Agenda Item 5a

April 13, 2015

ITEM NAME: Establish Ad Hoc Global Governance Subcommittee

PROGRAM: Global Governance

ITEM TYPE: Policy & Delegation – Action

RECOMMENDATION

Approve the creation of the Ad Hoc Global Governance Subcommittee and corresponding delegation of authority as shown in Attachment 1.

EXECUTIVE SUMMARY

At its March 2015 meeting, the Investment Committee (Committee) consolidated three legacy policies into the Statement of Investment Policy for Global Governance. In addition, the Committee reviewed and approved new Legislative and Policy Engagement Guidelines. Several important issues related to these documents were raised by Committee members at the meeting. The Chair of the Committee directed staff to return at the next meeting with a recommendation to establish a subcommittee to provide a full vetting of those issues.

STRATEGIC PLAN

This agenda item is not part of the CalPERS Strategic Plan.

BACKGROUND

The Statement of Investment Policy for Global Governance (Policy) was presented to the Committee at its February and March 2015 meetings. The Policy represented a consolidation of three policies: Global Proxy Voting; Corporate Governance Director Nominations; and Emerging Equity Markets Principles. In addition, the Committee reviewed and approved Legislative and Policy Engagement Guidelines (Engagement Guidelines) that included elements drawn from both the Policy and the Global Investor Policy Statement on Climate change that CalPERS signed in 2014. Committee members provided feedback on several issues and at the Chair's request, the Committee adopted the Policy and agreed to consider the feedback through an ad-hoc subcommittee of the Investment Committee.

ANALYSIS

The Ad Hoc Global Governance Subcommittee (Subcommittee) would be established through the proposed Delegation Resolution found in Attachment 1 and would empower the Subcommittee to:

1. Recommend modifications to the Policy;

2. Recommend modifications to the Engagement Guidelines to the Committee; and

3. Recommend a process to the Committee for determining when CalPERS Board members can represent the organization as directors of third party organizations.

Consistent with Section VII.C of the Board's Governance Policy, members of the Subcommittee will be chosen by the Board President in consultation with the Chair of the Committee. The proposed Delegation would require the Subcommittee to finalize its recommendations and report to the Committee no later than December 31, 2015.

BUDGET AND FISCAL IMPACTS
Not applicable.

BENEFITS/RISKS
Creating the Subcommittee will help address the outstanding Global Governance issues. The limited duration of the Subcommittee will ensure that its work is carried out in an efficient manner. It will also allow the Committee to continue progressing through its existing schedule and workplan.

The risk of not creating the Subcommittee is that the outstanding Global Governance issues will remain outstanding. This could interfere with and impact the Committee's ability to continue its work under the existing schedule and workplan.

ATTACHMENTS
Attachment 1 – Delegation Resolution establishing the Ad Hoc Global Governance Subcommittee

WYLIE TOLETTE
Chief Operating Investment Officer

THEODORE ELIOPOULOS
Chief Investment Officer

STATE OF CALIFORNIA
BOARD OF ADMINISTRATION
PUBLIC EMPLOYEES' RETIREMENT SYSTEM

DELEGATION RESOLUTION

Subject: Investment Policy Subcommittee Delegation No: IC-15-01

WHEREAS, (1) In accordance with Government Code sections 20120, 9353, 75005, 75505, 21661, 21670, 21759, 22200, 22201, 22794, 22940, 22960.35 and 22970.30, the Board of Administration of the California Public Employees' Retirement System (the "Board") is charged with the administration and management of the Public Employees' Retirement System, the Legislators' Retirement System, the Judges' Retirement System, the Judges' Retirement System II, the Public Employees' Long-term Care Act, the Public Employees' Deferred Compensation Program, the Replacement Benefit Plan, the Old Age and Survivors' Insurance Program, the Public Employees' Medical and Hospital Care Act, the Annuitants' Health Care Coverage Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan and the Supplemental Contributions Program (collectively, the "System").

WHEREAS, (2) In accordance with Government Code sections 20171, 9354.1, 75105, 75607, 21664, 21677, 21759, 22601, 22910,22911,22940, 22960.46 and 22970.41, the Board is also charged with the exclusive control of the administration and investment of the Public Employees' Retirement Fund, the Legislators' Retirement Fund, the Judges' Retirement Fund, the Judges' Retirement System II Fund, the Public Employees' Long-term Care Fund, the Public Employees' Deferred Compensation Fund, the Replacement Benefit Custodial Fund, the Old Age and Survivors' Insurance Revolving Fund, the Public Employees' Contingency Reserve Fund, the Public Employees' Health Care Fund, the Annuitants' Health Care Coverage Fund, the State Peace Officers' and Firefighters' Defined Contribution Plan Fund, and the Supplemental Contribution Program Fund (collectively, "the Fund").

WHEREAS, (3) In accordance with Government Code section 20099, the Board is authorized to appoint a committee of one or more of its members to perform any act within the power of the Board itself to perform, and may through express delegation authorize any such committee to act finally.

WHEREAS, (4) Pursuant to Delegation No. IC-14-01, the Investment Committee is delegated the authority to approve and oversee compliance with investment policies.

WHEREAS, (5) The Investment Committee wishes a formal delegation resolution to clearly delineate the roles and responsibilities of this Ad Hoc

Subcommittee and to formally adopt its name as the “Ad Hoc Global Governance Subcommittee” (the “Subcommittee”).

RESOLVED, (A) That, pursuant to the foregoing, the Investment Committee hereby authorizes and ratifies the appointment by the Board President, in consultation with the Investment Committee Chair, of the Subcommittee, to be comprised of not less than five (5) members.

RESOLVED, (B) Except as otherwise provided within this Resolution, the Subcommittee is authorized to:

(1) Upon direction of the Investment Committee, consider and draft modifications to the Statement of Investment Policy for Global Governance for recommendation to the Investment Committee.

(2) Upon direction of the Investment Committee, consider and draft modifications to the Legislative and Policy Engagement Guidelines for Investments for recommendation to the Investment Committee.

(3) Upon direction of the Investment Committee, consider and draft a process to determine when CalPERS Board members can represent the organization as directors of third party organizations for recommendation to the Investment Committee.

(4) Recommend such other acts to the Investment Committee as necessary or appropriate to implement the foregoing.

(5) The Subcommittee shall report its recommendations to the Investment Committee no later than December 31, 2015.

RESOLVED, (C) That the authority granted under this Resolution is subject to the following conditions:

(1) The Subcommittee must discharge its duties "solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system... In exercising this responsibility, the Committee shall place the interests of system members and beneficiaries above all other interests. (Cal. Const. art. XVI, sec. 17(b).)

(2) The Subcommittee must discharge its duties with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with

such matters would use in the conduct of an enterprise of a like character and with like aims. (Cal. Const. art. XVI, sec. 17(c).)

RESOLVED, (D) That, notwithstanding any other provision within this Resolution, all acts of the Subcommittee shall be reported to the Investment Committee, at its next regular meeting, and shall be subject to review and ratification or reversal by the Investment Committee.

RESOLVED, (E) That the Subcommittee is authorized to delegate to the Chief Investment Officer the authority to perform any act within the power of the Subcommittee itself to perform.

RESOLVED, (F) That this Resolution shall be effective immediately upon adoption, and supersedes all previous delegations of authority to this, or any predecessor, committee.

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I hereby certify that on the __th day of April, 2015, the Board of Administration, Investment Committee, of the California Public Employees' Retirement System, made and adopted the foregoing Resolution.

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HENRY JONES
Chair, Investment Committee
California Public Employees' Retirement System

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ROB FECKNER
President, Board of Administration
California Public Employees' Retirement System