles.

13 Ms. Eliopoulous and Ms. Simpson.

14 CHIEF INVESTMENT OFFICER ELIOPOULUS: Just in
15 time for arrival. We've been trying to time the morning
16 sessions to get this just right.

17 This is the third reading of our Governance
18 Principles. And principally today we're going to take
19 up our redrafting of the introduction and purpose
20 language and then two substantive topics that were
21 slated for review. And that's the topic of director
22 tenure and the topic of properly funding regulators.

23 So with that I will turn it over to Anne. And
24 I think we're on page 6. Is that right?

25 INVESTMENT DIRECTOR SIMPSON: Right.

1 CHIEF FINANCIAL OFFICER ELIOPOULOUS: We'll
2 start with the substantive topics first and then end
3 with the introduction.

4 CHAIRPERSON JONES: Okay. Sounds good.

5 INVESTMENT DIRECTOR SIMPSON: Thank you very
6 much. And thank you, Ted. I'm glad it was just in
7 time.

8 This is Anne Simpson from the Global
9 Governance Program. I also have Todd Mattley, our
10 Investment Officer, who's head of Proxy Voting and
11 Global Principles, with me. Todd's been very involved
12 with this new draft and leading the team.

13 So on more than one occasion the Board has
14 drawn to our attention that we do not have a formal
15 position on tenure. Well, I suppose what we do in the
16 principles is say it's a good idea for companies to have
17 a policy, but we haven't actually dug into what would
18 that policy look like.

19 And we've got an associated principle where
20 we're very clear that Board quality requires that there
21 is independence, that there is competence and diversity.
22 And what we've seen overall is that Board turnover
23 has -- I won't say it's quite ground to a halt, but
24 there is very little Board turnover; so we're not
25 getting opportunities, really, to introduce new

1 candidates, which could help with competence,
2 independence and diversity.

3 (Thereupon an overhead presentation was
4 presented as follows:)

5 INVESTMENT DIRECTOR SIMPSON: So the request
6 from the Board was that we look into this. And we've
7 done some research in the last couple of months, and
8 these slides, Chair, really give us a chance just to
9 take you through the thinking, and we have some
10 recommended language.

11 So the first point on slide 6 is, first of
12 all, to say this isn't just an issue in the United
13 States. We've seen a range of different markets
14 developing guidelines which have come through local
15 corporate Government Codes which are integrated into
16 listing rules. That's what's happened in London.

17 The European Commission, which obviously
18 covers markets as important to us as France and Germany,
19 Italy, Spain and Nordic countries, recommending 12 years
20 tenure; and then Hong Kong and France, likewise.

21 In the research that Todd and his team have
22 done, we've identified that only 3 percent of S&P 500
23 companies currently have term limits in their
24 guidelines; so there's plenty of opportunity here for
25 developing a new approach.

1 We've also looked at the associated issue of
2 retirement ages. We haven't gone down the path of
3 recommending a retirement age simply because I think
4 that the question of ability is not linked to age in the
5 contribution that someone could make. However, in the
6 research process we were struck by the fact that in the
7 S&P 500 over the last 10 years those boards, which do
8 have a mandatory retirement age of 70, has gone down, as
9 you can see, to only 11 percent, from about half; but
10 the number of boards which have increased their
11 retirement age to 75 has gone from 3 percent to
12 24 percent. I'm also aware of a number of companies
13 which waive this retirement age on a regular basis.

14 So the other interesting point we think is
15 that average director age is 68 years old. Obviously,
16 that encompasses quite a range, but it gives the
17 suggestion that typically the cohort on Board is above
18 normal retirement age.

19 We also looked in the research process at
20 tenure. You know, where are we now? And maybe I'll
21 come back to that in the next slide because it's the
22 issue of what sort of policy would have what sort of
23 impact.

24 --oOo--

25 INVESTMENT DIRECTOR SIMPSON: So what we were

1 looking at, bearing in mind the international range and
2 thinking about tenure, is that we've got some major
3 markets with nine years being considered the appropriate
4 cutoff point on a discussion of tenure, and as long as
5 12 years.

6 So for the sake of argument and being
7 practical, we've explored the idea that we might split
8 the difference at 10. I'll move to the next slide.

9 --oOo--

10 INVESTMENT DIRECTOR SIMPSON: This set of
11 circles is to give you an idea, if you were to look at
12 the different potential tests on tenure, how many
13 directors would be captured through the S&P 500, and out
14 of how many directors in total.

15 So out of the S&P 500 in the U.S., there are
16 5,500-plus directors. You can see 7 percent of them
17 have got tenure of more than 20 years. We've got
18 1200-plus with more than 12 years, and 35 percent have
19 more than 9 years.

20 So the proposed tenure that we'll come to in a
21 moment would capture or would focus attention on about a
22 third of current directors on the S&P 500.

23 --oOo--

24 INVESTMENT DIRECTOR SIMPSON: So the next
25 slide. We think, as the Board considers the potential

1 for a new principle, we really wanted to highlight some
2 of the ideas and opinions in the debate about Board
3 tenure.

4 The benefits that we've highlighted are really
5 the introducing principle on Board tenure would improve
6 the channel for Board refreshment. And we think that is
7 the gateway to tackling issues of independence,
8 competence, and also diversity. We've listed out some
9 of the reasons that we think that's the case.

