

# Review of ESG Strategy

## Social Theme: Human Capital

Investment Committee, April 2016

# Objectives

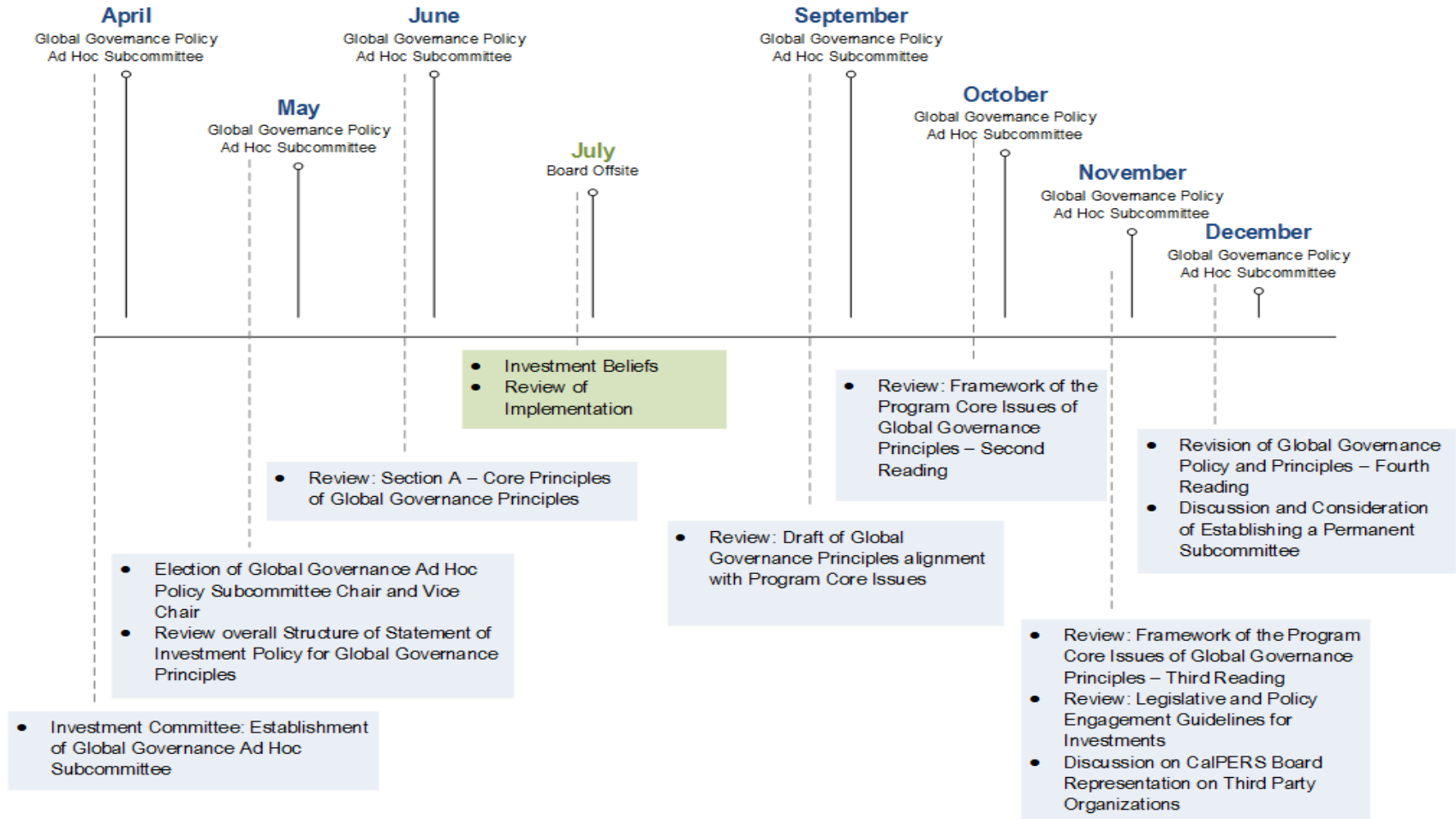
- Seek Investment Committee feedback on Environmental, Social and Governance (ESG) Strategic Priorities with particular focus on the “S”
- Conduct an in-depth review of our proposed focus on human capital
- Initiate discussion of potential key performance indicators (KPIs)

