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**March 13, 2017****Item Name:** Federal Investment Priorities**Program:** Legislation**Item Type:** Action**Recommendation**

California Public Employees' Retirement System (CalPERS) staff recommends that the Investment Committee approve the proposed 115th Congress Federal Investment Policy Priorities for the 2017-18 congressional session, as identified in this agenda item.

**Executive Summary**

The Trump Administration and 115th Congress have shifted the dynamics of financial services policy. As with any new administration, CalPERS will need to proactively advocate on federal legislative and regulatory issues that impact CalPERS investment programs and services.

Accordingly, the CalPERS Board of Administration (Board) sets the policy direction for the CalPERS Investment Program, including advocating and engaging on federal investment policy issues of relevance to CalPERS members and the CalPERS investment portfolios. In response, CalPERS staff and our federal representative, K&L Gates, have developed a broad set of policy priorities in the 2017-18 congressional session as follows:

- Dodd-Frank Act
- Housing finance reform
- Infrastructure
- Derivatives regulation
- Corporate reporting and governance

**Strategic Plan**

This agenda item supports Goal 1, Fund Sustainability, Objectives 3 and 4 of the 2017-22 Strategic Plan, by focusing our staff and federal representatives in national policy development to enhance the long-term sustainability of the pension fund and keep our stakeholders engaged and educated about how we balance risks and mitigations to achieve this goal.

**Investment Beliefs**

This agenda item supports and/or reflects the following CalPERS Investment Beliefs:

1. Investment Belief 2 – A long-time investment horizon is a responsibility and an advantage. A long investment time horizon requires that CalPERS advocate for public policies that promote fair, orderly, and effectively regulated capital markets.

2. Investment Belief 4 – Long-term value creation requires effective management of three forms of capital: financial, physical, and human. Strong governance, along with effective management of environmental and human capital factors, increases the likelihood that companies will perform over the long-term and manage risk effectively.

### **Background**

This item follows a discussion at the January Offsite among the Board, CalPERS staff, and our federal representatives, to identify potential issues of relevance with regard to CalPERS' federal legislative priorities in the 115th Congress. The Board directed staff and the federal representatives to develop a list of priorities for review and approval by the Investment Committee and the Pension and Health Benefits Committee at their March meetings.

The Federal Investment Priorities provide a policy framework for CalPERS to engage in federal legislative, regulatory, and policy proposals consistent with the Board's existing beliefs, principles, and policies. They are developed from the CalPERS Strategic Plan, Investment Beliefs, Pension Beliefs, Total Fund Investment Policy, and Global Governance Principles, along with input from the federal representatives' knowledge of issues likely to surface in the 115th Congress. They do not bind the Board in considering or adopting a position on any specific proposal, nor do they supersede or alter any existing policies, beliefs, or principles.

### **Analysis**

Through its federal policy representatives, CalPERS is uniquely positioned to take an active role in the federal policymaking process to advance the Board's federal policy priorities within the nation's capital. CalPERS staff and our federal representatives actively work to maintain relationships and broaden engagement with key members of Congress, financial regulatory agencies, and stakeholder groups on issues that impact the CalPERS membership and trust fund.

The Federal Investment Priorities seek to assist CalPERS in fostering a greater understanding among policymakers about CalPERS' benefits and programs, allow CalPERS staff and its federal representatives to address critical investment policy issues on a proactive basis, and facilitate consensus building and alignment on those issues. CalPERS staff and our federal investment policy representative, K&L Gates, have drafted for the Board's consideration the proposed 115th Congress, 2017-18 Federal Investment Priorities in the following key financial services policy areas:

- Dodd-Frank Act - Support reasonable reform efforts to ensure that the Securities and Exchange Commission is able to protect investors; maintain fair, orderly, and efficient markets; and facilitate capital formation.
- Housing Finance Reform - Advocate for housing finance reform that includes a role for private capital, national mortgage-servicing standards that protect investors, honors the seniority of debt holders, and provides enhanced data access.
- Infrastructure - Advocate for infrastructure plans that include a role for public pension funds.
- Derivatives Regulation - Continue to advocate for open, transparent, competitive, and financially sound derivatives markets.
- Corporate Reporting and Governance - Continue to advocate for enhanced shareowner rights and protections, as well as greater corporate accountability.

As more issues move through Congress and regulatory agencies, it will be important for CalPERS to act as a technical, objective, and responsive resource in legislative and regulatory matters. Having an established set of priorities also helps to respond to, and maintain key relationships with members of Congress, their staff, and regulatory representatives.

**Budget and Fiscal Impacts**

Not applicable.

**Benefits and Risks**

- The benefit of adopting the 115th Congress, 2017-18 Federal Investment Policy Priorities is that it reinforces the Board’s commitment to taking proactive positions to educate and/or influence federal policy discussions or federal legislative proposals having a direct impact on the CalPERS Investment Program.
- There are no known risks associated with enacting this recommendation.

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