



# Investment Committee

## Agenda Item 7c

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**June 14, 2021**

**Item Name:** Sustainable Investment Five Year Strategy Plan Progress Report

**Program:** Board Governance and Sustainability

**Item Type:** Information

### **Executive Summary**

The purpose of this item is to provide a progress report to the Investment Committee on CalPERS' Sustainable Investment 5-Year Strategic Plan (Plan) including strategic priorities, objectives, key performance indicators, and highlighted outcomes.

### **Strategic Plan**

This agenda item supports the CalPERS' Enterprise Strategic Plan (2017-2022) to improve fund sustainability and the Business Plan goals of ensuring Investment Beliefs and sustainable investment risk integration, referred to as Environmental, Social and Governance (ESG).

### **Investment Beliefs**

This item supports the following Investment Beliefs:

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

Investment Belief 3: Decisions may reflect stakeholder views subject to fiduciary duty.

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

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

Investment Belief 10: Teamwork, Diversity, and Inclusion impact performance.

### **Background**

In August 2016, the Investment Committee (Committee) approved the Plan, guided by CalPERS' Investment Beliefs and Governance and Sustainability Principles (Principles), focusing on six strategic priorities identified through the Sustainable Investment Research Initiative (SIRI) with the potential to impact risk and return. Each priority has a clearly defined objective and key performance indicators (KPIs) to serve as measures of progress over time.

The plan provides specific targets for the five-year time period, with indicators towards completion of market wide progress in coming decades. This reflects CalPERS' Investment Belief 2 which states a "long time investment horizon is a responsibility and an advantage" which requires consideration of "the impact of actions on future generations of members and taxpayers."

The strategic plan for sustainable investment sets out the three channels through which CalPERS pursues its priorities. First, advocacy to ensure that CalPERS' goals are clearly articulated to regulators and policy makers. Second, engagement using CalPERS' position as a provider of financial capital to companies and managers, to foster alignment with the strategic priorities. Third, integration so that relevant issues in sustainable investment are considered throughout investment decision across the total fund. Each of these three channels for implementation is supported through partnerships to enable CalPERS to share resources, gain insight and pool influence with fellow long-term investors.

### **Analysis**

Since the Plan approval, management has focused their efforts on creating detailed work plans, meeting the stated objectives identified on the timeline, and driving progress on long-term key performance indicators. Attachment 1 highlights each strategic priority's objective, key performance indicators, and highlighted outcomes:

- Research
- Data and Corporate Reporting
- Climate Change
- Diversity and Inclusion
- Private Equity and Profit/Fee Sharing Transparency
- Manager Expectations

### **Budget and Fiscal Impacts**

Costs associated with the delivery of the sustainable investment strategic plan are included in current budget allocations.

### **Benefits and Risks**

The progress and completion of the Plan's strategic priorities are expected to result in benefits including:

- Strengthened understanding and ability to achieve CalPERS' target investment returns through managing risk and opportunities

Conversely, risks of not completing the strategic priorities may include:

- Reduced ability to manage risk and opportunity related to the environmental, social and governance factors relevant to the creation of long-term value across the portfolio.

## **Attachments**

Attachment 1 – Sustainable Investment 5-Year Strategy Plan Progress Report-PPT

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