

# Global Governance Strategy Review

Investment Committee, August 2016

# Objectives

- Review strategic and core initiatives with key performance indicators
- Seek Investment Committee's approval of 5-year plan

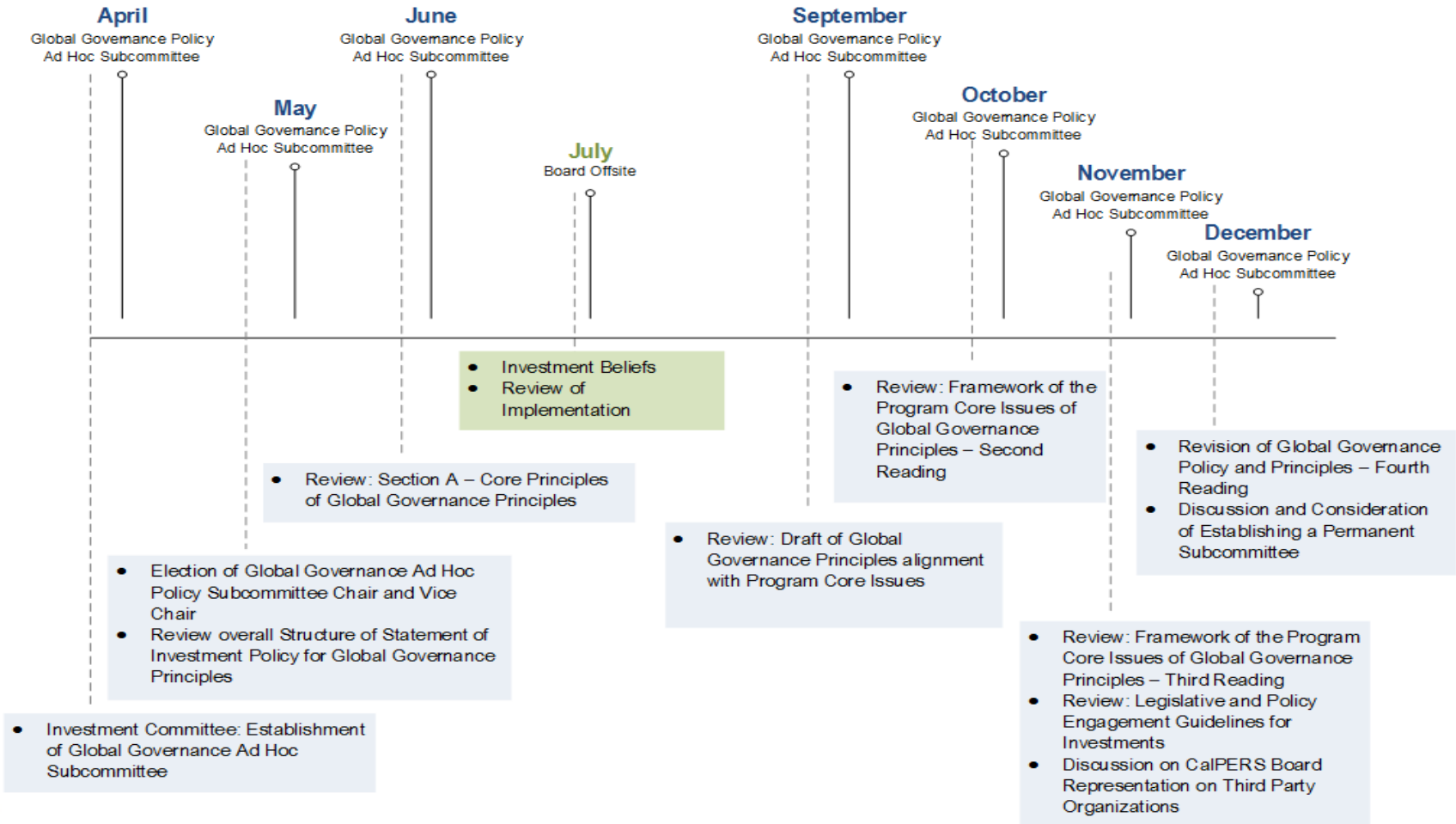
## Global Governance Strategy Review

## Summary of the 5-year plan for Governance &amp; Sustainability

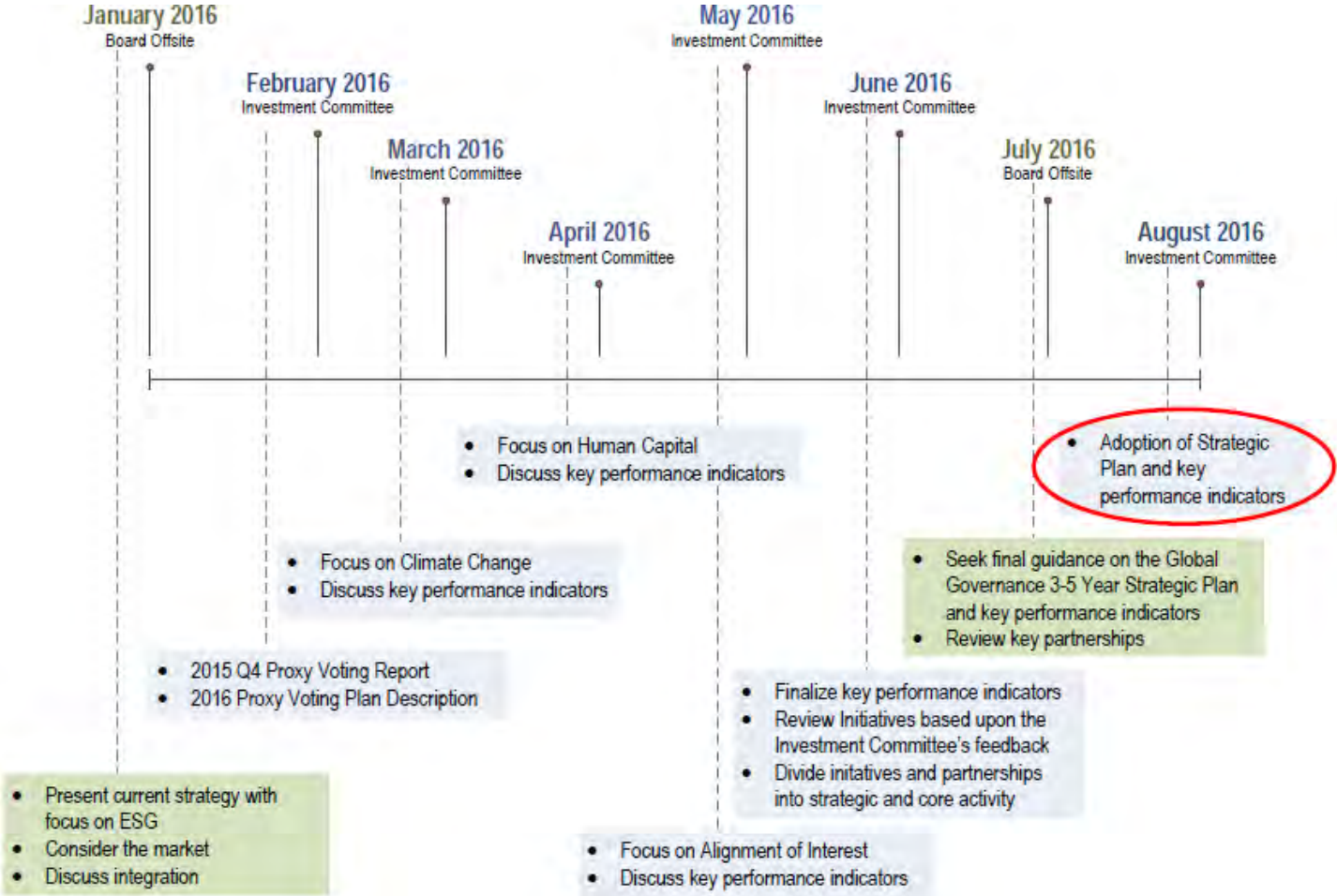
	Environmental	Social	Governance
S T R A T E G I C	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (includes water risk)</li> </ul>	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (includes human capital)</li> </ul>	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (focusing on the long-term)</li> </ul>
	<ul style="list-style-type: none"> <li>Manager Expectations (includes water risk)</li> </ul>	<ul style="list-style-type: none"> <li>Manager Expectations</li> </ul>	<ul style="list-style-type: none"> <li>Manager Expectations</li> </ul>
	<ul style="list-style-type: none"> <li>Research <ul style="list-style-type: none"> <li>Sustainable Investment Research Initiative (SIRI)</li> <li>Global Equity Strategies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Research <ul style="list-style-type: none"> <li>SIRI</li> <li>Diversity</li> <li>Income inequality (action plan if warranted)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Research <ul style="list-style-type: none"> <li>Topics from Global Governance Principles Review</li> <li>Supply Chain Activities</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Engage 80 PRI Montreal Pledge Companies (identify water risk candidates)</li> </ul>	<ul style="list-style-type: none"> <li>Diversity and Inclusion <ul style="list-style-type: none"> <li>Engagement</li> <li>Voting</li> <li>3D</li> <li>Advocacy</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Private Equity Fee and Profit Sharing Transparency (including AB 2833)</li> </ul>
C O R E	<ul style="list-style-type: none"> <li>Carbon Footprinting – Total fund</li> <li>Thermal Coal Companies – (SB185)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible Contractor Program</li> </ul>	<ul style="list-style-type: none"> <li>Proxy Voting</li> <li>Shareowner Campaigns (Proxy Access/ Majority Voting)</li> <li>Focus List</li> <li>Divestment: Mandates, Policy &amp; Principles</li> </ul>
	Work through Partnerships to leverage resources and impact		
	<ul style="list-style-type: none"> <li>Corporate Engagements</li> <li>Federal and Legislative Guidelines</li> <li>Sustainability Report</li> <li>Response to Ad Hoc Media and Stakeholder Requests</li> </ul>		

