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Corporate Communications Department  
Hong Kong Exchanges and Clearing Limited  
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To whom it may concern:

**RE: CONSULTATION PAPER ON BOARD DIVERSITY**

I am writing on behalf of the California Public Employees' Retirement System (CalPERS). CalPERS is the largest public pension fund in the United States with \$245.8 billion in global assets and equity holdings in over 9,000 companies. CalPERS pays out over \$14 billion annually in retirement benefits to more than 1.6 million public employees, retirees, their family and beneficiaries.

We appreciate the opportunity to provide comments on the Consultation Paper on Board Diversity for the Hong Kong Exchange and Clearing Limited. This is a topic of vital importance to CalPERS and one in which we've been particularly active. CalPERS has been a leader in promoting diversity of skill-set, background, perspective, and experience on corporate boards as a way to promote better management and accountability of publicly held companies. We see diversity as a route to improving the quality of boards, and thereby corporate performance. We also see this as one of the components of Sustainability: Environmental, Social and Governance (ESG) that should be integrated into the investment decision making process.

Our approach is set out in our report, Towards Sustainable Investment: Taking Responsibility (<http://www.calpers.ca.gov/eip-docs/about/press/news/invest-corp/esg-report-2012.pdf>), which explains that three forms of capital combine to create wealth: financial, physical and human capital. Financial capital is why we care about governance – alignment of interest between investors and managers is vitally important. Physical capital refers to our environment and the use of natural resources and buildings, which is why CalPERS is focused on climate change. Lastly, human capital is the people we need to employ to put the financial and physical capital to good use, which is why investors have an interest in the social dimension.

It's important to us to practice what we preach, which is why CalPERS established the Diversity Outreach Program (CDOP) to assist in the development and implementation of all internal diversity education and outreach activities, promoting diversity with all of our external business and investment partners. We recognize that a diverse workforce enhances the way we do business and enables us to better serve our customer base. The Diversity Outreach Program has worked to foster an inclusive environment through employee resource groups like the Disability Advisory Council and Diversity Outreach Committee.

These efforts start with leadership, which is why there is diversity and inclusion training for all senior managers. Diversity and inclusion metrics are also tied to compensation for senior managers and executives. In 2009, our CEO formed the Diversity Executive Steering Committee, and charged it with supporting development and implementation of enterprise initiatives and outreach efforts. CalPERS has also designated a Board member to serve as a special advisor to the Board President on diversity.

We are very supportive of all the proposed amendments the Hong Kong Exchange and Clearing Limited is seeking to implement and have included detailed responses to the consultation questions below:

**1. Do you agree that the Exchange should promote board diversity?**

Yes. CalPERS is a champion for board diversity because we want to promote high quality boards by ensuring that companies seek out the best available talent. Through recent studies we've seen that board diversity leads to better performance. This leads to the question of supply and where to find talented and skilled candidates. Nearly three years ago, CalPERS partnered with CalSTRS to build a new resource to address the demand for a new pool of diverse talent that can bring fresh thinking to a boardroom and challenge the traditional way of doing things as a protection against the corrosive 'group think' that contributed to the financial crisis. In collaboration with other investors, companies, search firms, diversity networks and academics we developed the Diverse Director DataSource (3D) – a new resource for companies, search firms and shareowners seeking talent from a full spectrum of social backgrounds and a broad range of experience. To date, we have recruited more than 450 candidates with their profiles submitted, and fully searchable with several hundred more in the pipeline. This new resource can be accessed at the following web address: [www.GMI3D.com](http://www.GMI3D.com).

**2. Do you agree that our Corporate Governance Code and Corporate Governance Report is the appropriate place for the new measures on board diversity?**

Yes. We agree that the new measures should reside in the Corporate Governance Code and Corporate Governance Report as the amendments are moving companies towards best practices on board diversity. To affect the largest impact, it is critical

that these new board diversity measures are integrated into the governing documents of the HKEx. We believe this signals the importance of board diversity to the listed issuers. The Checklist on HKEx's Compliance with the Corporate Governance Code truly sets the tone by putting principles into practice and offering up an example for companies to follow.

**3. Do you agree with our proposal to introduce CP A.5.6 (*the nomination committee or the boards should have a policy concerning diversity of board members, and should disclose the policy or a summary of the policy in the corporate governance report*).**

Yes. This is very much in line with the SEC's enhanced disclosure requirement on diversity, which asks companies to include the background qualifications of directors and nominees, and to state whether or not the nominating committee or board has a diversity policy to refer to when identifying director nominees. The rule also requires the nominating committee or board to disclose how the policy is implemented and to assess the effectiveness of the policy. Although the results of the enhanced disclosure rules in the U.S. are mixed, the effectiveness of the disclosure – similar to the 'comply or explain' approach – rests on the shareowners willingness to hold these companies accountable and push for action.

Developing a diversity policy is a first step. CalPERS Global Principles of Accountable Corporate Governance also suggest that boards should conduct director talent evaluations as a way to focus on their ability to meet the global challenges of evolving global capital markets. In addition, a skills matrix should be used to assess the talent and skill-sets needed on the board to ensure they are meeting the needs of the company's business strategy. Any gaps in skill-sets or knowledge identified by the matrix can form the basis for a new director candidate profile. The skill sets matrix also keeps the focus on the candidate's qualifications rather than their identity.

**4. Do you agree with our proposal to introduce a note under CP A.5.6 to clarify what we mean by diversity and do you agree with the content of the note?**

Yes. We agree that diversity should be defined in a broader sense and that the definition will vary between companies as they need the right mix of individuals that will advance their company's business strategy and help investors achieve long-term, risk-adjusted returns.

Last year, CalPERS' Global Principles of Accountable Corporate Governance were updated and include a principle on Board Talent Assessment and Diversity which reads, "Board attributes should include a range of skills and experience which provide a diverse and dynamic team to oversee business strategy, risk mitigation and senior management performance. The board should establish and disclose a

diverse mix of director attributes, experiences, perspectives and skill sets that are most appropriate for the company. At a minimum, director attributes should include expertise in accounting or finance, international markets, business or management, industry knowledge, governance, customer base experience or perspective, crisis response, risk assessment, leadership and strategic planning. Additionally, existing directors should receive continuing education surrounding a company's activities and operations to ensure they maintain the necessary skill sets and knowledge to meet their fiduciary responsibilities."

- 5. Do you agree with our proposal to introduce a new mandatory disclosure provision in the Code stating that if the issuer has a policy concerning diversity, it should disclose details of the Board's policy or a summary of the policy on board diversity, including any measurable objectives that it has set for implementing the policy, and progress on achieving the objectives?**

Yes. Building off of the diversity policy disclosure, we believe setting out measurable objectives for implementation will keep companies accountable by establishing a benchmark. This also give companies, fairly new to or in the early stages developing a board diversity policy, an opportunity to learn from their peers and other leading companies through this enhanced disclosure.

- 6. Which of the following would you prefer as the implementation date of the amendments set out in this paper?**

Although this is a relatively new issue, there is encouraging evidence that suggests companies with diverse boards outperform their peers. For this reason, CalPERS recommends 1 January 2013 as the implementation date to move companies towards unlocking the value we've seen diverse boards can create.

Thank you again for the opportunity to provide our comments. We hope this is useful and should you have any questions would like to discuss anything further, please call me at [REDACTED] or my colleague [REDACTED],

Sincerely,

[REDACTED]  
[REDACTED]  
[REDACTED]