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MANY QUESTIONS: CalPERS looks at social issues in emerging markets

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SACRAMENTO, Calif. -- CalPERS is debating how to expand its influence on labor and human rights practices in emerging markets.

A push into these social issues in emerging markets would be a major initiative for the $161 billion California Public Employees' Retirement System. It would follow on the fund's well-publicized corporate governance efforts in developed markets.

In a Dec. 13 workshop addressing in which countries the fund should invest, board members differed as to whether they should take a more active role or stay away from countries that present high levels of political risk because of their policies.

No decisions were made at the workshop. At the end of the afternoon, about one-third of the 13 board members said they had not made up their minds. The board directed the staff to come back with recommendations for its April meeting.

But the lines of the debate were clearly drawn.

William Crist, president of the CalPERS' Board of Administration, said that "ignoring or staying away is not going to make it better. Also, it's important for us, a concerned investor, to be involved in emerging countries."

But Phil Angelides, the California treasurer and a member of the CalPERS board, said it would be appropriate to screen out countries that have excessive risk factors. He added it is relevant to look at such issues as shareholders' and workers' right, human rights, and democratization efforts.

"As we adopt our fiduciary criteria, how does that correlate with our core values as Californians," said Mr. Angelides, who also has criticized emerging-markets returns.

Charles Valdes, chairman of CalPERS' investment committee, said the fund should be "proactive."

"Putting up a screen doesn't do it," he added. Nor does selling off companies that engage in abusive practices, such as hiring children, he said. "As far as I'm concerned . . . divestment is not correct, and is a violation of our fiduciary (duty)."

Screening urged

Mr. Angelides, who had raised concerns last spring over the fund's criteria for investing abroad, argued that fiduciaries should apply a set of screens. "Let's also not fall into the trap of going into markets (for) the purpose of constructive engagement," the treasurer said.

"We don't want to go into those markets that won't lead to success. I do believe the nation's largest pension fund will be listened to and watched."

Mr. Crist agreed the main purpose should be to make the best investments for plan participants and beneficiaries. "We can't afford to be the Ralph Nader of the investment world," he said.

Currently, CalPERS uses a country list for international investments, split between appropriate countries, ones in which investments should be allowed on a limited basis, and those where investments are not allowed.

An analysis by Pan A. Yotopoulos, a professor of economics at Stanford University's Food Research Institute, found that six countries were on the limited-exposure list even though their per-capita income would have placed them in the top-ranked list.

At the workshop, Mr. Yotopoulos said CalPERS should give additional guidance to money managers beyond existing investment indexes.

What's more, the fund must apply "civil society criteria" such as screens for democratization, transparency and human rights.

Campbell R. Harvey, the J.J. Paul Sticht Professor of International Business at Duke University's Fuqua School of Business, said CalPERS should create risk-related hurdle rates for investments. Mr. Harvey's own model creates such rates based on political risk.

But money managers speaking at the workshop said they prefer having flexibility.

"The crisis we have seen in Asia has given us the opportunity to buy at very low prices," said Josephine S. Jimenez, a senior portfolio manager and principal at Montgomery Asset Management, San Francisco.

Hurdle rates unfair

Shaw B. Wagener, president and a director of Capital International Inc., Los Angeles, said it would not be fair to impose hurdle rates on managers. Those kinds of expectations "can lead you down a very dangerous path," he said.

Representatives from organized labor and environmental groups urged CalPERS to apply labor, human rights, and environmental criteria to international investments.

Seeking to build on momentum from World Trade Organization protests in Seattle in November, an AFL-CIO spokesman urged CalPERS to make socially responsible investments in which worker rights are recognized.

In a statement, Bill Goold, senior adviser for policy and planning in the AFL-CIO International Affairs Department and Solidarity Center, urged CalPERS to "avoid investing in countries and corporations wherein internationally recognized worker rights and core labor standards are non-existent, not enforced, or systematically violated."