



Agenda Item 6a

February 17, 2015

ITEM NAME: Investment Legislative and Policy Engagement Guidelines

PROGRAM: Legislation

ITEM TYPE: Action

RECOMMENDATION

Approve the proposed General and Investment Legislative and Policy Engagement Guidelines as contained in Attachment 1.

EXECUTIVE SUMMARY

The proposed General and Investment Legislative and Policy Engagement Guidelines (Attachment 1) are designed to provide staff with a framework to engage on legislative, regulatory, and policy proposals that is consistent with the Board of Administration (Board) beliefs, principles and policies. They have been developed from the previously adopted California Public Employees' Retirement System (CalPERS) Strategic Plan, Investment Beliefs, Pension Beliefs, Asset Liability Management Strategy, Global Principles of Accountable Corporate Governance and Financial Markets Principles, as well as existing Board legislative and investment policy standards, guidelines and initiatives. They in no way bind the Board when considering and adopting a position on any specific proposal, nor do they supersede or alter any existing policies, beliefs, or principles.

The proposed general guidelines and guidelines for investments will be part of a larger document that includes pension, health, and general legislative and regulatory engagement guidelines. The draft general, pension, and health engagement guidelines will also be considered this month by the Pension and Health Benefits Committee. Any changes to these draft guidelines recommended by the two Committees will be incorporated into the complete set of Legislative and Policy Engagement Guidelines which will be presented to the full Board at its March meeting for final approval. The final approved document will replace various policy standards, priorities and initiatives for state and federal legislation and regulation previously adopted by the Board (Attachments 2-7).

Staff seeks approval of the General Legislative and Policy Engagement Guidelines and the Legislative and Policy Engagement Guidelines for Investments to achieve and facilitate the CalPERS Strategic Plan Goals and Objectives.

STRATEGIC PLAN

This item supports the CalPERS 2012-17 Strategic Plan Goal C to engage in state and national policy development to enhance the long-term sustainability and effectiveness of our programs. The Guidelines will assist in guiding public policy engagement by the System and communicating its perspective on pension, health, and financial markets.

INVESTMENT BELIEFS

This agenda item supports CalPERS' Investment Belief 10 that strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

BACKGROUND

The purpose of the Board's existing Legislative Policy Standards is to provide staff a framework within which they can work on legislation and regulations with a level of comfort that they are acting consistent with the desires of the Board. Legislative activity frequently does not mesh with the Board's meeting schedule, so it is important for staff to have a clear notion of the Board's basic views so that they can respond timely and appropriately as events unfold. The Legislative Policy Standards also provide guidance to staff in preparing legislative agenda items so that they are consistent with the views of the Board.

The existing CalPERS Legislative Policy Standards were originally adopted in 1996. They were slightly modified in 1998 and again in 2001. Comparable Initiative Policy Standards were adopted by the Board in 1997. The Board adopted Federal Legislative and Regulatory Investment Guidelines in 2007.

ANALYSIS

Purpose of Proposed Guidelines

Like the stated purpose of the existing Federal Policy Guidelines and Priorities, the purpose of the proposed general engagement guidelines and guidelines for investment-related legislative and regulatory activities is to provide the Legislative Affairs Division (LAD) and the CalPERS federal representative responsible for investment issues the overarching guidance necessary to identify policy areas that impact the strategic direction of the CalPERS investment programs and engage lawmakers, regulators, and policy leaders in a way that is consistent with the Board's views.

The proposed guidelines allow staff and the federal representative to respond to requests to write letters or testify on legislative or regulatory issues in a timely fashion, and without having to bring each request before the Board. They will also assist staff and our federal representative to determine which legislative and regulatory issues need to be tracked and monitored, along with the necessary direction to engage when necessary. The Investment Committee and Investment Office (INVO) staff has articulated a three-pronged public agenda for improved

regulatory effectiveness of derivatives, housing finance and credit rating agencies that will be actively pursued.

Proposed Guidelines Reflect Existing Policies

The approach used by LAD and INVO staff to identify elements of the proposed engagement guidelines for investment-related legislative and regulatory activities has certain similarities with current work on the investment policy review and consolidation process. They also share common goals to enhance policy standardization and transparency, avoid duplication, and reduce inconsistencies. However, the proposed guidelines are not part of Investment Policies that the CalPERS Investment Committee has approved for itself, INVO staff and the third-party contractors who provide investment services and products to CalPERS.

The proposed engagement guidelines for investment-related legislative and regulatory activities as contained in Attachment 1 are reflective of the Committee's previous deliberations and approvals of such policy statements as the CalPERS Investment Beliefs, Asset Liability Management Strategy, Global Principles of Accountable Corporate Governance, and Financial Markets Principles, as well as existing Board legislative and investment policy standards, guidelines and initiatives. The proposed guidelines are grouped into subject areas of Fiduciary Authority, Corporate Accountability, Shareowner Rights, Diversity, Sustainability, and Financial Markets.

Their adoption by the Board will also serve to eliminate the current: 1) Legislative Policy Standards; 2) State Ballot Initiative Policy Standards; 3) the 2009-10 Health Policy Priorities for State Legislation; 4) CalPERS Federal Health Care Policy Initiatives; 5) 2007-08 Federal Legislative and Regulatory Investment Policy Guidelines; and 6) Federal Legislative and Regulatory Policy Guidelines for Retirement Security.

The proposed engagement guidelines streamline these previous Standards, Initiatives, and Guidelines by focusing on proposals the Board should support or oppose and deleting statements that address when it is appropriate for the Board to take a neutral position or no position on policy proposals. These statements generally fall into two categories: they do not significantly impact the benefits or administration of the System, or have conflicting policy implications. The rationale is that if the Legislative and Policy Engagement Guidelines do not justify a support or oppose position, then the recommendation should be neutral. If a policy proposal is not addressed by the Guidelines, then staff and the federal representative will limit CalPERS engagement until the issue is considered by the Board.

BUDGET AND FISCAL IMPACTS

Not Applicable

BENEFITS/RISKS

The Legislative and Policy Engagement Guidelines will assist the Board to perform its constitutional mandate, fulfill its mission, and achieve consistency in its policies. Periodically reviewing and updating its policy standards and guidelines reduces the risks to meeting these goals.

ATTACHMENTS

- Attachment 1 – Proposed General and Investment Legislative and Policy Engagement Guidelines
- Attachment 2 – CalPERS Legislative Policy Standards
- Attachment 3 – CalPERS State Ballot Initiative Policy Standards
- Attachment 4 – 2009-10 Health Policy Priorities for State Legislation
- Attachment 5 – CalPERS Federal Health Care Policy Initiatives
- Attachment 6 – 2007-08 Federal Legislative and Regulatory Investment Policy Guidelines
- Attachment 7 – CalPERS Federal Legislative and Regulatory Policy Guidelines for Retirement Security

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