# Recommended Strategic Priorities: ESG

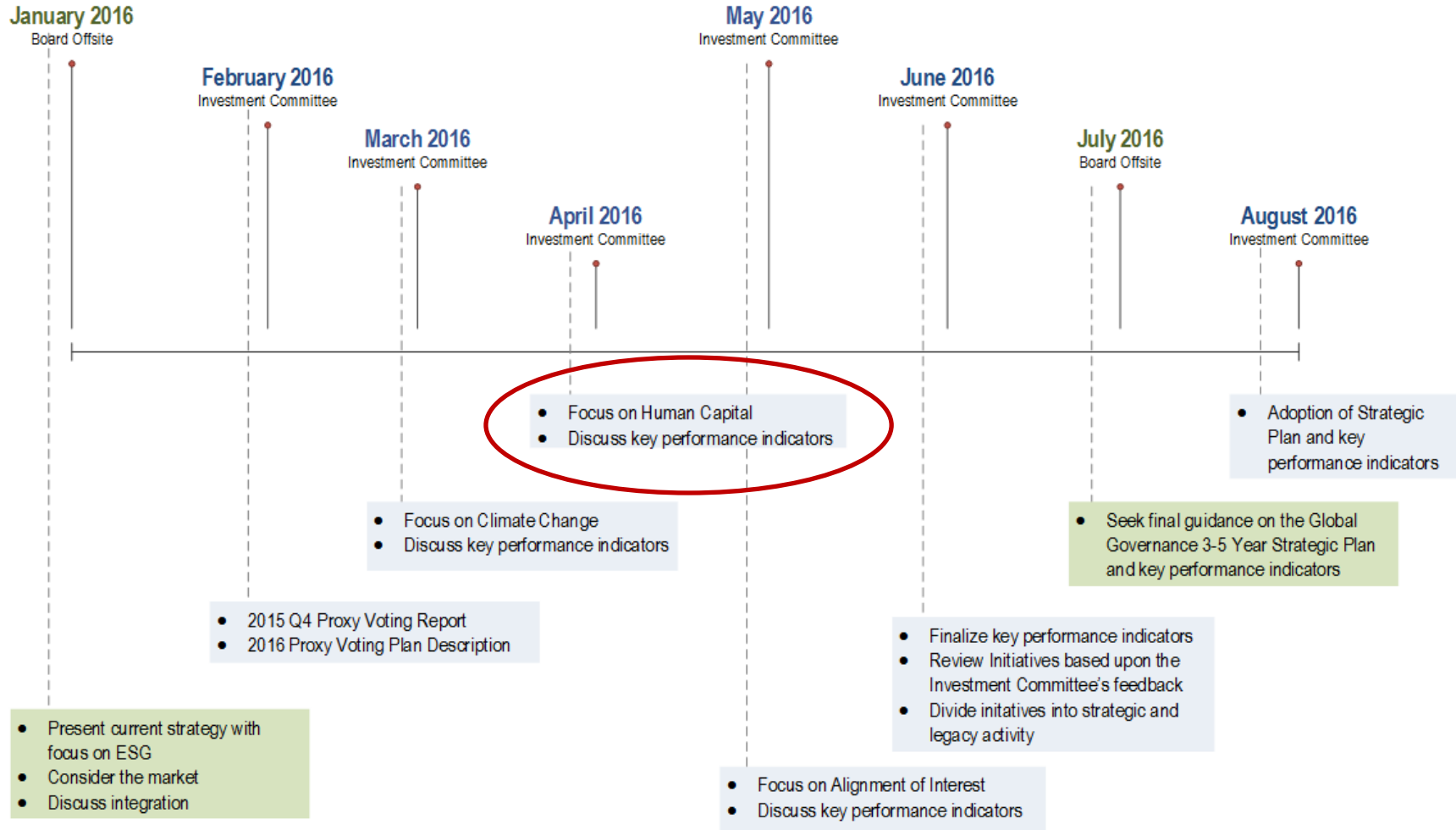
E	S	G
Climate Change	Human Capital	Alignment of Interest
<ul style="list-style-type: none"> <li>Data and corporate reporting standards (includes water risk)</li> </ul>	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (includes human capital)</li> </ul>	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (focusing on the long-term)</li> </ul>
<ul style="list-style-type: none"> <li>Manager Expectations Pilot (includes water risk)</li> </ul>	<ul style="list-style-type: none"> <li>Manager Expectations</li> </ul>	<ul style="list-style-type: none"> <li>Manager Expectations</li> </ul>
<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>Sustainable Investment Research Initiative (SIRI)</li> <li>Global Equity Strategies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>SIRI</li> <li>Diversity</li> <li>Income inequality</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>SIRI</li> </ul> </li> </ul>
<ul style="list-style-type: none"> <li>Engage 80 PRI Montreal Pledge Companies (identify water risk candidates)</li> <li>Carbon Footprinting – Total fund</li> <li>Thermal Coal Companies – (SB185)</li> </ul>	<ul style="list-style-type: none"> <li>Diversity and Inclusion</li> <li>Responsible Contractor Program</li> <li>Supply Chain Activities</li> <li>Income Inequality (placeholder)</li> </ul>	<ul style="list-style-type: none"> <li>Principles and Proxy Voting (including proxy access and majority voting)</li> <li>Focus List</li> <li>Fee and performance transparency</li> <li>Divestment</li> </ul>

Work through Partnerships to leverage resources and impact

# 2015 Timeline: Global Governance Principles Review



# 2016 Timeline for Developing a 3-5 Year Strategic Plan



# Investment Beliefs

CalPERS' Investment Beliefs frame our fiduciary approach to human capital.

## Investment Belief 3

CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

- In considering whether to engage on issues raised by stakeholders, CalPERS will use the following prioritization framework:
  - Principles and Policy – to what extent is the issue supported by CalPERS Investment Beliefs, Principles of Accountable Corporate Governance or other Investment Policy?
  - Materiality – does the issue have the potential for an impact on portfolio risk or return?
  - Definition and Likelihood of Success – is success likely, in that CalPERS action will influence an outcome which can be measured? Can we partner with others to achieve success or would someone else be more suited to carry the issue?
  - Capacity – does CalPERS have the expertise, resources and standing to influence an outcome?

# Investment Beliefs

## Investment Belief 4

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

- Strong governance, along with effective management of environmental and human capital factors, increases the likelihood that companies will perform over the long-term and manage risk effectively.
- CalPERS may engage investee companies and external managers on their governance and sustainability issues, including:
  - Governance practices, including but not limited to alignment of interests
  - Risk Management practices
  - Human Capital practices, including but not limited to fair labor practices, health and safety, responsible contracting and diversity
  - Environmental practices, including but not limited to climate change and natural resource availability

# Investment Beliefs

## 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.
- Markets are not perfectly efficient, but inefficiencies are difficult to exploit after costs.