10 And on the risks, or if you like different
11 opinions on where such a policy might lead us, we've
12 listed some of the main arguments which are made by
13 those who are against. The term limits may be
14 considered arbitrary; that directors take substantial
15 time, you know, to become familiar with the company;
16 optimal tenure might vary by industry; through to it
17 could be an excuse for boards to avoid doing rigorous
18 board evaluation simply because they lean on a policy
19 with a number.

20 --oOo--

21 INVESTMENT DIRECTOR SIMPSON: So, finally, on
22 this new issue, we've put forth some proposed language
23 for the Committee to consider, bearing in mind the
24 research that we've done on the issue. And that's
25 underlined as a potential new piece to be slotted into

1 the current language on director tenure.

2 So what we're suggesting is a statement as
3 follows:

4 We believe director independence can be compromised
5 at 10 years of service. In these situations a
6 company should carry out rigorous evaluations to
7 either classify the director as nonindependent or
8 provide detailed annual explanation why the
9 director can continue to be classified as
10 independent.

11 And then we want to strengthen the language
12 which follows. Currently, we talk about routine
13 discussions on refreshment. Particularly, we want to
14 emphasize the importance of rigorous evaluation and
15 succession planning, and we think it's appropriate to
16 highlight "diversity" in the final sentence. Again,
17 it's implied from other paragraphs, but we think it's
18 important to underscore the importance of that.

19 I would say that the consequences of adopting
20 such language would be that directors who are deemed not
21 to be independent would not be able to sit on key
22 committees. It does not mean they would have to leave
23 the Board.

24 That would allow companies where they see a
25 really good case to keep people there for purposes of

1 continuity or special expertise, but it would mean they
2 would not meet the test of independence on order,
3 compensation, and nominating committees. So there would
4 be some quite important consequences that would follow.

5 So with that, Ted, I think we'd welcome
6 questions.

7 CHAIRPERSON JONES: Thank you. We do have
8 several.

9 Mr. Slaton.

10 VICE CHAIRPERSON SLATON: Thank you,
11 Mr. Chair.

12 You know, I served for about 10 years on two
13 publicly traded company boards -- both were community
14 banks -- and so I did have a chance to kind of see the
15 lay of the land from inside the boardroom. And I
16 appreciate that we're not going on the age issue,
17 because I think that really is a slippery slope. And
18 since I'm 68, so I'm the average right now, and I'd like
19 to think that I can go a little longer and still do a
20 competent job.

21 But on the tenure, I'm frankly uncomfortable
22 with the 10-year solution. You know, when you stop and
23 think about it, we elect U.S. senators for six years.
24 Most of them have at least two terms that they serve.
25 So, to me, the European model, I would be more

1 comfortable in adopting that one of the 12 years.

2 I think that -- and as you've rightly pointed
3 out, you know, the background, the experience level that
4 people have. I just personally think it's too far to go
5 down to 10 years.

6 So that would be my opinion.

7 CHAIRPERSON JONES: Okay. We'll see where we
8 go. Mr. Jelincic.

9 SUBCOMMITTEE MEMBER JELINCIC: Yeah. I would
10 also be more supportive of 10 years than 12 years,
11 because whether we elect ourselves or we get elected for
12 4-year terms -- and we don't need to give them yet
13 another shot at saying, Well, you're telling us to do as
14 you say, not as you do.

15 And so a 12-year would be three terms on this
16 Board. You know, people can obviously run for more, but
17 at least I think it's a more reasonable position given
18 the nature of this Board. And I don't hear any
19 overwhelming demand for term limits on this Board.

20 CHAIRPERSON JONES: So, Mr. Jelincic, did you
21 say you prefer 12 instead of 10?

22 SUBCOMMITTEE MEMBER JELINCIC: Yes.

23 CHAIRPERSON JONES: Okay. I thought I heard
24 something different. Okay. Fine.

25 Ms. Mathur.

1 BOARD MEMBER MATHUR: Thank you. And thank
2 you for bringing this back. I think there are a lot of
3 ways to address this particular question. The approach
4 you've chosen to go is just targeting the independent
5 directors and not the total Board turnover.

6 I don't really see corporate boards as exactly
7 corollary to government legislatures or a board like
8 CalPERS, so I'm not really persuaded by the arguments of
9 Mr. Jelincic in this case, but I also don't have a
10 strong opinion about whether 9 or 10 or 12 is the right
11 number. I think that should be based probably on some
12 research, if there is any, on what is -- at what point
13 do we really see independence eroding? I don't know if
14 there is any research out there on this topic. There
15 might not be, in which case we have to sort of take our
16 best guess.

17 I guess one thing I would like to see -- and
18 maybe it can't be done right now, but something we
19 should think about a little bit more is how much of the
20 Board do we think should rotate off over time?

21 So not that any individual Board member must
22 rotate off, but maybe we'd say every 5 years we want to
23 see at least two members -- or 10 percent of the Board
24 turnover, or something like that. That's more -- so,
25 anyway, that's more over the whole Board and really

1 looking to, I think, over the long term will better
2 align the boards with shareowners. Just a thought.

