



Global Governance Policy Ad Hoc Subcommittee

California Public Employees' Retirement System

Agenda Item 4a

December 14, 2015

ITEM NAME: Revision of Global Governance Principles – Fourth Reading

PROGRAM: Global Governance

ITEM TYPE: Total Fund – Action

RECOMMENDATION

Approve the revised Global Governance Principles (Global Principles) which arrange the principles into an Introduction and Purpose followed by five chapters – one for each of CalPERS core issues: Investor Rights, Board Quality, Compensation, Corporate Reporting, and Regulatory Effectiveness. Staff has also provided the Wilshire Associates' Opinion Letter as Attachment #4.

EXECUTIVE SUMMARY

This item represents a fourth and final review of the Global Principles by the Global Governance Policy Ad Hoc Subcommittee (the Subcommittee). 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).

During the revision process staff has reduced the size of the Global Principles from over 100 pages to 36 pages while maintaining content throughout the document. Over the course of the review staff has addressed questions and made revisions based on feedback from the Subcommittee, developed new principle language, and maintained a list of principle considerations for future review and development. See Attachment #1 summarizing key revisions and areas for review and development.

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 fourth and final phase of the Global Principles review includes the following:

1. Global Principles overview of structure – From To Statement
2. Revisions to the Introduction and Purpose sections based on feedback from the Subcommittee at the November 18, 2015 meeting.
 - Include Regulatory Environment, Financial Markets, and ESG components
 - Reduce “History” within Introduction
3. Principle revision recap:
 - Board Quality: Diversity, Independence, and Competence – Director Tenure
 - Regulatory Environment
4. Staff response to questions from the November 18, 2015 Subcommittee meeting.
5. Areas for future review and development.
6. Subcommittee approval of the Global Principles.

Upon Subcommittee approval staff will present the Global Governance Principles to the Investment Committee at the February 16, 2016 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)
- Attachment 4 – Wilshire Associates Opinion Letter

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