## Investment Belief 8

Costs matter and need to be effectively managed.

- CalPERS will balance risk, return and cost when choosing and evaluating investment managers and investment strategies.



# Investment Beliefs

## Investment Belief 9

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

- CalPERS shall develop a broad set of investment and actuarial risk measures and clear processes for managing risk.
- 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.

## Investment Belief 10

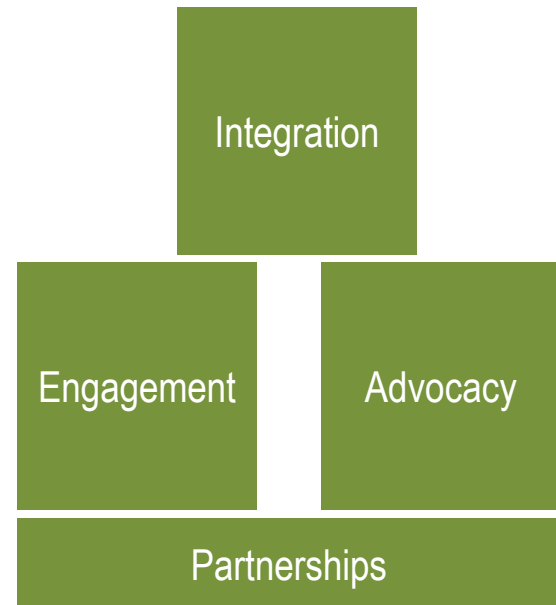
Strong processes and teamwork and deep resources are needed to achieve CalPERS goals and objectives.

- Diversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important.

# Current Strategy on ESG

- Environmental  
Climate Risk
- **Social  
Human Capital**
- Governance  
Alignment of Interest

Our approach  
utilizes three  
channels supported  
by partnerships





# Human Capital | Risks and Opportunities

“Demographically diverse groups are exposed to a wider range of perspectives than homogenous groups, but diversity can also lead people to process evidence more accurately, and to discuss controversial and polarizing issues.”

Tufts University, Research & Publications, Race & Interpersonal Processes

“A ‘high degree of groupthink’ was identified as contributing to the International Monetary Fund’s failure to correctly identify the risks leading up to the worldwide financial crisis.”

Independent Evaluation Office of the International Monetary Fund, *Why did the IMF Fail to Give Clear Warning?* (April 12, 2011)

“Companies in the top quartile for racial and ethnic diversity are 35 percent more likely to have returns above their respective national industry medians.”

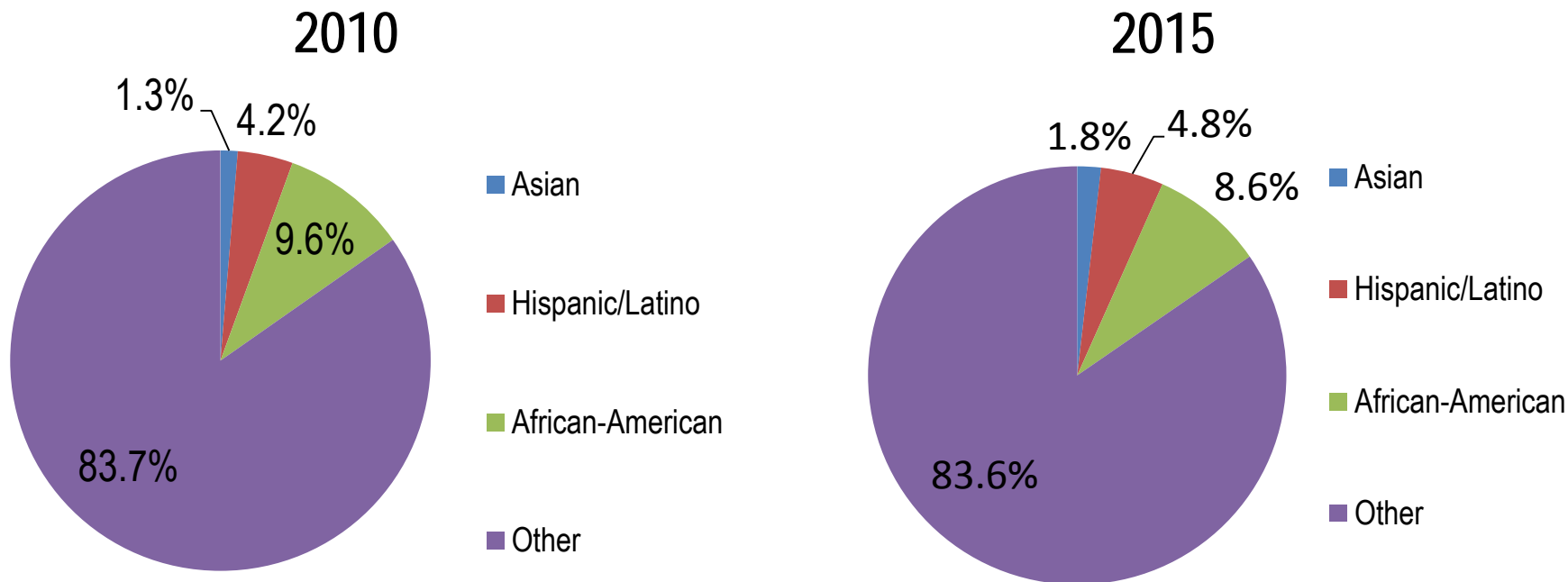
McKinsey & Company, *Why Diversity Matters*, (February 2, 2015)

“Beyond gender, other dimensions of diversity are also found to be good for business: race, board member background, LGBT identity, nationality.”