3 CHAIRPERSON JONES: Okay. Mr. Moore.

4 ACTING BOARD MEMBER MOORE: I believe our
5 office was the office that asked you to include this
6 section in the new policy. I think it's a good first
7 step, but I also believe the concept such as refreshment
8 might be good to add to this section also.

9 I was also wondering for France, for instance,
10 do they have a strict 12-year maximum without any of the
11 caveats like we have in our proposed policy? Or do they
12 have -- I mean, what is the exact language?

13 INVESTMENT DIRECTOR SIMPSON: My understanding
14 is that this is part of the French Corporate Government
15 Code, so it's not a legal -- it's not poof, you
16 disappear in a puff of smoke.

17 Is that correct, Todd? Can I just check with
18 you?

19 Yes. Todd Mattley is just confirming it is
20 part of the French Corporate Governance Code.

21 ACTING BOARD MEMBER MOORE: Did any of the
22 groups that you surveyed, did any of them have a strict
23 term limit?

24 INVESTMENT DIRECTOR SIMPSON: I believe Hong
25 Kong is a maximum tenure.

1 ACTING BOARD MEMBER MOORE: Thank you.

2 INVESTMENT DIRECTOR SIMPSON: But, again, let
3 me just double-check. I'm not misrepresenting, because
4 we're talking about foreign jurisdictions and different
5 law and a different -- so let me come back to you to
6 confirm that to you.

7 CHAIRPERSON JONES: Okay. Ms. Paquin.

8 ACTING BOARD MEMBER PAQUIN: Thank you.

9 I'm just curious. What is the average length
10 of a corporate director's term? Is it 4 years or 5
11 years?

12 INVESTMENT DIRECTOR SIMPSON: I believe it's
13 8, but it depends which -- there's a longer tenure for
14 the Russell 3000, a shorter tenure for the S&P 500. But
15 can I just turn to Todd to see if he'd like to clarify
16 that.

17 No. That is correct.

18 ACTING BOARD MEMBER PAQUIN: Eight years.

19 So is it a little bit awkward, then, to have
20 them certified during the middle of the second term when
21 they're so far off from ending their term?

22 INVESTMENT DIRECTOR SIMPSON: I think that
23 there's a wide range. It's a bell curve. You can look
24 at the number of years on the board on slide 7. Let me
25 go back a little bit.

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INVESTMENT DIRECTOR SIMPSON: You can see the 0 to 8. You can see this is where the bulk of directors are within that. What we would be talking about, let's say -- given that 12 is the views that have been expressed, you can see that the 12-year rule would take you to the right-hand part of this bell curve. So up -- you know, there's a number of directors who have been on the board for, you know, close to 50 years, for example.

So I think what we would find with that 12 years is that the vast majority of directors would not be affected by this. I think in the circles you'll see that it's 22 percent of the cohort have been there for more than 12. So, therefore, you know, the vast majority would not be affected.

ACTING BOARD MEMBER PAQUIN: Thank you.

CHAIRPERSON JONES: Mr. Slaton.

VICE CHAIRPERSON SLATON: Just one quick note. One of the reasons I want to lengthen it, I just realized that I'm starting on the SMUD Board my 14th year next year.

(Laughter.)

VICE CHAIRPERSON SLATON: And I just want to endorse Ms. Mathur's concept because I think that's important, because you're trying to make sure the whole

1 Board is fresh. I don't think you can do it for
2 nonindependent, but for independent directors -- and it
3 will take some thought process to figure out what the
4 right formula would be for that, but I think that having
5 that recycling or refreshing, if you will, of the
6 independent director mix is another way to look at it
7 that I think could be very effective without forcing a
8 particular individual decision.

9 CHAIRPERSON JONES: Ms. Taylor.

10 BOARD MEMBER TAYLOR: Yeah. I was also going
11 to chime in, and I agree, that Ms. Mathur's idea of --
12 that refreshment is, I think, a good idea. I was
13 rereading the statement here that you've underlined, and
14 it actually sounds like that would be easier to
15 accomplish anyway. But I also like the -- I don't know
16 how we would determine between independent and
17 nonindependent.

18 VICE CHAIRPERSON SLATON: It is a defined
19 term.

20 BOARD MEMBER TAYLOR: It is a defined term?
21 Okay. And I also appreciate this part where a rigorous
22 evaluation and succession planning process surrounding
23 the director refreshment, that's a very good idea as
24 well. I just wanted to give you kudos on that.

25 CHAIRPERSON JONES: Thank you.

1 So on this issue I also support the 12 year,
2 and I also support Ms. Mathur's suggestion. So unless I
3 hear otherwise, we will go for the 12 years, and then
4 you would look at the concept of Ms. Mathur and bring
5 back your thoughts back to us on that piece.

6 CHIEF INVESTMENT OFFICER ELIOPOULUS: Yes,
7 Mr. Jones. Depending upon our review, if we have some
8 language that we can suggest for December, we'll bring
9 that back. Otherwise, we'll address kind of where we
10 are in our research process next month.

11 CHAIRPERSON JONES: Sound goods. Thank you.

12 INVESTMENT DIRECTOR SIMPSON: Okay. Thank you
13 very much for that feedback.

14 We also have a section where we've explained
15 next steps on questions that were raised previously --
16 I'm so sorry. Thank you, Ted.

