## Agenda Items

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Introduction
Introduction

• On behalf of CalPERS, PCA conducted a survey on the Responsible Contractor Policies (“RCP”) of 11 CalPERS peers (defined as the 11 largest U.S. public defined benefit pension plans after CalPERS, based on Total Assets Under Management (“AUM”), ranging from $77 billion to $181 billion AUM

• The purpose of the survey was to compare CalPERS RCP to peer policies and analyze key similarities and differences

• RCP is still far from mainstream, having been adopted by only a few plans. The survey found only four CalPERS peers have an RCP Policy. Seven peers have no RCP Policy

• All analyses and comparisons in this report are based on these four pension systems

• PCA conducted a similar survey at CalPERS request in 2011, finding other plan’s RCP generally consistent with CalPERS; and CalPERS RCP more rigorous in some areas
## Introduction: U.S. Public Pension Plans Surveyed

<table>
<thead>
<tr>
<th>Name of Pension Plan</th>
<th>Plan Acronym</th>
<th>AUM ($billions) 12.31.2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalPERS Peers – Largest U.S. Public Pension Plans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California State Teachers’ Retirement System</td>
<td>CalSTRS</td>
<td>$181</td>
</tr>
<tr>
<td>New York State Common Retirement Fund</td>
<td>NYCRF</td>
<td>173</td>
</tr>
<tr>
<td>Florida State Board of Administration</td>
<td>SBAFLA</td>
<td>143</td>
</tr>
<tr>
<td>New York City Employees’ Retirement System</td>
<td>NYCERS</td>
<td>138</td>
</tr>
<tr>
<td>Teachers’ Retirement System of Texas</td>
<td>TRS</td>
<td>120</td>
</tr>
<tr>
<td>New York State Teachers’ Retirement System</td>
<td>NYSTRS</td>
<td>103</td>
</tr>
<tr>
<td>Wisconsin Retirement System</td>
<td>WRS</td>
<td>101</td>
</tr>
<tr>
<td>Washington State Investment Board</td>
<td>WSIB</td>
<td>98</td>
</tr>
<tr>
<td>Ohio Public Employees’ Retirement System</td>
<td>OPERS</td>
<td>89</td>
</tr>
<tr>
<td>North Carolina Retirement Systems</td>
<td>NCRS</td>
<td>83</td>
</tr>
<tr>
<td>New Jersey Public Employees’ Retirement System</td>
<td>NJPERS</td>
<td>77</td>
</tr>
</tbody>
</table>

This report preserves the anonymity of individual plan responses.
Executive Summary
Executive Summary

- CalPERS RCP was the first peer to launch an RCP, in 1994
- The RCP policies of a number of plans are based on CalPERS
- The survey found that CalPERS continues to be in the forefront of RCP evolution among peers
Executive Summary

• Peer RCPs share many similarities with CalPERS
  – Similar Duty of Loyalty, Prudence and Competitive Returns
  – Cover real estate contractors and subcontractors in services and construction
  – Mandates cover direct investments only (no commingled funds)
  – “Fair wages, benefits & training” based on current local markets
  – Managers, contractors, & subcontractors self-certify RCP compliance, typically on an annual basis
  – Investigations are based on complaints
Executive Summary

- CalPERS RCP is more comprehensive than peers in some areas
  - Covers both real estate and infrastructure, along with one peer
  - Covers 59% of its real estate portfolio ($13 billion), a larger percent and total dollar amount than peers; spirit language applies to remaining real estate and infrastructure assets
  - Requires competitive bidding for project contracts, along with two peers
  - Requires notification of projects to Responsible Contractors prior to bid due dates along with only one peer
CalPERS RCP generally requires more stringent and specific responsibilities, and engages more regularly on RCP than peers:

- Requires that managers and contractors generally have more stringent and specific responsibilities than peers
- Provides stronger RCP enforcement processes than most peers
- Engages managers and labor on RCP more regularly than peers
- Devotes more resources (staff time, budget) to RCP than peers
Executive Summary

• CalPERS neutrality language is stronger than peers:
  
  – CalPERS explicitly states that plan will remain neutral, unlike peers
  
  – CalPERS and three peers strongly encourage neutrality for all real estate managers
  
  – CalPERS’ Neutrality Trial Program RCP (“NTRCP”) mandates neutrality for core managers, contractors and subcontractors on services contracts
  
  – Only CalPERS requires neutrality for any of its managers
Survey Results
Survey Results: Peer Plans with RCP

Eleven Peer Plans Surveyed

- Have RCP: 4
- RCP Covers Real Estate and Infrastructure: 1
- RCP Covers Real Estate Only: 3
- No RCP: 7

CalPERS

✓

✓
Survey Results: RCP Policy Development Timelines

- CalPERS first launched RCP in 1994, two years prior to earliest peer
## Survey Results: RCP Policy Revisions

<table>
<thead>
<tr>
<th>Plan Name</th>
<th>First Known RCP Policy</th>
<th>Last RCP Revision</th>
<th>Number of Revisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>CalPERS</td>
<td>1994</td>
<td>2012</td>
<td>6</td>
</tr>
<tr>
<td>Plan A</td>
<td>2002</td>
<td>2014</td>
<td>6</td>
</tr>
<tr>
<td>Plan B</td>
<td>1996</td>
<td>1996</td>
<td>0</td>
</tr>
<tr>
<td>Plan C</td>
<td>2000</td>
<td>2000</td>
<td>Currently under revision</td>
</tr>
<tr>
<td>Plan D</td>
<td>2012</td>
<td>2012</td>
<td>0</td>
</tr>
</tbody>
</table>

- CalPERS and one peer have regularly revisited their RCP Policy
CalPERS mandates RCP for 59% of its Real Estate portfolio, ($13 billion), a larger percent and dollar amount than any peer.