Catalyst, *Why Diversity Matters*, (July 2013)

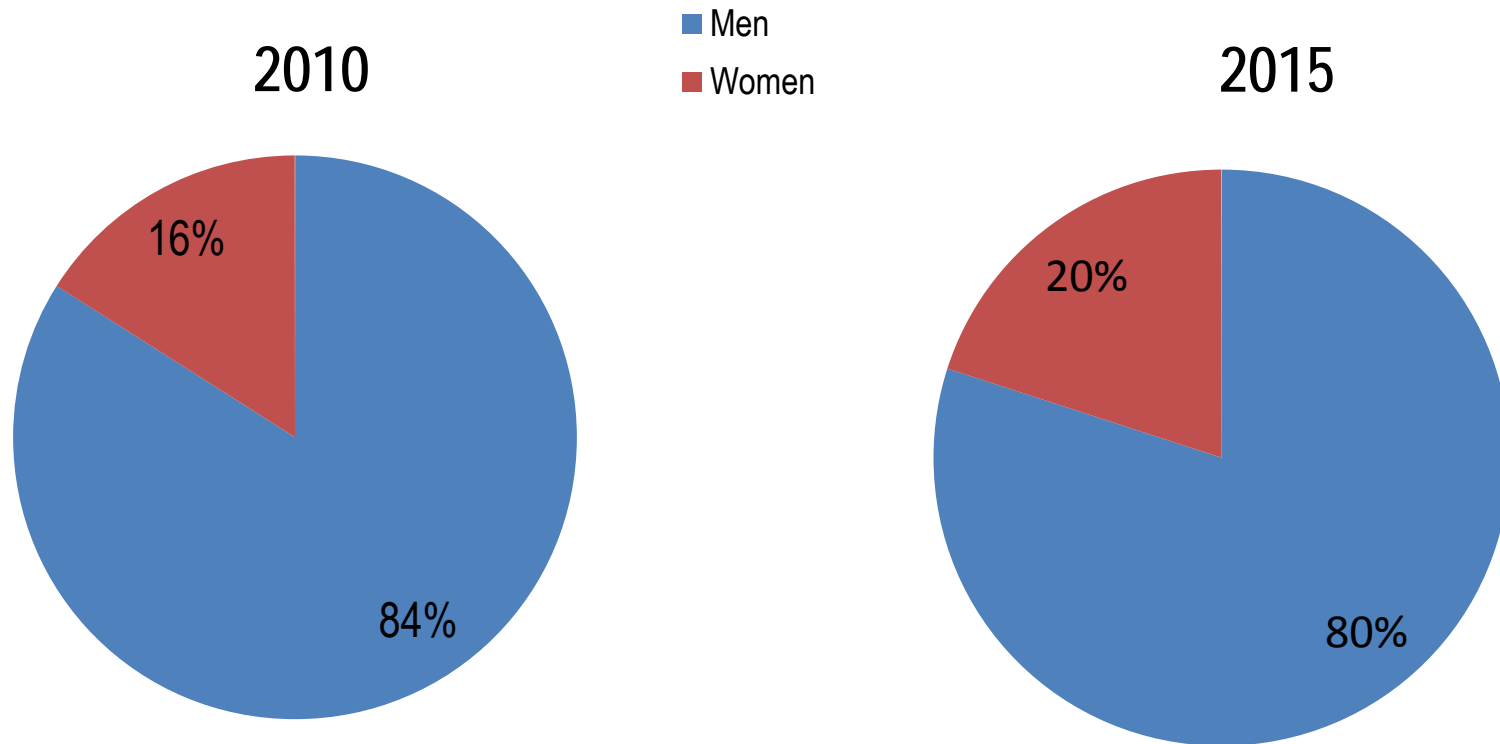
# Board Diversity | S&P 500 Companies

Despite increased attention to board diversity, progress has been slow.



Sources: 2015 Spencer Stuart Board Index

# Board Diversity | S&P 500 Companies



Sources: 2015 Spencer Stuart Board Index

# Human Capital Focus | Overview

To fulfill CalPERS' fiduciary duty by:

- Understanding and managing investment risks and value drivers related to human capital that contribute to long-term sustainable returns.

Advocacy	Engagement	Integration
<ul style="list-style-type: none"> <li>• Data and Corporate Reporting standards (includes Human Capital metrics)</li> <li>• SEC                             <ul style="list-style-type: none"> <li>• Board Diversity Petition</li> <li>• Disclosure Effectiveness Initiative</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Diversity and Inclusion                             <ul style="list-style-type: none"> <li>• Board Diversity                                     <ul style="list-style-type: none"> <li>• Engage selected companies</li> </ul> </li> <li>• Diverse Director DataSource (3D)</li> </ul> </li> <li>• Supply Chain Activities                             <ul style="list-style-type: none"> <li>• Human Capital Management Coalition</li> </ul> </li> <li>• Income inequality (placeholder)</li> <li>• Principles and Proxy Voting                             <ul style="list-style-type: none"> <li>• Proxy Access Focus on Diversity</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Responsible Contractor Policy</li> <li>• INVO's Diversity and Inclusion Steering Committee                             <ul style="list-style-type: none"> <li>• Emerging Manager five-year plan</li> <li>• INVO Talent Management Initiative</li> <li>• Board Diversity</li> </ul> </li> <li>• Manager Expectations Pilot</li> <li>• Sustainable Investment Research Initiative (SIRI) refresh (Diversity and inequality are new areas focus)</li> </ul>

# Advocacy | Board Diversity

## Objective

- Advocate for rulemaking, data and corporate reporting standards to improve disclosure on board diversity and inclusion.

