



***Daniel E. Ingram***  
***Vice President, Wilshire Consulting***

March 17, 2018

Mr. Henry Jones  
Chair of the Investment Committee  
California Public Employees' Retirement System  
400 Q Street  
Sacramento, CA 95814

Re: Governance and Sustainability Principles Update

Dear Mr. Jones:

### **Overview and Recommendation**

The Governance and Sustainability Principles ("Principles") help to clarify CalPERS' expectations to policymakers, portfolio companies, and both internal and external managers on a wide-range of best practice areas. Wilshire reviewed the process Staff developed in identifying revision areas to the Principles and considered the specific suggested changes to the Principles. Wilshire views Staff's process as appropriate for the task in hand and the suggested changes to the Principles reflect changes to the best practice environment including the publication of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD). Therefore, Wilshire recommends no changes to the item and recommends it be approved.

### **Process for identifying revision areas to the Principles**

The Board requested the Investment Office address a range of topics in the Principles over the course of the 5-year ESG plan and Staff are working their way through these priorities. Staff have already incorporated a number of these topics,

including share buybacks and dividends, into the Principles during 2017. The Governance and Sustainability Sub-Committee (GSS) formed a Research Working Group with representatives from different parts of CalPERS and drafted updates to the Principles following approval from the GSS.

Over the course of 2016-17, Staff engaged with stakeholders and portfolio companies to identify potential areas for updating the Principles. A number of key developments have unfolded since the Principles were last updated which warrant greater strategic and corporate board oversight including the importance of: product safety (for example, the cybersecurity breach at Equifax), geopolitical risk (such as Brexit and tensions in the Korean Peninsula), and protection of indigenous peoples' rights (following controversies surrounding the Dakota Access Pipeline).

### **Updates to the Principles**

Wilshire has reviewed the proposed updates to the Principles. Noteworthy updates to the Principles include:


- The addition of a new section on environmental risk management reflecting the latest TCFD best practice guidance including issues such as water risk and biodiversity;
- Further guidance on board succession planning which has become something of a hot topic following a number of failures by corporate boards, particularly in the financial services sector; and
- Clarity of the use of and timing of claw-back provisions which, in the event they have been used, tend to be used too late after improprieties have been identified.

### **Conclusion**

Having reviewed the changes outlined in the Principles, Wilshire believes they appropriate and reasonable.

Should you require anything further or have any questions, please do not hesitate to contact us.

Best regards,



Daniel E. Ingram