CalPERS ‘spirit language’ encourages RCP among all Real Estate and Infrastructure, similar to one peer; other peers encourage RCP but is not written in Policy.
Survey Results: RCP Covered by ‘Spirit Language’

Investment Vehicles Covered

- RCP Policy includes 'Spirit Language' that encourages all managers to comply
- Plan encourages managers not covered to comply with RCP; written Policy does not include 'Spirit Language'

<table>
<thead>
<tr>
<th>Peer Plan Count</th>
<th>CalPERS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>✓</td>
</tr>
<tr>
<td>3</td>
<td></td>
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</tbody>
</table>

- CalPERS and one peer include explicit RCP Spirit Language that encourages all managers to comply
Survey Results: RCP Required: Breadth of Coverage

Investment Vehicles Covered

Direct Investments (no commingled)

Peer Plan Count: 4

Separate and Joint Ventures

Peer Plan Count: 3

Separate only; no Joint Ventures

Peer Plan Count: 1

CalPERS

- Peers generally cover similar types of investments as CalPERS
Survey Results: RCP Breadth of Coverage

Types of Project Work Covered

- **TYPES OF WORK**
  - Contractors and Subcontractors: 4
  - Service and Construction: 4

- **MINIMUM CONTRACT SIZE**
  - Contracts Above $100,000: 1
  - Contracts Above $25,000: 3

CalPERS

- ✔ Peers cover the same types of project work as CalPERS
- ✔ CalPERS minimum contract size is higher than most peers
Survey Results: ‘Fair Wages and Benefits’

RCP ‘Fair Wages and Benefits’

- Fair based on local markets: 4
- Fair defined by union rates: 0
- Fair defined by govt-Davis-Bacon/other: 0

CalPERS and all peers define “fair wages, benefits, & training” based on current local markets.
Survey Results: Competitive Bidding Required

- CalPERS competitive bidding requirements exceed most peer specifics

![Competitive Bidding Chart]
Survey Results: Bidding Notification

**BID NOTIFICATION REQUIRED**
- To Responsible Contractors: 3 peer plans

**PRE-BID NOTIFICATION**
- Required and Timing specified: 1 peer plan

- CalPERS bid and pre-bid notice requirements exceed most peer specifics

*One peer also negotiates with labor prior to embarking on major development projects, but not required
**CalPERS pre-bid notification is 30-days, if appropriate; peer stipulates that notice shall be sent as soon as practical prior to the bid due date
Survey Results: Outreach to Labor

- CalPERS requirements for RCP outreach to labor exceed most peers

- Must invite unions to submit names of Responsible Contractors
  - Peer Plan Count: 2
  - CalPERS: ✓

- Requires notice to unions when manager enters new geography
  - Peer Plan Count: ✓
Survey Results: Manager Certification and Monitoring

Certification and Monitoring

- Managers, Contractors Self-Certification Required: 4 (✓)
- Annual Certification Required: 3 (✓)
- Quarterly Certification Required: 1
- Regular or Random Compliance Review: 0
- Investigation Based on Complaints: 4 (✓)

- CalPERS and peers employ similar approaches to certification and monitoring
Survey Results: RCP Implementation - Outreach to Stakeholders

Communication with Stakeholders

- Meet with managers on RCP: 1
- Discuss RCP at Manager annual review: 1
- Do not meet with managers on RCP: 2
- Regularly meet with Labor on RCP: 1
- Rarely Meet with labor on RCP: 2
- Never meet with Labor on RCP: 1

CalPERS

- CalPERS meets more regularly with stakeholders and devotes more resources to RCP than peers
Survey Results: RCP Neutrality in Labor Organizing

Peer Neutrality Clause

- Plan itself must remain neutral
- Manager and Contractor Neutrality
  - Neutrality is Strongly Encouraged
  - Neutrality is Required
  - Neutrality is not addressed

CalPERS

- RCP and NTRCP state that Plan itself must remain neutral
- CalPERS RCP strongly encourages neutrality for all, similar to most peers
- CalPERS NTRCP mandates neutrality in Core Real Estate, services contracts
Survey Results: Peer RCP General Comments

Peer RCP General Comments

- Minimal impact on returns as currently written
- Generally well-received by managers and labor
- Provides foundation for addressing concerns by labor
- Need adequately trained and knowledgeable staff to implement correctly
- Policy reviews address issues that may arise
The methodology for this survey was as follows:

- Identified eleven largest pension funds. They ranged from $77 billion to $171 billion in AUM as of December 31, 2013.

- Designed survey to gather additional information useful to questions under discussion on CalPERS RCP.

- Sent survey to all eleven plans.

- Followed up with each plan for clarification and additional details.

- Analyzed and summarized results, and prepared presentation.