



Caisse de dépôt et placement  
du Québec



**TEACHERS'**  
PENSION PLAN • RÉGIME DE RETRAITE  
DES ENSEIGNANTES ET DES ENSEIGNANTS

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Mr. Peter de Graaf  
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Via email: [consultation@carnstone.com](mailto:consultation@carnstone.com)

Re: Response to Recommendations from Carnstone Partners LLP

As PRI signatories representing asset owners and asset managers, we are following up on our joint response to the initial scope of the governance review. As a group we are encouraged by the proposed recommendations put forth by Carnstone Partners and feel that the implementation of these will lead to a stronger and more robust organization going forward. In addition to providing individual submissions with more detail we wanted to provide you with our shared view on some key issues that we feel are crucial for the future success of the PRI.

**Definition of asset owner**

The definitions and rights of the three signatory categories: asset owners, asset managers, and service providers were not covered in the recommendations, but we feel it is an important issue for the PRI to address. The PRI was established as an asset-owner-led initiative to advance the practice of responsible investing in alignment with our long-term interests of our collective beneficiaries. This is something we must not lose sight of as the PRI signatory base grows and the Secretariat evolves.

All of us in this group consider ourselves to be asset owners, and we conduct ourselves as such. However, under the PRI's strict legal definition of asset owner, APG and bcIMC are considered managers, while CDPQ and OTPP owners. APG is 93% owned by an asset owner (AO) and approximately 80% of bcIMC's assets are managed for pension fund clients. The interests of these and other asset managers (AM) are well aligned with those of asset owners.

We recommend that the PRI reconsider and expand the definition of asset owner, perhaps along the lines of client base and / or ownership structure. With the redefinition of asset owner and asset manager, the number of seats allotted to asset owners would increase to reflect the change.

Since PRI is an approach to investing, in our view, future development of the PRI should be driven by investors and asset owners. While we recognize the valuable role of service providers in the financial sector and their vast amount of knowledge, their primary role is to support investors in implementing the Principles rather than implementing themselves.

We believe it is in the best interest of the PRI and the execution of its mission to limit the composition of the Board to asset owners and asset managers. This would also avoid the emergence of potential conflicts of interest. In the absence of a change in AO/AM definitions, we suggest a split of 9 AO and 4AM. Service providers, if they are to have a seat, would be taken from the AM allotment.

### **Single governing body**

We agree that a single governing body would be most effective as this will decrease the complexity and improve accountability. We do not feel that mandated geographic representation is optimal. Rather than mandating geographic representation, to ensure diversity while allowing for flexibility, we recommend the board adopt a Governance/Nominations Committee. Such committee would be actively engaged in seeking and shortlisting of candidates and could develop requirements regarding the skills, knowledge, and regional representation of board members. We would suggest that those requirements be submitted to the approval of signatories and disclosed.

In our view this would be the most effective and flexible mechanism to ensure the board has the appropriate balance of skills, experience and diversity, and allow it to focus on succession planning and meeting the strategic needs of the PRI.

### **Independent Chair**

We are unclear on the need for an independent Chair based on what has been presented in the consultation documents. We are concerned that it will be a challenge to clearly distinguish to members what the roles and responsibilities are of the managing director, independent chair, and the lead director. Should the independent Chair be maintained we strongly believe that his/her mandate should be limited to running the board and not include serving as the main point of contact for members, the Secretariat, and partners. Members with issues should feel comfortable approaching either the Secretariat, who can either address their issue, or escalate it to the board or individual board members.

We recommend that a mandate of the Chair should be developed and made widely available. The role of an independent Chair's mandate should be to focus on running the board. We see limited value in the role of an independent Chair and recommend that the Chair is selected by the other board members.

### **Committees**

Consistent with best practice we would encourage the Board to have the following committees: Audit, Governance/Nominations, and Human Resources/Compensation. Furthermore, we feel that signatory engagement is an important role for the board and there should be a committee struck for this purpose as well. A committee focused on membership or signatory outreach could potentially replace the role proposed for the independent Chair in terms of where signatories can go with concerns. This may provide more checks and balances rather than a single individual or by adding another layer with a Lead Director.

We believe it is fundamental to any organization that clear terms of reference, lines of accountability, and delegated authorities be defined for the Chair, Board, committees, and Managing Director. Furthermore, it would be best practice that this information is either shared with all members (and posted on the PRI intranet) or, if appropriate, published on the public PRI web site. As investors we are accustomed to seeing clear committee mandates, scope of activities as well as reporting out on significant tasks/projects on an annual basis from public companies.

We think that it seems especially onerous for signatories to present resolutions as described in Appendix 4 of the Carnstone document. With a threshold of 10% support by all signatories, evidence of support would be needed from approximately 120 signatories before a resolution could be put to a vote. This seems like an unnecessary hurdle that may stifle dialogue and the vote itself should be the reflection of signatory interest. We recommend

a lower threshold of 1- 3% or 12-36 signatories and/or other mechanisms to ensure the validity of proposed signatory resolutions.

### **Board skills, alternates and advisors**

As PRI members, we believe it is critical that the board is staffed with the right people with the right skills and the right knowledge of the issues with less emphasis placed on an individual's status. It is our opinion that directors be selected on the basis of the skills, knowledge, diversity, and other characteristics that they bring to the board. While a C-suite qualification might be an apt proxy, it limits the pool of qualified candidates, and potentially limits diversity.

In order to maintain the skill level of the Board we are of the view that expanding the pool of candidates beyond the C-suite in combination with the use of a nomination committee would actually be the most effective option as opposed to just extending eligibility to the retired C-suite. If the pool of candidates is expanded beyond the C-suite we would support the removal of alternates.

Furthermore, we find the suggestion that board members bring along advisors to be troubling. In addition to adding complexity to running the board meetings it could also create new concerns about accountability. It also raises questions about the appropriateness of the individual Board members to devote the necessary time and energy to their board duties and their level of engagement with PRI activities in general.

We thank you for the opportunity to provide feedback. As PRI members, we remain committed to the organization and believe that a strong and effective governance structure is fundamental to the ongoing success of PRI.

Sincerely,



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cc Fiona Reynolds, Managing Director, PRI