Global Governance Strategy Review

# 2015 Timeline: Global Governance Principles Review



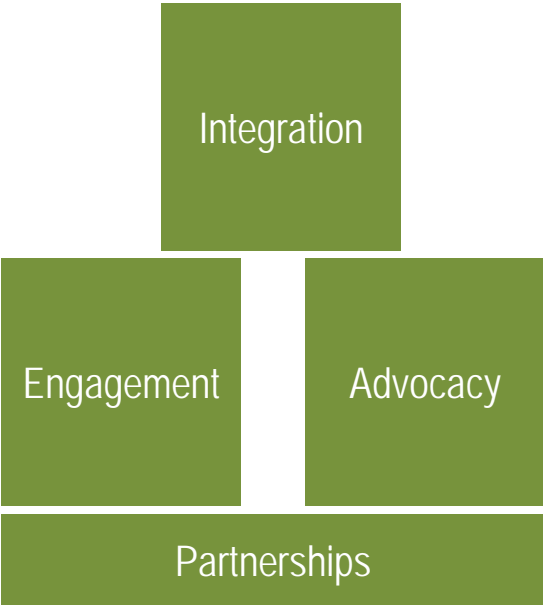
# Proposed Timeline for Developing a 3-5 Year Strategic Plan



# Strategy on ESG Integration

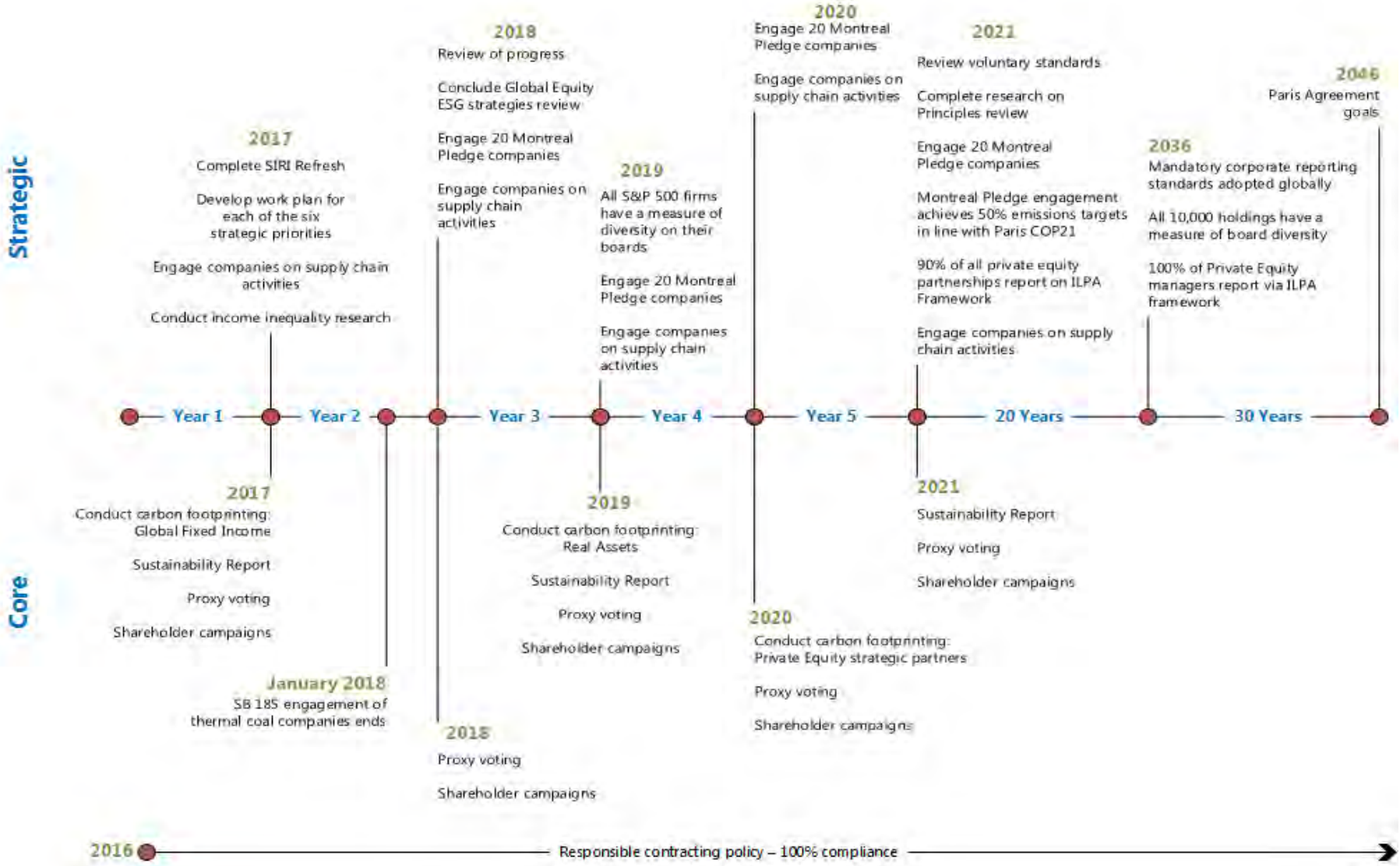
- Environmental
- Social
- Governance

Our approach utilizes three channels supported by partnerships



Global Governance Strategy Review

# ESG Strategy Timeline



# Strategic Initiatives



# 1. Data & Corporate Reporting Standards

## Objectives

- Initial voluntary corporate reporting including enhanced disclosure of ESG considerations in periodic filings globally
- Adoption of enhanced mandatory reporting of ESG in periodic filings globally

