



Regulator perspective

business needs to be given a clearer sense of the future impacts of public policy and investor preferences in order to reduce uncertainty and to insure a more level playing field

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Let us start by stating the obvious; the last 30 years of "command and control" government regulation on behalf of the environment has been incredibly successful, resulting in significant public health and environmental benefits. Rivers and lakes no longer spontaneously combust and air quality improvements have been realized all over the country, even in the worst of our cities. Yet the job is far from done, as is made clear by childhood asthma rates, water quality threats from MTBE, perchlorate, and other chemicals in our environment that are yet to be dealt with.

During my time as California's Secretary for Environmental Protection, I began to see the signs of a change in attitude of industry, regulators, and more recently, institutional investors.

- Industry, while recognizing the progress described above, laments the ever-increasing demands of the regulatory system;
- Regulators, facing a loss of financial resources to continue the "command and control" structure at current levels are rethinking their approaches; and
- Institutional investors are beginning to take corporate governance to new levels that include a fuller appreciation that long-term views are essential to realizing a greater alignment of interests among investors, regulators, and the business community.

It is because of these forces for change that these parties are beginning to better understand each other's roles, and the tools they have available to meet these challenges. The regulators have begun to better understand what institutional investors are, and how they look at regulators. Institutional investors can do more to appreciate the regulator's role on behalf of the public, and to try to discern the market trends created by the implementation of public policy. In the middle, business needs to be given a clearer sense of the future impacts of public policy and investor preferences in order to reduce uncertainty and to insure a more level playing field.

CalPERS has developed or is in the process of developing a number of initiatives in the environmental arena:

- In March this year, the trustees approved \$200 million in clean technology investments from their private equity portfolio;
- In April of this year, the trustees approved the investment of up to \$500 million from the global public equities portion of their portfolio in corporations that demonstrate a higher level of environmental stewardship;
- An effort to measure and improve the relative "greenness" of the System's near \$20 billion in real estate holdings is being discussed; and
- Various corporate governance initiatives are being considered, including joining investor transparency initiatives and the development of possible investment preferences that recognize sustainability as a meaningful concept for long-term investors (see *The Rise of Fiduciary Capitalism* by Hawley and Williams and *Governance and Risk* by George Dallas).

The key thing to take from this growing trend is the tremendous need for education on the part of regulators, investors, and businesses regarding this historic intersection of forces. There is little doubt that the landscape for investing, regulating and doing business will be dramatically different, for the better. Stay tuned!

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