



Investment Committee

Agenda Item 6a

November 14, 2022

Item Name: CalPERS' Response to the Taskforce on Climate-Related Financial Disclosure (TCFD) and Senate Bill 964

Program: Sustainable Investing

Item Type: Information

Executive Summary

This agenda item presents CalPERS' response to the recommendations of the TCFD and California Senate Bill (SB) 964.

Strategic Plan

This item supports the goal of Fund Sustainability. Providing transparency through this report helps to strengthen the long-term sustainability of the pension fund.

Investment Beliefs

This item supports the following Investments Beliefs relevant to climate change:

Investment Belief 1 – Liabilities must influence the asset structure

Investment Belief 2 – A long term investment horizon is a responsibility and an advantage

Investment Belief 3 – Investment decision may reflect wider stakeholder views, provided they are consistent with CalPERS' fiduciary duty to members and beneficiaries

Investment Belief 4 – Long-term value creation requires effective management of three forms of capital: financial, physical, and human

Investment Belief 5 – CalPERS must articulate its investment goals and performance measures and ensure clear accountability for their execution

Investment Belief 6 – Strategic asset allocation is the dominant determinant of portfolio risk and return

Investment Belief 7 – CalPERS will take risk only where we have a strong belief, we will be rewarded for it

Investment Belief 8 – Costs matter and need to be effectively managed

Investment Belief 9 – Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error

Investment Belief 10 – Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives

Background

Recognizing the potential impact of climate change upon financial markets, the G20 Finance Ministers and Central Bank Governors asked the Financial Stability Board (FSB) to review how the financial sector can take account of climate-related issues. As part of its review, the FSB established the TCFD, an industry-led taskforce.

The mandate was to develop recommendations for companies to inform their investors, lenders and insurance underwriters about climate-related financial risks and opportunities. The recommendations were first issued in 2017, and refreshed in 2021, to provide voluntary, consistent, climate-related financial disclosures that would be useful to investors and others in understanding material risks.

The TCFD recommendations are intended to be adoptable by all organizations; included in financial filings; designed to solicit decision-useful, forward-looking information on financial impacts; and to provide a strong focus on risks and opportunities related to transition toward a lower-carbon economy.

CalPERS has been an active supporter of the TCFD's work from the outset. Although the TCFD recommendations were first designed for corporate reporting, asset owners were also encouraged to report using the same four-part disclosure framework, which were followed in our first TCFD report by CalPERS in June 2020:

- **Governance:** Detailing the CalPERS Board and Management governance around climate-related financial risks and opportunities
- **Strategy:** Explaining how the CalPERS' investment approach accounts for current and potential climate-related risks and opportunities
- **Risk Management:** Setting out how CalPERS' investment approach identifies, assesses, and manages climate-related risks
- **Metrics and Targets:** Disclosing the metrics and targets used to assess and manage relevant climate-related risks and opportunities where such information is material

Senate Bill 964 requires the CalPERS Board to publicly report by January 1, 2020, and every three years thereafter, until January 31, 2035. The report should explain the "climate-related financial risk of its public market portfolio, including the alignment of the fund with the Paris Agreement and California climate policy goals, and the exposure of the fund to long-term risks."

Analysis

This report explains our investment approach on climate change: to make sure our portfolio is resilient to climate risk; to find the investment opportunities that the energy transition brings; and to bring down emissions that contribute to global warming. It also explains how we work in partnership with others, from international bodies like the United Nations to fellow asset owners around the world.

CalPERS is addressing both the risks and opportunities of climate change through our four-pillar approach:

- **Governance:** Provide education and influence governmental bodies to take ambitious inclusive action to address climate change and catalyze a low carbon transition
- **Engagement:** Ensure portfolio companies consider climate risks and pursue opportunities that create value over the long-term
- **Integration and Investment:** Mitigate climate-related risks and capture opportunities that arise from a transition to a low carbon economy
- **Partnership:** Utilize aligned investors and organizations to share experiences, pool resources, and amplify our influence throughout financial markets.

Acknowledging that climate reporting capabilities are fast moving and evolving, we welcome the opportunity for dialogue. Our findings are based on the most current science, data, and methodologies. We will continue to advocate for mandatory climate risk reporting and support best practice frameworks as an interim measure. Ultimately, as corporate reporting improves, so will the ability of investors to assess both the risks and opportunities of climate change and act accordingly. The transition requires the full force of financial market, in partnership with the public sector, business and civil society to address the urgent challenge of climate change.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The TCFD framework identifies the business sectors where they see the greatest risk, and in this report, we set out our detailed assessment of risk for each of these in our portfolio based on assessments across our asset classes.

Attachments

Attachment 1 – CalPERS' Response to the Taskforce on Climate Related Financial Disclosure (TCFD) and Senate Bill 964-PPT

Attachment 2 – CalPERS' Response to the Taskforce on Climate Related Financial Disclosure (TCFD) and Senate Bill 964

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