## Key Performance Indicators

- Benchmark and track the progress of integrated reporting globally
- Mandatory standards adopted globally

## Timeline:

- Review voluntary standards: 5 years
- Mandatory standards to be adopted globally: 20 years

## 2. Engage UN PRI Montreal Pledge Companies

### Objective

- Manage climate risk and opportunity by engaging 80 Montreal Pledge companies

### Key Performance Indicators for 80 Montreal Pledge Companies

- All 80 companies establish a carbon reduction target consistent with Paris COP 21
- Measure and report reduction in carbon footprint
- Track financial performance of companies with established reduction targets

### Timeline:

- Emissions reduction targets for portfolio companies generating half of the emissions: 30 years
- Engage 20 companies: each of years 2, 3, 4, 5 of the 5-year plan

## 3. Diversity & Inclusion

### Objective

- Enhance Total Fund performance by increasing corporate board diversity

### Key Performance Indicators

- All public companies in which CalPERS invests have a dimension of board diversity<sup>1</sup>
- Track financial performance of companies with diverse boards

### Timeline:

- Board diversity: 3 years for the S&P 500<sup>2</sup>; 20 years for all 10,000+ holdings in public equity

<sup>1</sup>Diversity: Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership. – Source: Global Governance Principles, Section B.9.

<sup>2</sup>Reference: 2015 Spencer Stuart Board Index - <https://www.spencerstuart.com/research-and-insight/spencer-stuart-us-board-index-2015>

## 4. Manager Expectations

### Objective

- Manager Expectations that allow CalPERS to better understand and manage ESG investment risk and opportunity across the portfolio

### Key Performance Indicators

- All managers have policies and procedures for including ESG information in decision making
- Asset classes establish and implement documented procedures for due diligence, contracting, and monitoring activities

### Timeline:

- All managers to have policies and procedures for including ESG information: 5 Years
- Asset classes to establish and implement documented procedures: 2 Years
- Pilot report to IC December 2016

## 5. Research

### Objective

- Strengthen understanding of ESG factors relevant to risk and return specific to CalPERS' investment objectives

### Key Performance Indicators

- Complete evidence review
  - SIRI refresh (inclusive of diversity and income inequality)
  - Global Equity strategies
  - Research companies most exposed to water risk to inform engagement
  - Topics from Global Governance Principles review, including supply chain issues
- Integrate relevant research findings into investment decision making

### Timeline:

- Complete SIRI refresh: 1 year
- Global Equity strategies: 2 years
- Present findings of income inequality research and action plan if warranted: 2 years
- Principles review topics: 5 years
- Efforts to integrate ESG research: Ongoing

## 6. Private Equity Fee & Profit Sharing Transparency

### Objective

- Industry adoption of the Institutional Limited Partners Association (ILPA) framework for transparency of fees and profit sharing

### Key Performance Indicators

- Ensure 100% of CalPERS' strategic private equity partnerships complete the ILPA fee reporting template and provide profit sharing information
- Target 100% of CalPERS private equity strategic partnerships complete the ILPA fee reporting template and provide profit sharing information
- Track and report industry ILPA adoption
  - Partnerships completing the ILPA fee reporting template and providing profit sharing information
  - Limited partners requiring such information from their general partners

### Timeline:

- 90% of all partnerships: 5 years
- 100% of all partnerships: 20 years

# Core Initiatives

# Investment Committee Reporting on Core Activities

## Annual Reporting (January – December):

Q1: Report on Work Plan for upcoming year for:

- Proxy Voting
- Shareowner Campaigns
- Corporate Engagements
- Global Governance Principles
- Legislative Guidelines

Q2: Report on:

- Responsible Contractor Policy
- Partnerships

Q3: Report on results for:

- Proxy Voting
- Shareowner Campaigns
- Corporate Engagements
- Focus List

Q4: Report on results of:

- Carbon Footprinting
- Divestment: Mandates, Policy and Principles, including Thermal coal companies SB 185