## Initiative

- Promote the SEC Diversity Petition – disclosure standards around the board diversity matrix.
- Data and corporate reporting and disclosure – to include board diversity and inclusion.

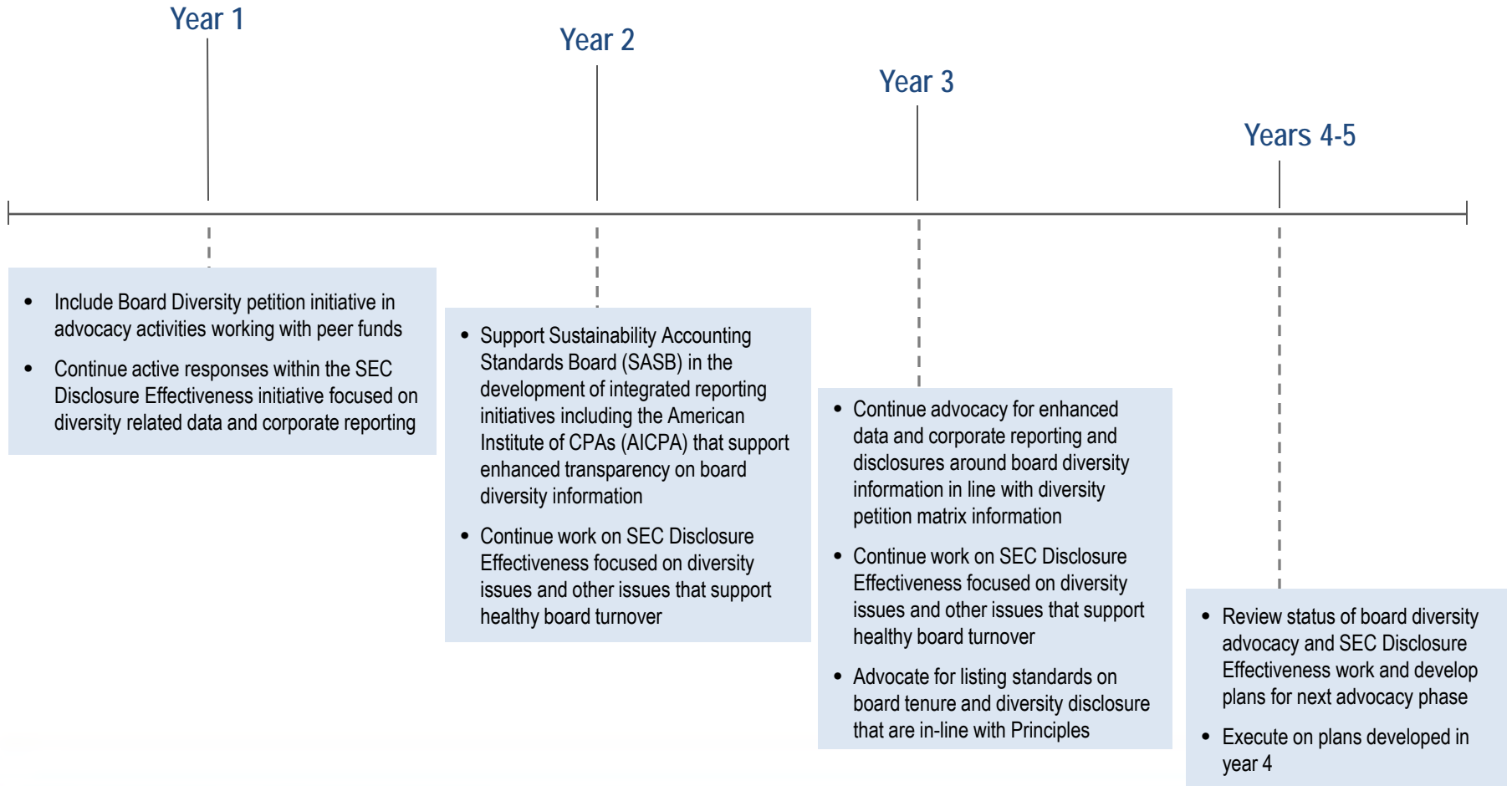
Ensure boards have strategies to address:

- Board diversity
- Board tenure
- Policies and practices
- Matrix disclosures around board skills sets and company strategy

## Potential Key Performance Indicator

- The SEC includes Board Diversity disclosure in its work plan.
- Accounting standard setters include Board Diversity disclosure standards in work plans.

# Proposed Timeline | Advocacy





# Engagement | Board Diversity

## Objective

- Fulfill our fiduciary responsibilities with a targeted focus on companies that continue to lack board diversity in order to improve board quality.

## Initiative

- Develop an engagement list of companies lacking board diversity.
- Use engagement and shareowner campaigns (proxy access) success to push for diverse boards.

Ensure the companies have strategies in place to improve board quality including:

- Board diversity
- Board tenure
- Rigorous board evaluations
- Independence
- Competence
- Matrix disclosures around board skill sets
- Charters (nominating committee)

## Potential Key Performance Indicator

- Disclosure of company board diversity strategies.