17 --oOo--

18 INVESTMENT DIRECTOR SIMPSON: I wanted to flag
19 the language that we've introduced into the section in
20 the principles. We've got that in the new draft. You
21 will recall that in our testimony to the House Financial
22 Services Committee at the second anniversary of Dodd
23 Frank, we made major commitments around this important
24 issue of independent funding, and we have separately
25 written both to the SEC and we wrote also to

1 congressional leaders on this point.

2 So CalPERS has long been on the record
3 regarding the importance of independent, sufficient, and
4 multi-year funding. So the language that we're
5 proposing here is set out as follows on the second to
6 bottom row, which is that:

7 In order to fulfill their vital function,
8 regulators need to have funding which is
9 independent, sufficient, and multi-year.

10 And that's drawn from the testimony that we're
11 on record having provided.

12 CHAIRPERSON JONES: Okay. So I see no
13 objection to that.

14 INVESTMENT DIRECTOR SIMPSON: Thank you very
15 much.

16 So, finally, as Ted said, we would like to ask
17 for your comments on the new draft for the introduction
18 and the purpose. Again, we realize this is all work
19 under construction, so we have no pride of authorship
20 here.

21 We've seen the language evolving, but we'd
22 very much like to get your feedback on whether this is
23 heading in the right direction, and other issues or
24 points that we ought to be including.

25 CHAIRPERSON JONES: Okay. Mr. Jelincic.

1 SUBCOMMITTEE MEMBER JELINCIC: Speaking to
2 this slide 11. On the first one, you know, whether we
3 ought to set that as a minimum standard, you know, the
4 SEC is actually kind of setting a standard. And we're
5 supporting that, but I think that this is our
6 principles, and we ought to define that as the minimum
7 standard within our principles. So I will let you think
8 about that one. But I'm going to tell you, I'm going to
9 be giving you some pushback on it.

10 The other -- the third one down is the proxy
11 voting, and the language says that it's going to be --
12 you know, that we think it ought to be kept away from
13 management, although in our own practices we release it
14 after the vote; and I think that we ought to -- it's our
15 principles, and I think we ought to encourage that that
16 be made available to management after the vote so that
17 they actually know where the opposition or support is
18 coming from.

19 So I won't push it today, but I want you to
20 kind of think about the issue.

21 INVESTMENT DIRECTOR SIMPSON: Thank you. In
22 reverse order, I'd just like to clarify that we release
23 our votes in real time. We started that in July. So
24 it's not afterwards. So companies and our beneficiaries
25 and our stakeholders can see how we are voting before

1 the meeting, which is something we've been asked to do.
2 And took a while to get there because it was a big
3 project, but we are there. On the --

4 SUBCOMMITTEE MEMBER JELINCIC: But the reason
5 for the confidentiality prior to the vote, generally
6 speaking, is so that management doesn't go and twist
7 arms, and so I can understand why people may want to
8 keep their vote confidential until after. But once the
9 vote has been announced and the meeting is over, I think
10 there's some real value in exposing how the various
11 players voted. So I ask you to just give that some
12 thought.

13 INVESTMENT DIRECTOR SIMPSON: Thank you.

14 On the SEC framework, I'd just like to say
15 that making the SEC framework a minimum would mean -- I
16 just want to be sure that I understand your thinking --
17 that we would support proposals which, for example,
18 allow investors that have not held chairs for three
19 years to take advantage of this.

20 And I think that a consensus in the market has
21 developed around the SEC three-year holding period. I
22 mean, arguably, you know, some say it should be longer.
23 There have been ideas that it should be shorter, but
24 three years has been struck. And I think the companies
25 -- this has put us in a strong position to say the

1 market agrees, but the SEC blueprint is the one to be
2 followed.

3 So I'm not sure of what the argument is that
4 we would -- I mean, for example, it's been important to
5 say this is a right which long-term shareowners should
6 be able to exercise. If we vary from the SEC minimum
7 to, say, a shorter period, then it would, for example,
8 allow some of the short-term activist funds, which worry
9 companies. It's been part of their opposition to proxy
10 access in general.

11 So I think, you know, there are pros and cons.
12 I think that there's a very strong pro to keeping with
13 the SEC formulation.

14 CHAIRPERSON JONES: Mr. Jelincic.

15 SUBCOMMITTEE MEMBER JELINCIC: Where -- this
16 "issues in our statement," it talks about the
17 qualifications and the information that voters are given
18 for nominees. And so I think for that part of it, it
19 ought to be the minimum standard. We ought to say that
20 if you're going to put somebody up you have to release,
21 at least, and hopefully you would release more.

22 In terms of who's eligible, I am supportive of
23 the SEC standards in getting everybody on page; but in
24 terms of what we disclose for our nominees, the SEC
25 ought to be the minimum standard, and we should

1 encourage additional disclosure.

2 CHAIRPERSON JONES: Ms. Mathur and then
3 Mr. Slaton.

4 BOARD MEMBER MATHUR: Thank you.

5 Are you ready for comments on the introduction
6 and the purpose, or did you want to wait on that?

7 CHAIRPERSON JONES: Ms. Mathur, I don't know
8 if you want to speak to the SEC Before we go to the
9 introduction.

10 BOARD MEMBER MATHUR: Okay.

11 VICE CHAIRPERSON SLATON: I just want to
12 better understand what J.J.'s point is, what we're
13 talking about in terms of disclosure.

