

Legislative and Policy Engagement Guidelines

California Public Employees' Retirement System ("System" or "CalPERS")
Board of Administration
November 14, 2016

INTRODUCTION

CalPERS has a long history of engagement in matters of public policy where necessary or appropriate to the fulfillment of our mission to deliver promised retirement and health benefits to our members and beneficiaries. To this end, the CalPERS Board of Administration (Board) establishes and annually reaffirms its public policy goals and priorities in the form of these Legislative and Policy Engagement Guidelines (Guidelines). These Guidelines represent the Board's guidance to staff and its contracted representatives for the development and implementation of engagement strategies with state and federal legislative, regulatory, and policymaking bodies in furtherance of the System's public policy goals and the Board's priorities.

These Guidelines are intended to summarize CalPERS' perspectives on various public policy issues affecting the long-term sustainability and effectiveness of its programs, as well as to ensure the consistent promotion of CalPERS' positions with state and federal policymakers. The Guidelines consolidate previously adopted legislative guidelines and incorporate, in whole or in part, important elements of the following board-approved documents: the CalPERS Pension Beliefs, the Investment Beliefs, the Global Governance Principles, the CalPERS for California Report, and the Emerging Manager Five-Year Plan. These guidelines do not revise or amend source documents or bind the Board in any way when determining its view on various policy proposals.

I. GENERAL GUIDELINES

- A. Advocate for proposals that add protections to the various trusts included in the System (Trusts).
- B. Advocate for proposals that give the Board increased flexibility in its administration or reduce administrative costs.
- C. Advocate for proposals that correct structural deficiencies in, reduce waste in, or prevent fraud in or abuse of the CalPERS plans and programs.
- D. Advocate for proposals that promote transparency and accountability for the System or entities that conduct business with the System, provided those proposals do not jeopardize the System's ability to conduct business or impinge on the Board's fiduciary authority.
- E. Advocate for proposals that enhance ethics and integrity in System governance.
- F. Advocate for proposals that enhance or protect the fiduciary authority of the Board and advocate against proposals that impede or impinge on the Board's fiduciary authority.
- G. Advocate against proposals that deprive members of vested benefits and that do not provide an equivalent, compensating benefit for that deprivation.
- H. Advocate against proposals that endanger the tax-exempt status of the Trusts, or the deferred treatment of income tax on employer and employee contributions and related earnings.

- I. Advocate against proposals that create unreasonable cost or complexity in the administration of the System.
- J. Advocate against proposals that reduce or limit the Board's administrative or actuarial authority.
- K. Respect the distinction of issues that are taken up during collective bargaining and refrain from taking a position.

II. INVESTMENT GUIDELINES

A. INVESTOR INDEPENDENCE

The Board's representatives shall:

- 1. Advocate for proposals that preserve and enhance both the independent fiduciary authority of institutional investors, as well as the investment authority of plan trustees to act for the exclusive benefit of plan participants and beneficiaries.
- 2. Advocate against proposals that impose investment mandates or restrictions as well as proposals that direct investment options and decision-making.
- 3. Remain neutral with regards to federally imposed investment restrictions imposed consistently among all U.S. investors, in the event that the federal government determines that an investment is not in the national interest of the United States of America.

B. CORPORATE ACCOUNTABILITY

The Board's representatives shall advocate for proposals that advance the corporate-governance goals and objectives expressed in the CalPERS Global Governance Principles, and advocate against proposals that run counter to the Global Governance Principles, as addressed in detail under these broad headings:

- 1. Investor Rights
- 2. Board Quality: Diversity, Independence, and Competence
- 3. Compensation
- 4. Corporate Reporting
- 5. Regulatory Effectiveness

C. FINANCIAL MARKETS

The Board's representatives shall:

- 1. Advocate for proposals that advance the financial markets goals and objectives expressed in the CalPERS Investment Beliefs and Global Governance Principles, including but not limited to, proposals that:
 - a. Foster fair, orderly, and effectively regulated capital markets.
 - b. Promote earlier identification of issues that give rise to overall market risks and foster action that mitigates those risks.
 - c. Promote full disclosure so that markets provide incentives that price risk and opportunity.
 - d. Foster alignment of interests and protect investor rights and the independence of regulators.

D. SUSTAINABILITY

The Board's representatives shall:

1. Advocate for proposals that foster a strong and durable global economy and advance the sustainability goals and objectives expressed in the CalPERS Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that:
 - a. Encourage capital deployment at scale to finance the transition to a low carbon economy and encourage investment in climate change adaptation.
 - b. Provide stable, reliable, and economically meaningful carbon pricing that helps redirect investment commensurate with the scale of the climate change challenge.
 - c. Phase out subsidies for fossil fuels.
 - d. Promote the alignment of energy and transportation policies to stimulate new technologies that will enhance competitiveness and innovation leading to meaningful greenhouse gas reductions.
2. Advocate for proposals that foster a healthy and diverse California economy with strong companies, solid infrastructure for commerce, robust business development, and fair labor practices and employment.
3. Advocate for proposals that promote the cultivation of the next generation of external portfolio management talent consistent with the CalPERS Emerging Manager Five-Year Plan.

E. DIVERSITY

The Board's representatives shall:

1. Advocate for proposals that advance the diversity goals and objectives expressed in the CalPERS Investment Beliefs and Global Governance Principles, including, but not limited to, proposals that recognize diversity and inclusion as an important business issue that enhances competitiveness and innovation.