



Agenda Item 6b

February 16, 2016

ITEM NAME: Revision of the Global Governance Principles – First Reading

PROGRAM: Global Governance

ITEM TYPE: Policy & Delegation – Information

EXECUTIVE SUMMARY

This agenda item is the first reading of the revised Global Governance Principles (Global Principles) by the Investment Committee following an in-depth review and revision process overseen by the Global Governance Ad Hoc Subcommittee (the Subcommittee). Upon completion of the review the Subcommittee would vote to approve the recommended Global Principle revisions submitted by staff.

These revisions bring simplicity and clarity to the Global Principles moving away from a structure that was differentiated by Core, Domestic, and International Markets with various third party references (CII, ICGN, and other appendices). The new format includes an Introduction and Purpose section followed by five chapters which focus on CalPERS' core issues: Investor Rights, Board Quality and Diversity, Compensation, Corporate Reporting, and Regulatory Effectiveness.

During the review staff reduced the size of the Global Principles from over 100 pages to 39 pages while maintaining content throughout the document. As part of the process staff addressed questions and made revisions based on feedback from the Subcommittee, developed new principle language, and maintained a list of considerations for future review and development.

Please find the following attachments: Attachment 1 – Summary of key revisions and areas for future review, Attachment 2 – Global Governance Principles (New), Attachment 3 – Global Governance Principles (Tracked Changes), and Attachment 4 – Wilshire Associates' Opinion Letter.

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 for the purpose of reviewing CalPERS' Global Principles. Beginning in September 2015 staff started the review process which would include four Subcommittee meetings (September, October, November, and in December) where staff would present the principles for comment. At the final meeting on December 14, 2015 the Subcommittee voted to approve the revisions of the Global Principles – based on this approval staff is moving forward with a presentation of the revised Principles document to the Investment Committee for a first reading.

ANALYSIS

During the Global Principles review with the Subcommittee staff completed the following:

1. Restructured the principles into five “core” chapters, removed duplications, and integrated appendices as principles. The remaining two appendices are:
 - Appendix A – Principles for Responsible Investment (PRI)
 - Appendix B – CalPERS' Memberships and Endorsements
2. Revisions to the Introduction and Purpose sections:
 - These include new references to the Regulatory Environment, Financial Markets, and Environment, Social, and Governance issues
3. New principle concepts:
 - Board Quality: Diversity, Independence, and Competence – Director Tenure
 - Regulatory Effectiveness – properly funding regulators
4. Areas for future review and development.

Following review and comment staff will present a final draft of the Global Principles to the Investment Committee at the March 14, 2016 meeting for approval.

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 Investment Office's 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 Governance Principles (New)
- Attachment 3 – Global Governance Principles (Tracked Changes)
- Attachment 4 – Wilshire Associates' Opinion Letter

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