14 SUBCOMMITTEE MEMBER JELINCIC: Where we had
15 used that language, we talked about people who are
16 nominated, what they must disclose about their
17 experience and their qualifications and their education.
18 And my response is we ought to set that as a minimum
19 standard and encourage more, at least in our principles.

20 VICE CHAIRPERSON SLATON: And what's your
21 reaction to that, Ms. Simpson?

22 INVESTMENT DIRECTOR SIMPSON: We are on record
23 asking the SEC to improve disclosure. We have a
24 petition calling, for example, for more information that
25 would help us with disclosure on board diversity. So

1 certainly we know that what the SEC requires doesn't
2 capture everything that matters.

3 I think if we say that it's a minimum, that
4 does allow us to have room for improvement, and there's
5 always room for improvement on disclosure.

6 I wonder if there's something specific on
7 proxy candidates that you had in mind, or is it just the
8 general theme that more is better on disclosure on the
9 particular things that you think are missing from the
10 SEC rule?

11 SUBCOMMITTEE MEMBER JELINCIC: Where we use
12 that language -- it's on page 12, 36 of the iPad, in the
13 second paragraph of two:

14 Therefore, shareholder nominating director
15 candidates under access mechanisms should adhere to
16 the same standards governing disclosure
17 requirements and prohibitions against false and
18 misleading statements that occur and may apply in
19 proxy contests.

20 And I just think we ought to identify that a
21 minimum standard and not, you know, the standard.

22 The first paragraph we talked about who can do
23 that, who can nominate people. I think the SEC standard
24 there is fine.

25 VICE CHAIRPERSON SLATON: I would not be in

1 favor of that. I think it just muddies the water. I
2 think we have a very clear SEC standard right now.
3 We're trying to advocate to change that standard and
4 improve it; but, otherwise, you're -- you know, Well, my
5 kids went to this camp, and I don't need to know that.

6 So I just think it's aspirational to say
7 that's the minimum because what you're going to get is
8 the SEC requirement.

9 CHAIRPERSON JONES: Yeah. And my view is that
10 I think to support the current SEC framework is fine,
11 but we're always looking to improve issues around
12 whatever policy that we're complying with or debating,
13 et cetera. So as you implement these various
14 provisions, you can always be trying to improve it. And
15 I think that's the overarching comment, as opposed to a
16 specific plan today. So I think -- otherwise, I think
17 we will recognize Mr. Jelincic's comment that we will
18 try to do more, but still indicate this is the same,
19 based on what I'm hearing from the committee.

20 Okay. So now we can go to the next piece.

21 CHIEF INVESTMENT OFFICER ELIOPOULUS: So this
22 is the rewritten introduction and purpose statement. As
23 Anne mentioned, we took the first draft of it and wanted
24 to get any comments or feedback from the Committee on
25 the tone and specifics of the wording.

1 CHAIRPERSON JONES: Ms. Mathur.

2 BOARD MEMBER MATHUR: Thank you.

3 I can see a lot of work has gone into this,
4 and I have a couple of thoughts.

5 One is, while I think our history is certainly
6 relevant and should be acknowledged, I guess I don't
7 feel like it should be front and center in the
8 introduction. Maybe it merits a separate section, or
9 maybe it just doesn't need to be chronological the way
10 the introduction is laid out, because I think what we
11 really want to highlight is where we are today. You
12 know, what are these principles intended to do today?
13 What is our program intending to accomplish today? And
14 then we can certainly acknowledge the history and how
15 we've evolved to here. But I guess that that's sort of
16 an editorial comment.

17 In terms of purpose, I'm interested in -- I
18 think one of the things that is not currently included
19 in the purpose is more about the regulatory environment
20 and the financial market reform. It really focuses on
21 proxy voting and company engagement and a little bit
22 about our managing our managers, although that's a very
23 small section, but something a little bit more around
24 financial reform, which we, I think we've evolved to see
25 as a very significant element of our Corporate

1 Governance Program.

2 The other piece that's not really so
3 integrated in this purpose piece is the ESG components,
4 which are referenced in the introduction but not really
5 integrated into the purpose. And they're -- I see them
6 all as sort of overlapping, as managing these long-term
7 risks is part of our governance agenda.

8 So those are sort of my high-level comments.
9 I won't give you some of my smaller ones.

10 Thank you.

11 CHAIRPERSON JONES: Ms. Paquin.

12 ACTING SUBCOMMITTEE MEMBER PAQUIN: I also
13 wanted to echo what Ms. Mathur said. I think there's an
14 awful lot of work that went into it, but I think that
15 editorially focusing on where we are today and all of
16 the work and the challenges facing the fund would be
17 great.

18 Thank you.

19 CHAIRPERSON JONES: Mr. Slaton.

20 VICE CHAIRPERSON SLATON: Thank you.

21 Yeah. I agree with Ms. Mathur that the
22 history -- the need to go in the front. One thing about
23 a document is you want get to the point quickly while
24 people still have interest in reading it.