# Engagement | Supply Chain Activities

## Objective

- Focus on managing human capital risk and opportunity through engaging companies regarding supply chain.

## Initiative

- Partner with the Human Capital Management Coalition to develop a focused engagement list.

Engage companies to ensure that those companies have strategies in place to address:

- Universal Human Rights
- Diversity & Equal Employment Opportunity
- Freedom of Association
- Fair Competition
- Safe and Healthy Workplace
- Eliminating all forms of forced and compulsory labor
- Elimination of harmful labor practices or use of child labor

## Potential Key Performance Indicators

- Companies disclose policies on how they monitor, measure and manage supply chain risk.

Source: p. 24, CalPERS Global Governance Principles,

# Engagement | Established Managers

## Objective

- Develop and implement an Established Manager D&I Engagement Strategy.

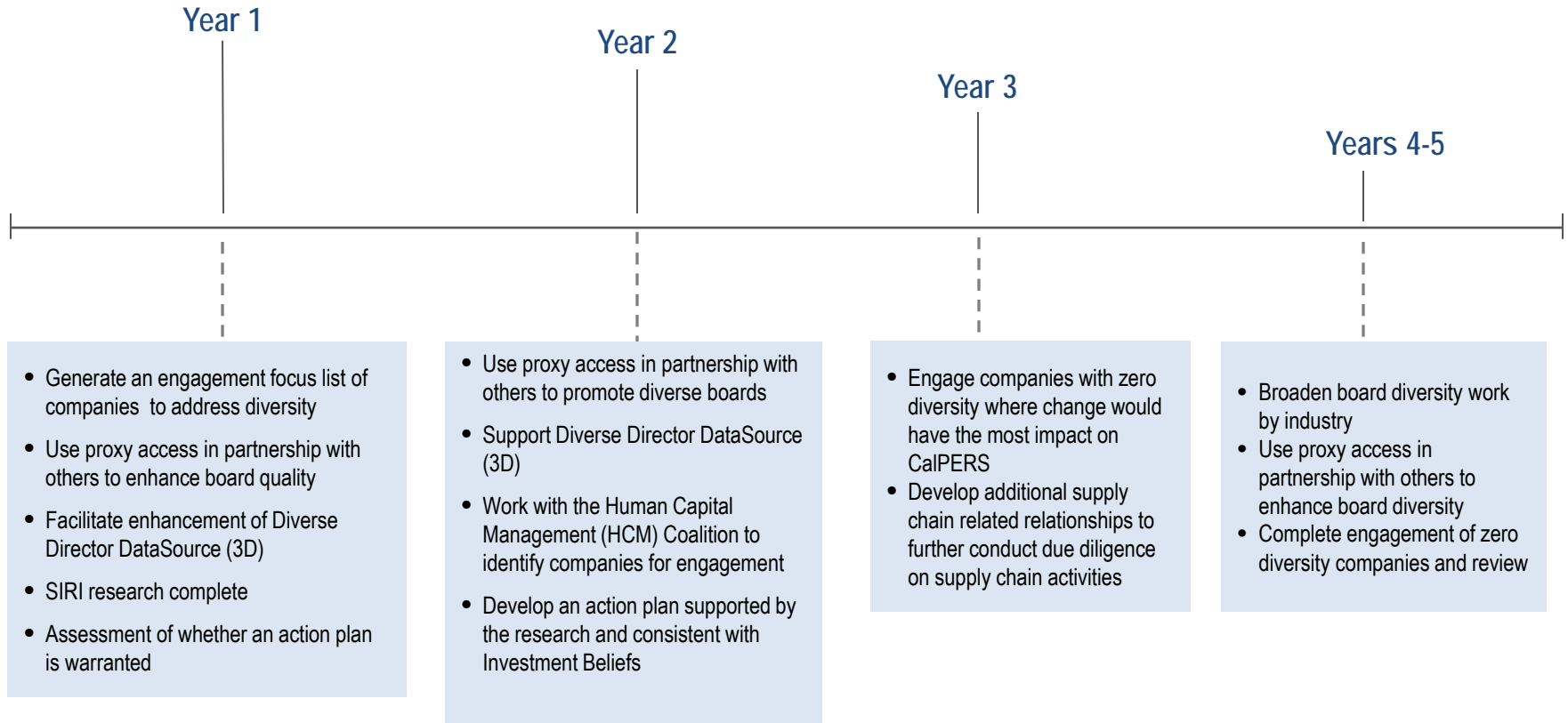
## Initiative

- Establish strategic manager D&I outreach, engagement and reporting initiative.
  - Survey managers for diverse staff in key associate, management, and leadership roles
  - Engage managers on diversity and inclusion policies, initiatives and outcomes
  - Consider establishing a partnership initiative with an established manager(s) to increase the diversity of pipeline of talent entering financial services

## Potential Key Performance Indicators

- Manager survey report.
- Engagement with established managers.

# Proposed Timeline | Engagement



# Integration | Manager Expectations

Each asset class has draft Sustainable Investment Practice Guidelines (Guidelines) describing how staff and external managers are expected to approach ESG considerations in investment processes.

## Objective

- Integrate material human capital factors into assessing risk and opportunity in investment decision-making across the Total Fund.

