Investing with attitude

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Californian pension giant CalPERS is flexing its muscles on ESG, under head of corporate governance Anne Simpson. She talks to **Felicity Carus**

Anne Simpson had been director of corporate governance at the largest pension fund in the United States for less than a year when BP's Deepwater Horizon wellhead blew in April 2010.

But the recent recruit to the California Public Employees' Retirement System (CalPERS) gave no latitude to her British compatriots at the oil company and was keen to take its board to task over an apparent lack of safety oversight. With 60.6 million shares in BP, CalPERS's concerns were not just environmental and social, but financial, as the oil major's shares hit a 14-year low.

"Investors are not all alike. They have different interests and time horizons: you've got owners, traders and raiders. We're definitely in the owners category.

"Our job as owners is to hold the board accountable – it's no good us hoping for everything to come together. We looked at BP's response and said, 'this is all good, but there needs to be more'."

CalPERS voted against the reappointment of William Castell, BP's chair of the safety, ethics and environmental assurance committee.

"That's how the system is meant to work – we should step in and ask questions and make sure that people on the board are held accountable. You were at the helm during a shipwreck … you drove us into an iceberg."

That year, CalPERS also used its influence to press for improved safety standards after a fatal explosion at a Massey Energy coal mine in West Virginia, the worst US mining disaster for 40 years.

Unfortunately, disaster is all too often the only catalyst for a shift towards improved standards on environmental, social and corporate governance performance, says Simpson, who joined CalPERS in 2009 after stints at the International Corporate Governance Network and the World Bank.

Anne Simpson, CalPERS: "It's important to signal to companies that we value corporate strategies that are focused on the long term because so much of the noise in the market is around short-term performance"

“The market is not currently incorporating these factors efficiently. We’ve got to take the lead in order to create the demand for the information,” she says.
“It’s important to signal to companies that we value corporate strategies that are focused on the long term because so much of the noise in the market is around short-term performance.
“If you’ve got liabilities like CalPERs, if we closed our doors tomorrow we’d still have to be paying pensions in 50 years.”
We should step in and ask questions and make sure that people on the board are held accountable
Those liabilities include retirement income for 1.6 million public sector workers. The fund pays around $14 billion in pension benefits each year and, for each dollar paid out, 66 cents comes from investment earnings from the $231.9 billion fund.
CalPERS has been praised for its leadership in recognising climate risk, which it estimates could contribute as much as 10% to portfolio risk over the next 20 years, and investment opportunities in low-carbon technologies, which it estimates could add up to a $5 trillion market sector by 2030.
And the fund’s $1.2 billion Alternative Investment Management (AIM) programme has helped leverage an additional $4 billion in capital commitments to clean energy.
But Simpson says that the fund will continue to hold a diverse energy portfolio and, despite the BP, Massey Energy and Fukushima disasters, CalPERS has not introduced policies restricting further investment in the fossil fuel or nuclear industries.
“We haven’t come to a view that we would back one form of energy over another and we don’t have a restriction on investing in coal. But under the pressure of regulation you’ll see the decarbonisation of utilities and that’s very consistent with our view that carbon needs to be priced.
“We do want encourage this transition, which is going to take at least 30 years. [But] if everybody was suddenly told to get on their bicycles and hook up to a solar panel, the world economy would grind to a halt.
“And we have fiduciary duty: we have to have a well-diversified portfolio. It wouldn’t make any sense to undermined that diversification by putting our bets on one sector – it’s just risk, risk, risk.”
Meanwhile, CalPERS has recently allocated $5 billion to infrastructure investments in water, energy and transport, which is yet to be drawn down.
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CalPERS’s new “total fund” approach to sustainable investment, outlined in its recently published Towards Sustainable Investment report, aims to increase transparency and restore trust after its own corporate governance standards fell short.
The chief executive officer, Anne Stausboll, has made great efforts to distance the fund from a scandal in which former CEO Fred Buenrostro and former board member Alfred Villalobos allegedly forged documents to defraud a private equity fund of $20 million.
And the fund needs to ensure its own house is in order, given its role as a major corporate owner. Last month, CalPERS flexed its corporate governance muscle by voting against the $14.9 million pay package of Citigroup chief executive officer Vikram Pandit. Since Pandit took over in December 2007, the bank’s share price has slumped from $300 to just above $30.
“We’re still sitting on massive losses,” says Simpson.
However, CalPERS’s clout goes way beyond America’s boardrooms, and it has been active in developing new financial regulations under the Dodd-Frank Act.
“The game has changed for the banking business. It’s not going to be a money-making machine on the back of non-traditional banking activities. Boards have got to be thinking about what their strategy is in the light of this new world.”
But Dodd-Frank falls short of what Simpson had pressed for, such as new rules to allow shareholders to put forward board candidates, not least because of the legal challenges from Wall Street and other stakeholders.
“The Dodd-Frank regulations have been so contested by all the parties. There’s also a massive amount of lobbying. If you look at the comment letters on any of the key reforms, you don’t hear a loud enough voice from investors.
“Most of our risk and return comes from the market. We do a lot of work around the legal and regulatory framework but we need more champions of that agenda – otherwise investors can end up in vulnerable situations in the future.” EF