25 So right at the start, by the way, there's one

1 slight editorial, again trying to make this a more
2 timeless document. In that first sentence, make it "The
3 nation's largest public pension fund," period.
4 Hopefully, we'll have \$350 billion in assets. So,
5 again, trying to make it more timeless.

6 So once you get to the history, then I think
7 right there you need to get to the purpose and just have
8 that sharp clarity. We have a great history, but let's
9 move forward.

10 CHAIRPERSON JONES: Okay. Seeing no further
11 comments there.

12 CHIEF INVESTMENT OFFICER ELIOPOULUS: That's
13 the type of feedback we were hoping to hear. I think in
14 previous times, and perhaps in previous committees,
15 seeing more of a desire to keep the history
16 encapsulated. So this is great for purposes of
17 refreshing this, to hear this feedback now. So we felt
18 timid to recommend something like that, but it's great
19 to get that feedback.

20 CHAIRPERSON JONES: Mr. Jelincic.

21 SUBCOMMITTEE MEMBER JELINCIC: I have a number
22 that are corrective rather than really of substance, so
23 I'll send those to them if that's acceptable.

24 On employee compensation, which is on 28 of
25 the document, 52 of the iPad, one of the things that I

1 think we should include there is not just basic needs
2 and the opportunity, but I think we ought to make a
3 reference to retirement security as part of the goal of
4 the whole compensation and salary package. So I will
5 throw that out. I don't think that's something we're
6 going to dispute, but that's the one that is not
7 essentially -- editing-type things.

8 And the other issue that I will raise -- and I
9 don't think we can get it resolved before the Chair has
10 to leave -- is the whole issue of options. I think at
11 some point we need to have a real discussion about
12 option compensation and some of the weaknesses that that
13 has created in terms of moving people to a much
14 shorter-term focus. I think that's part of a longer
15 conversation that I think we ought to have before we get
16 done. Not necessarily today.

17 CHAIRPERSON JONES: Okay. Good.

18 Also, I know I saw it once. I don't know if I
19 remember seeing it twice, but we had agreed that we
20 would use the term "compensation" rather than "executive
21 compensation," and I saw executive compensation
22 somewhere in the document. So just make sure it's
23 consistent with just compensation, because then it does
24 address more than -- as JJ mentioned, it deals with
25 incoming qualities, et cetera, that a number of members

1 expressed a desire to have. Okay?

2 Mr. Slaton.

3 VICE CHAIRPERSON SLATON: And I'll also send
4 you -- there's some syntax corrections that need to be
5 made as well.

6 INVESTMENT DIRECTOR SIMPSON: Thank you.

7 SUBCOMMITTEE MEMBER JELINCIC: On the
8 regulatory effectiveness, we did talk about funding in
9 the introduction. I think it may make sense to include
10 some of it in best practice just to reinforce it. But
11 I'll throw that out for thought, rather than any
12 specific improvement. That's on 37 of the document, 61
13 of the iPad.

14 CHAIRPERSON JONES: Okay. Mr. Slaton.

15 VICE CHAIRPERSON SLATON: Yeah. I want to
16 come back to that b that JJ raised on page 52 of the
17 iPad, employee compensation. I'm not sure I recall
18 exactly what your commentary is, but when I see the
19 words "and this is employees of the firms we own" -- is
20 that correct? That's what we're talking about?

21 CHAIRPERSON JONES: Which page are you on?

22 VICE CHAIRPERSON SLATON: This is page 52 on
23 the iPad, and it's 28 of 41. So this is directing what
24 the Board should be doing and that their compensation
25 should be in order to raise their social and economic

1 opportunities.

2 I'm not sure that's a driver for the company.
3 But what is a driver for the company, and should always
4 be, is to fairly compensate employees so that they are
5 appropriately compensated for their contribution to the
6 company.

7 So, to me, I think that that -- I'm just a
8 little uncomfortable with adding a purpose that's
9 outside the basic purpose of the company that we own,
10 but I'd like to hear other comments from others.

11 INVESTMENT DIRECTOR SIMPSON: Just by way of
12 explanation, you'll recall that we had a lot of
13 appendices in the hundred-page addition that we started
14 with, and I believe this is language that comes from the
15 Global Sullivan Principles, which CalPERS said it was a
16 supporter of. And in fits and starts -- we didn't do it
17 smoothly, but we were bringing that language into the
18 main document.

19 But we haven't had a separate discussion about
20 how that fits with our thinking on human capital
21 management, one of our three forms of capital that we
22 highlight in the Investment Belief, so I think we'd
23 certainly welcome feedback on how to update our
24 thinking.

25 VICE CHAIRPERSON SLATON: Ted.

1 CHIEF INVESTMENT OFFICER ELIOPOULUS: So
2 knowing that this comes from the Sullivan Principles
3 explains why it's there. And, in particular, the
4 wording is perhaps different than some of the other
5 syntax that's used otherwise.

6 I do think we do plan to have a forum on
7 income and equality but later in the next calendar year,
8 and I think that would be the point in time, perhaps, to
9 relook at, perhaps, the wording in this paragraph, other
10 wording within the employee compensation, and also take
11 up the concept of retirement security or otherwise at
12 that time.

