



Agenda Item 11a

November 16, 2015

ITEM NAME: Report on Global Equity Portfolio Carbon Footprint – Montreal Pledge

PROGRAM: Global Governance

ITEM TYPE: Information

EXECUTIVE SUMMARY

Staff is presenting the methodology and results of CalPERS first public equity carbon footprint. The results will inform our engagement strategy and risk management approach. The carbon footprint estimates the carbon emissions of the public equity component of the CalPERS Public Employees' Retirement Fund (PERF) as of June 30, 2015.

STRATEGIC PLAN

This agenda item supports CalPERS Strategic Plan to improve long-term pension sustainability and cultivate a risk-intelligent and innovative organization.

INVESTMENT BELIEFS

This agenda item supports the CalPERS Investment Beliefs (Beliefs):

1. Investment Belief 4: Long-term value creation requires effective management of three forms of capital: financial, physical and human. CalPERS may engage investee companies and external managers on their governance and sustainability issues, including governance practices, risk management practices, human capital practices, and environmental practices.
2. Investment Belief 7: CalPERS will take risk only where we have a strong belief we will be rewarded for it. An expectation of a return premium is required to take risks; CalPERS aims to maximize return for the risk taken.
3. Investment Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error. As a long-term investor, CalPERS must consider risk factors, for example climate change and natural resource availability that emerge slowly over long time periods, but could have a material impact on company or portfolio returns.

BACKGROUND

CalPERS was the first US signatory to the UN Principles for Responsible Investment (UN PRI) Montreal Pledge, launched in September 2014 to coincide with the UN Climate Summit.

As stated in the Montreal Pledge:

- “In order to better understand, quantify and manage the carbon and climate change related impacts, risks and opportunities in our investments, it is integral to measure our carbon footprint. Therefore, we commit, as a first step, to measure and disclose the carbon footprint of our investments annually with the aim of using this information to develop an engagement strategy and/or identify and set carbon footprint reduction targets.”

CalPERS will meet the Montreal Pledge by disclosing the aggregate Direct and Electricity-based Emissions of the Public Equity component of the PERF to the PRI and incorporating the results into our engagement and advocacy strategy on climate change. The deadline for disclosure is December 1, 2015, in advance of the Paris COP 21 negotiations on climate change.

The work has been undertaken in conjunction with Asset Allocation and Global Equity, as well as leveraging a variety of external data providers.

BUDGET AND FISCAL IMPACTS

The work has been completed within existing resources.

BENEFITS/RISKS

Benefits – Improving our understanding of climate change risk and factors may inform our engagement strategy and help better our understanding of risks and opportunities within our portfolios.

Risks – The uncertainty inherent in attempts to model investment performance over longer term horizons creates risk of inaccurate predictions of investment performance.

ATTACHMENTS

Attachment 1 – Report on Global Equity Portfolio Carbon Footprint – Montreal Pledge Presentation

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