## Initiative

- Continue improving the Guidelines for how each asset class expects staff to incorporate sustainability risk and opportunity considerations into manager selection (and asset selection where relevant), contracting, monitoring and managing.
- Human capital factors include human rights, diversity, health & safety. (Source: Principles for Responsible Investment)

## Potential Key Performance Indicator

- Develop metrics to track implementation of the Guidelines in contracting, monitoring and managing. (For example, percentage of new contracts with ESG requirements or % and frequency of existing portfolio assessment for human capital risks)
- Relevant factors identified and integrated across the portfolio.

# Integration | Responsible Contractor Program

## Objective

- Continue administration of the Responsible Contractor Program (RCP) Policy and Neutrality Trial Program in the Real Assets portfolio.

## Initiative

- Continue to engage with stakeholders, address labor issues, and report to the Investment Committee on activities under the Policy.
  - Prepare RCP report under the revised Policy to be presented to the Investment Committee in December.
  - Engage with labor representatives and Real Assets managers on revised Policy and any related issues.

## Potential Key Performance Indicators

- Present annual reports to the Investment Committee.
- Resolution of formal complaints.

# Integration | Diversity & Inclusion Talent Management

## Objective

- Establish and implement Talent Management initiatives under the INVO D&I 2020 Plan

## Initiative

- Implement and conduct regular reviews of Strategic Partner Plan.
  - Draft and implement INVO D&I Education and Training Plan.
  - Establish a communication strategy to improve staff awareness and understanding of Talent Management initiatives under the INVO D&I 2020 Plan.
- |  |  |
|--|--|
| - Increase the pool of qualified diverse applicants for open positions in INVO | - Network with diverse organizations   |
| - Identify training opportunities  | - Provide regular staff D&I updates via email and at INVO All-Staff Meetings |

## Potential Key Performance Indicators

- Increase diversity in pools of candidates as a result of Strategic Partnerships.
- Finalize and implement Talent Management plans, which will include additional KPIs.

# Integration| Emerging Manager Five-Year Plan

## Objective

- Continue initiatives under the *Emerging Manager Five-Year Plan—Pathway to the Future* which provides a strategic framework to guide CalPERS' investments and engagement with emerging investment managers.

## Initiative

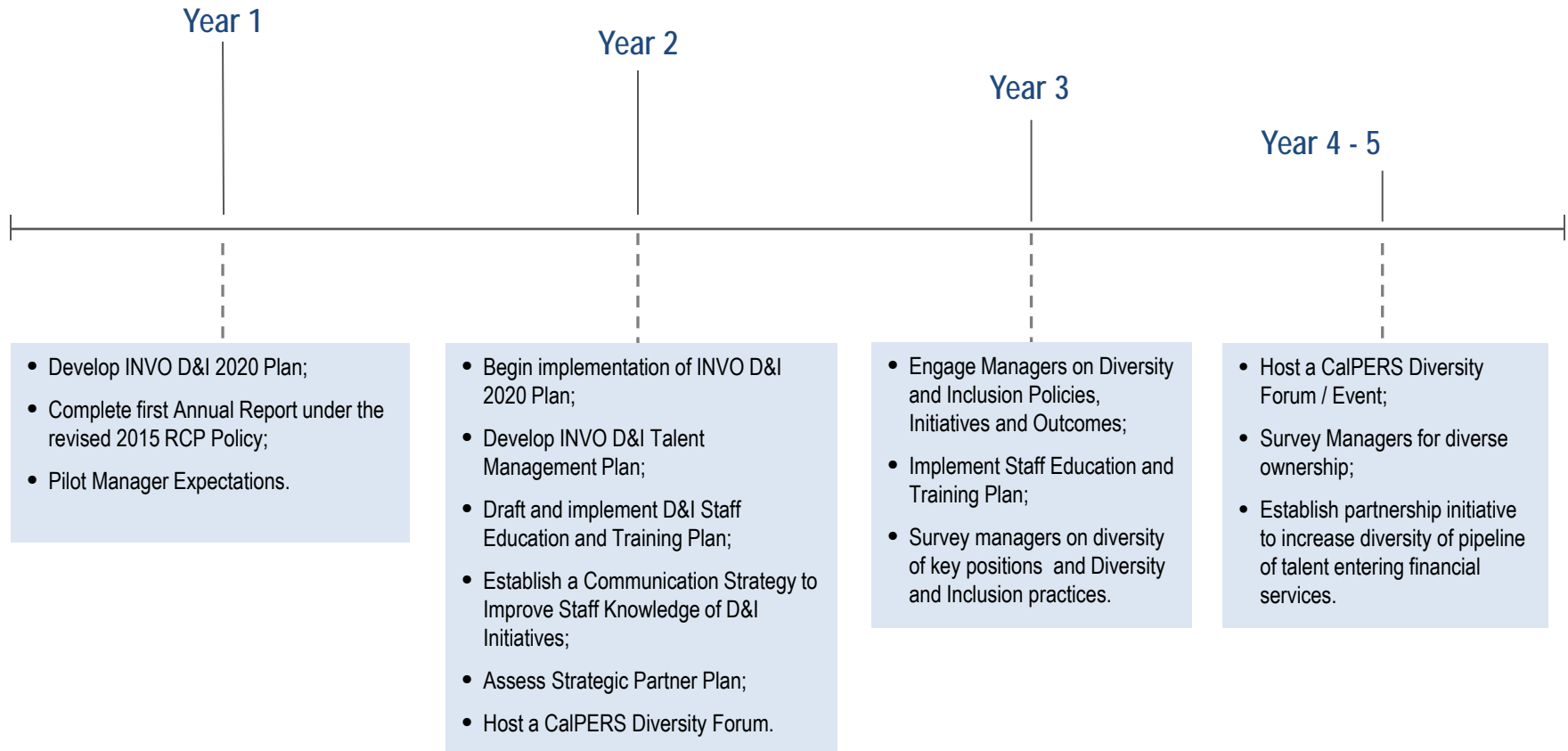
- Finalize appropriate initiatives, continue on-going efforts, and establish new work to be undertaken under the Plan.
  - Report performance of updated and revised emerging manager programs
  - Track and report exposure to, and diversity of, CalPERS Emerging and Transition Managers
  - Strengthen and maintain CalPERS presence in emerging and diverse manager networks
  - Initiate legislative efforts to extend the Plan