13 We were discussing whether or not -- sometimes
14 it's difficult to make some of these changes too much on
15 the fly, and particularly with an issue as important as
16 income and equality. And we have work to do to really
17 understand these concepts and see how they may or may
18 not translate.

19 I might suggest that for changes to this
20 wording, particularly since it's lifted straight out of
21 the Global Sullivan Principles, we might wait to make
22 those changes.

23 CHAIRPERSON JONES: That's fine. Good
24 suggestion.

25 Ms. Mathur.

1 BOARD MEMBER MATHUR: Yeah. I would just
2 support what Ted said.

3 CHAIRPERSON JONES: Okay. Great.

4 CHIEF INVESTMENT OFFICER ELIOPOULUS: I think
5 that's it for this section 4a. So we'll be bringing
6 back a fifth -- a fourth reading and hope for a final
7 reading, but I think the iterative process is necessary,
8 and they're really terrific comments.

9 CHAIRPERSON JONES: Somewhere in the material,
10 too, I noticed that when we were bringing it back in
11 February we made reference to the Subcommittee. It
12 really should be the Investment Committee. Somewhere in
13 there.

14 Okay. Very good. Let's move on to 4b.

15 CHIEF INVESTMENT OFFICER ELIOPOULUS: 4b
16 really is, as Anne turns to it, is the existing
17 Legislative and Policy Engagement Guidelines. As the
18 Committee directed on Monday, I will be adding some
19 language to this policy regarding SEC rulemaking on
20 political disclosure. That's a to-do item.

21 The purpose of this item today is to see if
22 there are any questions, comments. We've reviewed this
23 policy a few times with the Investment Committee, but we
24 wanted to put it before the Subcommittee as part of its
25 work plan. We don't have any suggestions.

1 CHAIRPERSON JONES: We don't either.

2 (Laughter.)

3 CHIEF INVESTMENT OFFICER ELIOPOULUS: Okay.
4 Excellent.

5 CHAIRPERSON JONES: Okay. So move on to 5.

6 CHIEF INVESTMENT OFFICER ELIOPOULUS: Okay.
7 So moving on to 5. This is a discussion on CalPERS
8 Board representation on third party organizations, and
9 we've you know, put a dash -- "investment perspective."
10 I do believe this might be a topic that the overall
11 Global Governance Committee takes up in terms of the
12 overall governance of the system.

13 What we tried to do in this item for the
14 Subcommittee's discussion purposes is to give some
15 thought to our own experience within the Investment
16 Office in placing either staff or Board members having
17 been placed onto investment-related organizations. So
18 in doing that, we pulled together, really, four
19 categories of thought and characteristics the
20 Subcommittee might want to reflect on as it thinks about
21 having CalPERS Board members representing CalPERS on
22 third party organizations.

23 And those are listed in the agenda item pages.
24 2 and 3, and they're really broken into four categories:

25 One, an assessment of the -- well, I'll just

1 call it assessment.

2 Number two is to look at the actual candidacy
3 say of the potential candidate.

4 Three is to think about the actual nomination
5 and election process.

6 And four, a reporting mechanism to report back
7 to CalPERS on the information and lessons learned from
8 these organizations.

9 That's the framework that we see in really
10 assessing this topic. I'd be glad to go into more
11 detail or open it up to discussion.

12 CHAIRPERSON JONES: Mr. Slaton is going to
13 take over the Chair because I'm going to leave. One
14 point I would like to make on this particular one is we
15 need to incorporate somehow where these organizations
16 have identified a particular person that they would like
17 to serve on their boards. We need to be conscious of
18 that, because many times the organization say, Well, we
19 want a CalPERS representative, but we want the CIO, or,
20 We want the chair of the Health Benefits Committee; and
21 I think we need to be sensitive to that.

22 Secondly, is that we need to be conscious of
23 the fact that many of these boards are -- they elect
24 these people to be on boards. We can't just say, You
25 are on that board, because that body then has a

1 provision to elect their members on the board.

2 So those are two points I want to make sure
3 we're covering.

4 Thank you.

5 SUBCOMMITTEE MEMBER JELINCIC: A couple of
6 things.

7 One, the Board Governance may actually be the
8 more appropriate place to think about this. And I think
9 the issues are fairly well identified, but I also think
10 we ought to expand the discussion to not only Board
11 members but staff serving on different organizations.

12 And one of the other issues we have to deal
13 with is, you know, is, yes, many of these committees
14 will elect -- you know, the organization will elect
15 somebody; but if the PERS Board had said, This is the
16 person we want as our representative, you know, they're
17 going to tend to elect them.

18 And the other situation we have is are they
19 really there as a representative of PERS, in which case
20 I think the Board needs to have some influence on who
21 they are. But other times they're -- it's not that the
22 Board wants somebody from PERS, but they may want
23 somebody specifically who happens to be a PERS Board
24 member but not necessarily because they are a PERS Board
25 member.

1 I will use the example of I'm on the Advisory
2 Committee for etiquette -- although I missed the last
3 two because they chose to meet on my anniversary, and I
4 want to have another one, so I made a judgment. But
5 when that invitation came, they were very specific that
6 it was to me; it was not to the organization and it was
7 not as a representative of PERS, and so somehow we have
8 to work that into this issue.