---

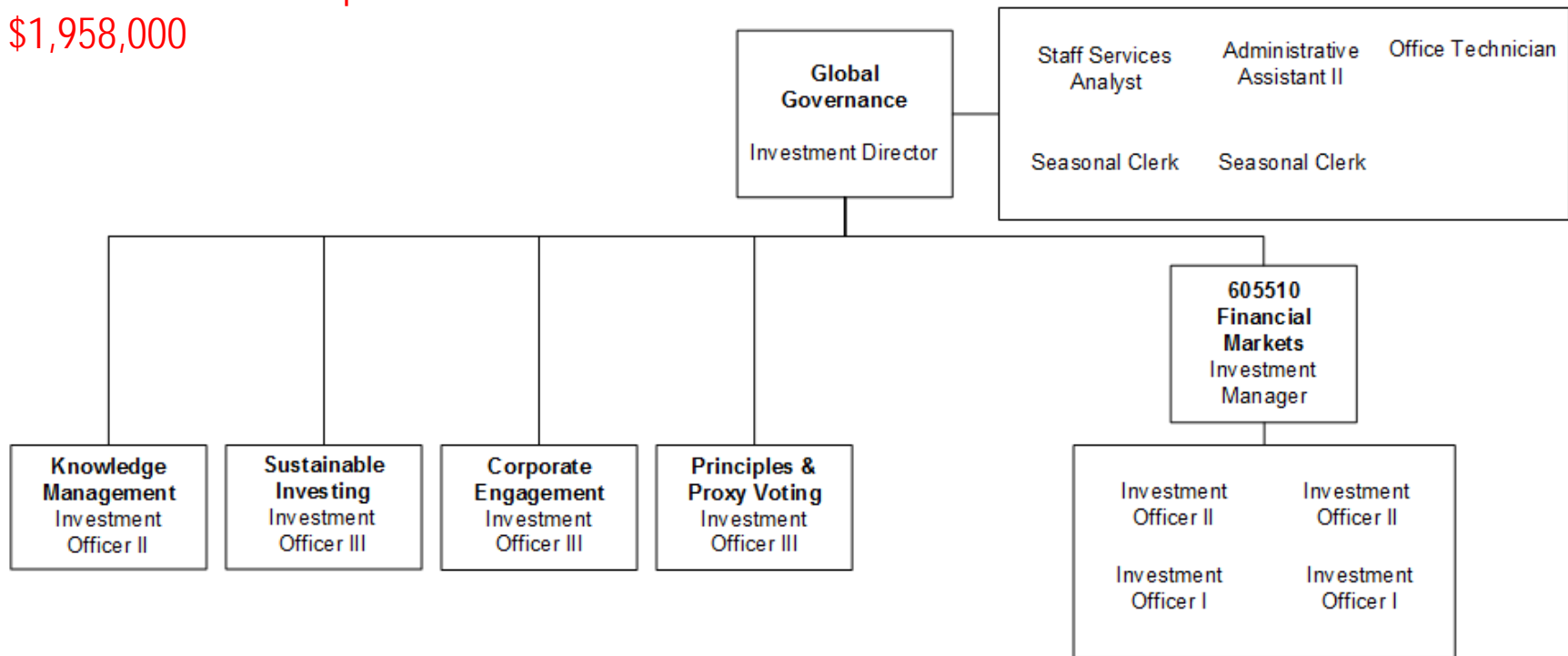
## Bi-Annual Reporting:

- Sustainability Report



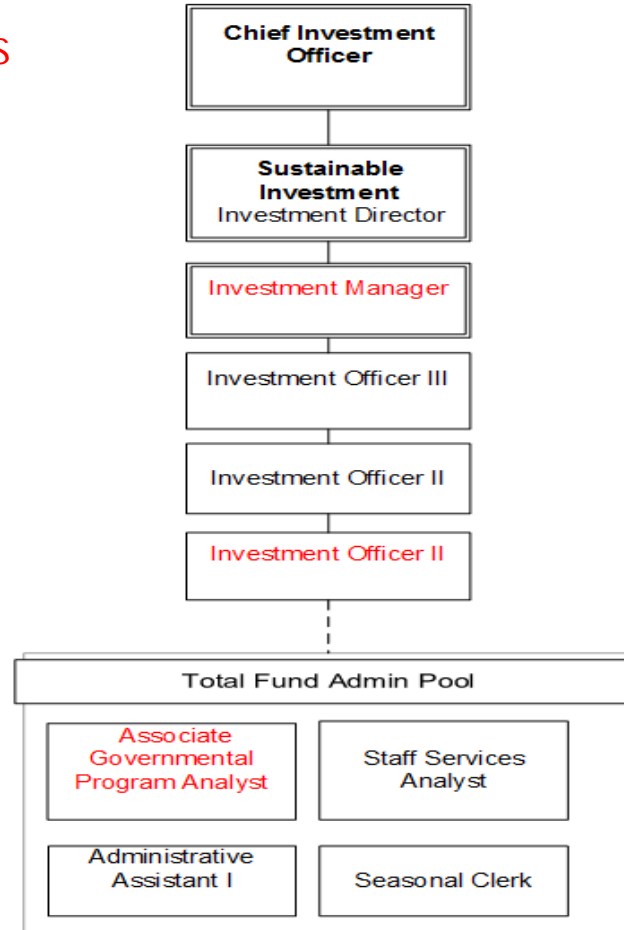
# Global Governance Current Org Structure

Total cost for current positions  
\$1,958,000



# New Organizational Alignment – Sustainable Investment

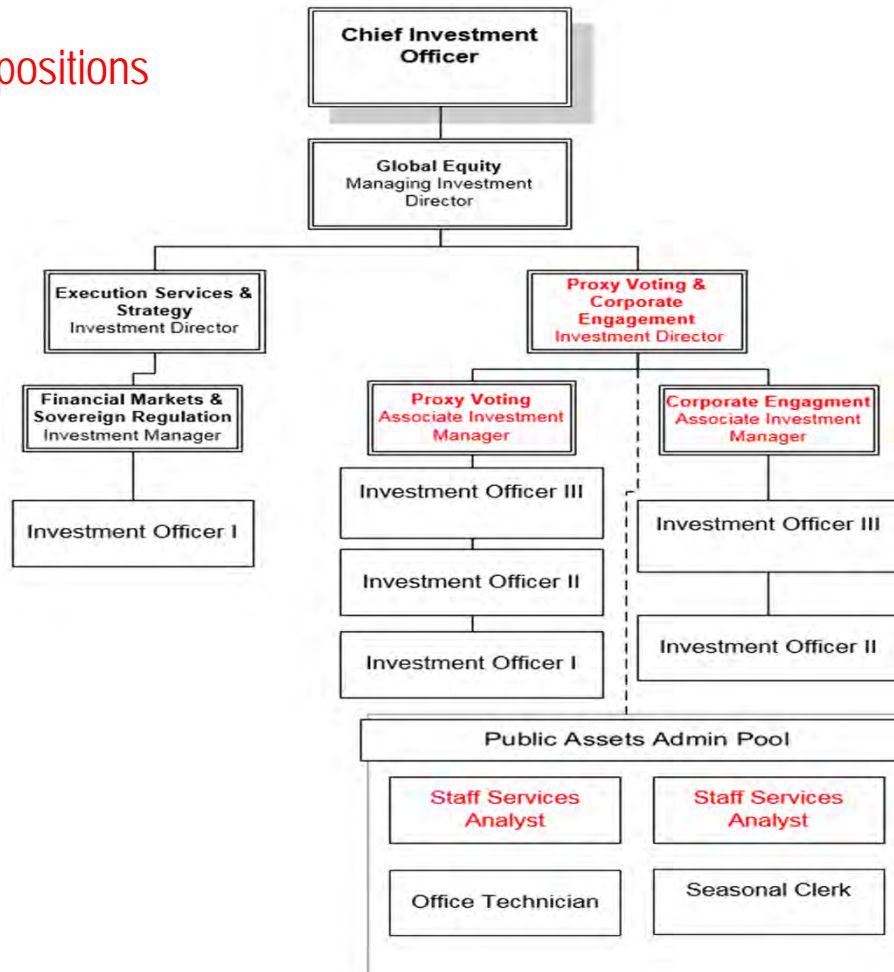
Total cost for added positions  
\$660,000



New positions in red

# New Organizational Alignment – Global Equity

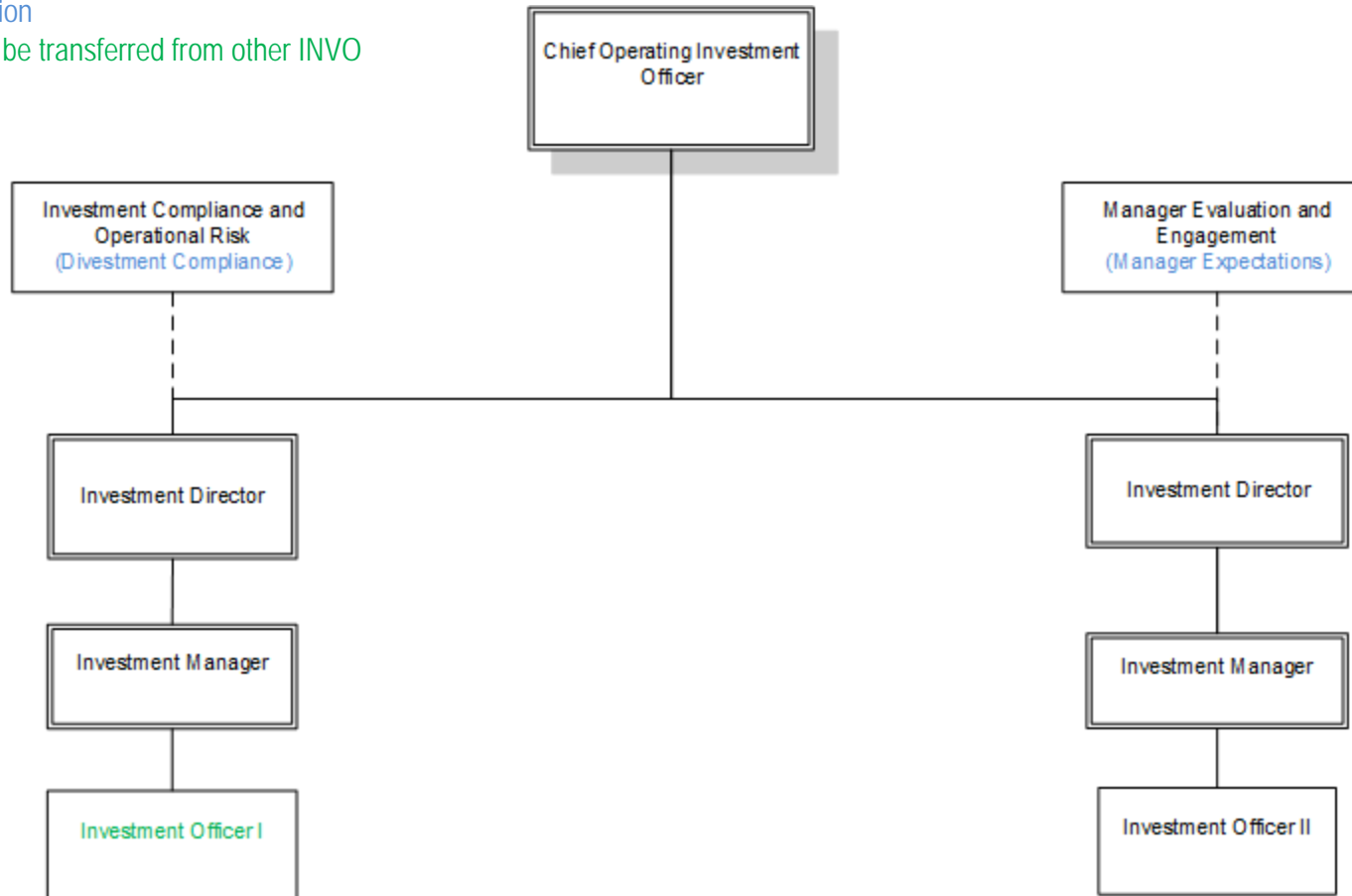
Total cost for added positions  
\$1,204,000