9 VICE CHAIRPERSON SLATON: Ms. Mathur.

10 BOARD MEMBER MATHUR: I think that this item
11 raises a lot of good questions. I agree that it
12 probably is more appropriate in the Governance
13 Committee, because while a number of the boards that
14 Board members sit on are investment boards, there
15 certainly could be other boards that are relevant to
16 CalPERS that Board members might sit on. So I think
17 it's a broader discussion.

18 I do think having a more formal reporting-back
19 process would be very useful. I also agree that it
20 doesn't really make sense in most cases for the Board to
21 decide who gets -- who runs, because you -- typically
22 what happens is an individual gets solicited, so to
23 speak. But it does make sense, I think, for the Board
24 to have sort of a, Yes, we agree that's a good idea for
25 you to run for that, and for it to be part of the

1 CalPERS' efforts.

2 So I think there is some -- anyway, those are
3 some issues that I think maybe need a little more nuance
4 in the discussion, but I think it should come to
5 Governance.

6 VICE CHAIRPERSON SLATON: Yes. I've talked
7 with Chair, and I've had multiple conversations about
8 this, about which committee it should be in. And I do
9 agree that there are some particulars that apply to the
10 investment side of the house, but I would also say that
11 there are particulars that would apply in pension and
12 health and any other funding that we perform.

13 So I do think this is going to take some time.
14 I like these assessments, but what's not here is what's
15 our process for doing this? And we really haven't
16 wrestled with that yet for what's an appropriate process
17 for this.

18 So I will take that under advisement that
19 there is interest in having this be tackled by the
20 Governance Committee. I'll be willing do that. And I
21 see a thumbs up over here from staff, so I guess that's
22 what we'll do.

23 I don't see any other -- oh. Wait a minute
24 Mr. Moore for the Treasurer.

25 Oh, who did this?

1 ACTING BOARD MEMBER MOORE: That's me.

2 VICE CHAIRPERSON SLATON: Oh. That's you.
3 Hi, Frank. I looked the wrong way.

4 ACTING BOARD MEMBER MOORE: Is the intent to
5 put this language eventually into the Governance Policy
6 that's attached?

7 CHIEF INVESTMENT OFFICER ELIOPOULUS: No. No.
8 This is just meant to serve up a framework for
9 discussion and hopefully forwarding to the Governance
10 Committee.

11 ACTING BOARD MEMBER MOORE: My other
12 question was have you looked to other organizations? Do
13 they have similar processes; and if so, what are they?
14 Is that where you got some of the language from,
15 perhaps?

16 INVESTMENT DIRECTOR SIMPSON: Yes. As Ted
17 mentioned at the beginning, we've really drawn on our
18 experience being on boards or supporting CalPERS Board
19 members on different organizations; so that's really
20 been the source of these four categories.

21 I'm sure it's not everything that needs to be
22 in there, but that's really our experience to date.

23 VICE CHAIRPERSON SLATON: Mr. Jelincic.

24 SUBCOMMITTEE MEMBER JELINCIC: And I want to
25 apologize to Anne for taking this off her plate. I'm

1 sure she will have difficulty filling that void.

2 VICE CHAIRPERSON SLATON: Yeah. My last
3 comment I would make is that obviously -- I mean, I
4 serve on boards that have nothing to do with CalPERS,
5 and we're not going to go there in terms of involvement
6 just because I happen to set on the CalPERS Board.

7 So, Mr. Jelincic, I think we're really just
8 talking about those that are focused in -- that really
9 are broad but do represent CalPERS in some fashion.

10 So I see no further request to speak on this
11 item, so let's go to Summary of Subcommittee Direction.

12 CHIEF INVESTMENT OFFICER ELIOPOULUS: So the
13 summary is on the principles. To take the feedback with
14 respect to Board tenure to move the number of years from
15 10 years to 12 years, and to take under advisement and
16 review the topic of a fixed turnover. And we'll report
17 back at the next Subcommittee meeting on that.

18 And then with respect to the introduction and
19 the purpose, we received feedback about really finding
20 another spot for the historical synopsis and to address
21 perhaps more fully the purpose section to add the topics
22 of regulatory and financial market reform, as well as
23 the ESG into purpose document.

24 VICE CHAIRPERSON SLATON: And then to look for
25 input from Board members that might have either just

1 corrections or syntax or those kind of problems.

2 CHIEF INVESTMENT OFFICER ELIOPOULUS: Yes.

3 ACTING CHAIR SLATON: All right. With that,
4 we move to Item No. 7, which is Public Comment.

5 I don't see a vast show of hands at this late
6 hour, so this subcommittee -- oh. The last item also
7 will be on the Third Party Organization Representation.
8 We will take a look at that in Governance Committee and
9 see where we go from there.

10 All right. With that, the meeting is
11 adjourned.

12 (Thereupon the California Public Employees'
13 Retirement System Global Governance Policy Ad
14 Hoc Subcommittee was adjourned at 1:54 p.m.)

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CERTIFICATE OF REPORTER

I, JACQUELINE TOLIVER, 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, Jacqueline Toliver, a Certified Shorthand Reporter of the State of California and 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 25th day of November 2015.

JACQUELINE TOLIVER, CSR
Certified Shorthand Reporter
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