New positions in red

# Additional Organizational Alignment

- New Function
- Position to be transferred from other INVO area

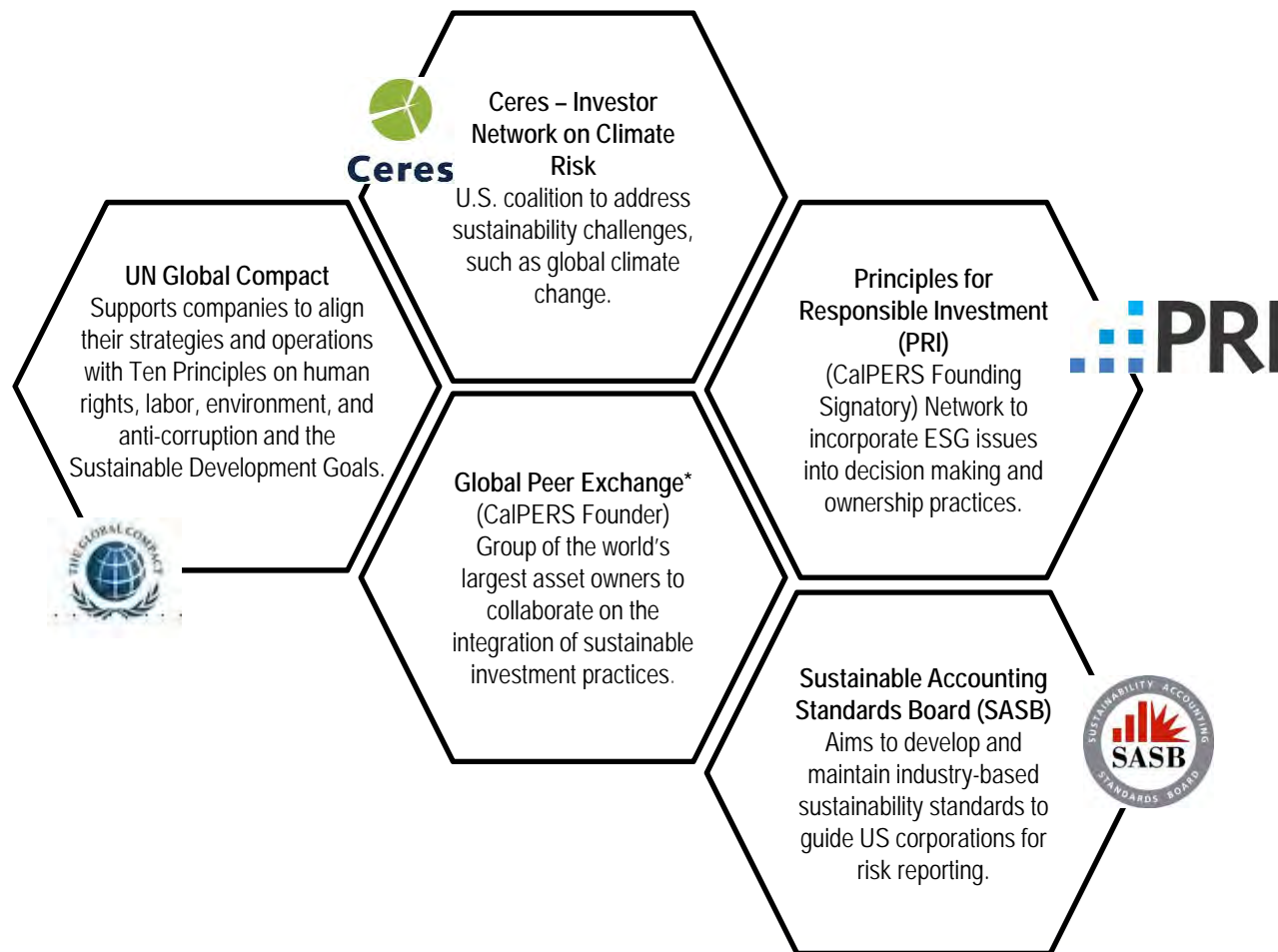


# Appendix: Partnerships

## Partnerships | Key to Strategy

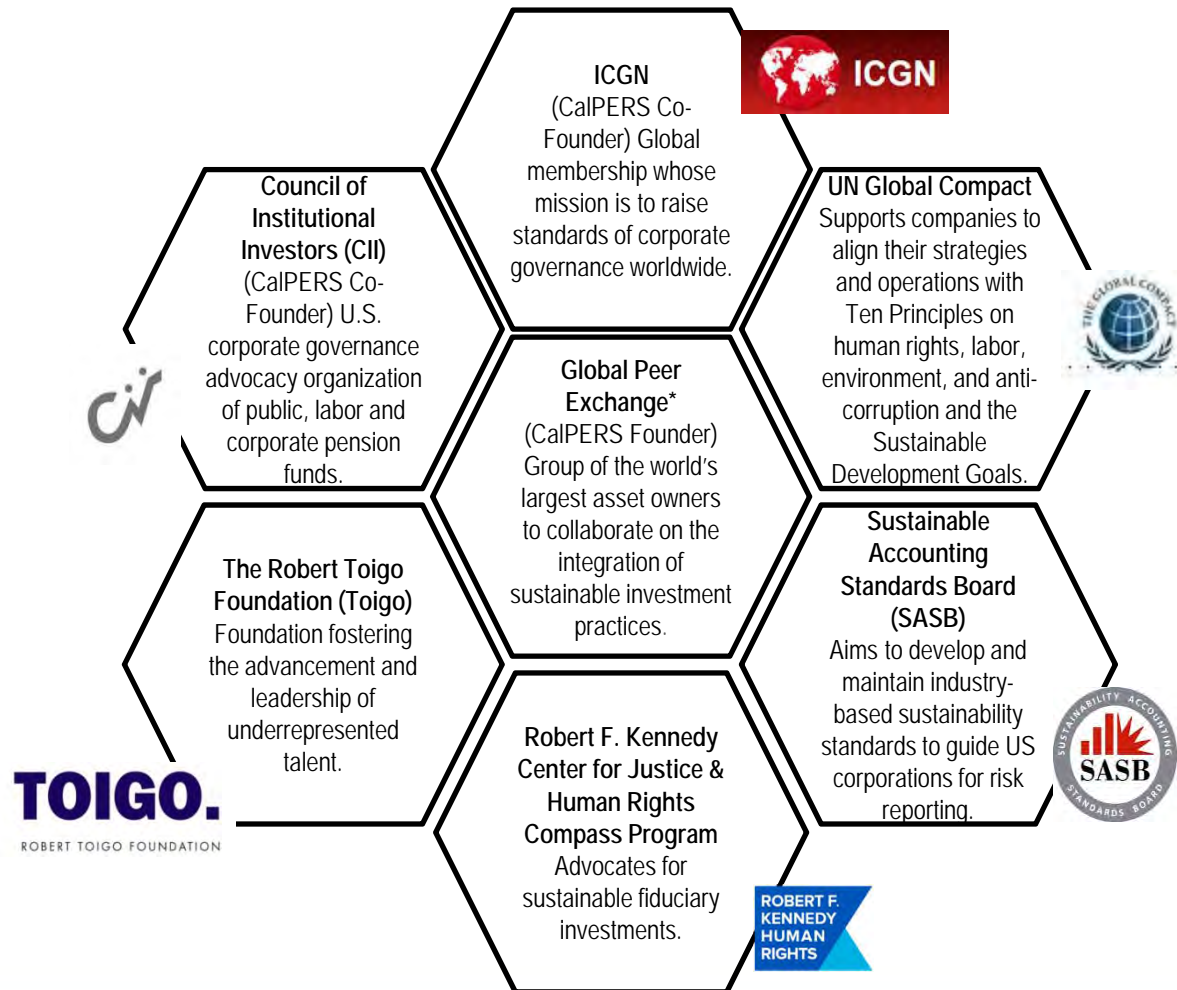
- Many relationships, but certain partnerships are key to implementing ESG strategy
- Share experiences and best practices
- Leverage resources
- Enhance impact
- Estimated annual cost:
  - Membership Fees: \$106,000
  - Related Expenses: \$80,000

# Key Partnerships | Environmental



\*APG Asset Management, Australian Super, BT Pension Scheme, CalSTRS, Florida State Board of Administration, Government Employee Pension Fund (South Africa), New York City, Norges Bank Investment Management, Ontario Teachers' Retirement System, PGGM, PREVI (Brazil), TIAA-CREF, Universities Superannuation Scheme, and RPMI (UK).

# Key Partnerships | Social



\*APG Asset Management, Australian Super, BT Pension Scheme, CalSTRS, Florida State Board of Administration, Government Employee Pension Fund (South Africa), New York City, Norges Bank Investment Management, Ontario Teachers' Retirement System, PGGM, PREVI (Brazil), TIAA-CREF, Universities Superannuation Scheme, and RPMI (UK).



# Key Partnerships | Governance



\*APG Asset Management, Australian Super, BT Pension Scheme, CalSTRS, Florida State Board of Administration, Government Employee Pension Fund (South Africa), New York City, Norges Bank Investment Management, Ontario Teachers' Retirement System, PGGM, PREVI (Brazil), TIAA-CREF, Universities Superannuation Scheme, and RPMI (UK).