## Potential Key Performance Indicators

- Report to Investment Committee and transmit annual updates as required to the Legislature.
- Establish framework for process and deployment of new capital to emerging and transition managers.
- Report to Investment Committee year over year exposure to emerging and transition managers.
- Evaluate and seek legislative approval for extension of the Plan.



# Proposed Timeline | Integration



## Appendix:

1. CalPERS Global Governance Principles: Diversity
2. Examples of ESG Factors – Human Capital
3. Human Capital: Examples from Peer Funds
4. Current work: Human Capital Initiatives
5. HCM Coalition Engagement Framework
6. Integration Focus: Manager Expectations
7. Sustainable Accounting Standards Board – Human Capital Topics and Metrics

# Board Quality | Diversity, Independence and Competence

## CalPERS Global Governance Principles, March 2016

### B. Board Quality: Diversity, Independence and Competence

#### 9. Board Talent Assessment and Diversity:

The board should facilitate a process that ensures a thorough understanding of the diverse characteristics necessary to effectively oversee management's execution of a long-term business strategy. Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership.

# 1. PRI Examples of ESG factors | Human Capital

Environmental	Social	Governance
Biodiversity	Customer satisfaction	Accounting standards
Climate change	Data protection and privacy	Anti-competitive behavior
Deforestation	*Diversity and equal opportunities	Audit committee structure
Ecosystems services	Employee attraction and retention	Board composition
Energy efficiency	*Employee engagement	Bribery and corruption
Hazardous materials	Government and community relations	Business ethics
Land degradation	*Human capital management	Compliance
Resource depletion	Human rights	Executive remuneration
Water management	Indigenous rights	Lobbying
Water scarcity	*Labor standards	Political contributions
	Labor-management relations	Risk management
	Marketing communications	Separation of chairman and CEO
	Product mis-selling	Stakeholder dialogue
	Product safety and liability	Succession planning
	*Supply chain management	Whistleblower schemes
	Workplace health and safety	

\*Used in Manager Expectations

Source: Responsible Investment in Private Equity – a Guide for Limited Partners  
(p. 24, 2<sup>nd</sup> edition, June 2011), Principles for Responsible Investment

## 2. Human Capital | Examples from Peer Funds

### Caisse des Depots Group

- Housing

### CalSTRS

- Board Diversity
- Supply Chain

### Canada Pension Plan Investment Board (CPPIB)

- Extractive Industries (human rights)

### Norges Bank Investment Management

- Children's Rights

### SwedFund

- World Poverty

### Office of the New York State Comptroller

- Alignment of Interest
- Board Diversity
- Ban on Execution Drugs
- Global Labor Standards
- Sexual Orientation Non-Discrimination

### The Illinois General Board of Pension and Health Benefits (GBPHB)

- Equal Employment Opportunity and Diversity
- Human Rights
- Code of Conduct for Suppliers & Global Facilities
- Child Labor
- Conflict Minerals
- Poverty
- Disaster Relief
- Predatory Lending

# 3. Current Work | Human Capital Initiatives

## Engagement Work

Completed	Evolving	Core
<ul style="list-style-type: none"> <li>• Proxy Access Campaign Wins (12/20 Diversity related, 12 companies added a woman to board)</li> <li>• Aiming for A               <ul style="list-style-type: none"> <li>• Resolutions passed at 3 companies</li> </ul> </li> <li>• Carbon Asset Review – first phase</li> <li>• Joint letter with CalSTRS to 160 California companies with no women on board, 34 companies added a woman</li> </ul>	<ul style="list-style-type: none"> <li>• Legislative Mandates               <ul style="list-style-type: none"> <li>• Global Governance continues engagement                   <ul style="list-style-type: none"> <li>– Thermal Coal Companies (24)</li> <li>– Iran/Sudan (12), Northern Ireland and Holocaust (33)</li> </ul> </li> </ul> </li> <li>• Evolving to focus on 80 Montreal Pledge identified companies:               <ul style="list-style-type: none"> <li>• CERES Carbon Asset Risk (45)</li> <li>• Climate Risk Reporting (Aiming for A)</li> </ul> </li> <li>• Human Capital Management Initiative- engagements with six companies on supply chain activities following tragedies in Bangladesh (including Carter’s, Children’s Place, Walmart, Kohl’s, Gap, and McDonald’s)</li> </ul>	<ul style="list-style-type: none"> <li>• Shareholder Proposals ( Human Capital Proposals in 2015)               <ul style="list-style-type: none"> <li>– Proxy Solicitations</li> <li>– Exempt SEC Filings – Shareowner Letters</li> </ul> </li> <li>• Proxy Access Campaign (Diversity continues as one of the priorities)</li> <li>• Advisory Vote on Executive Compensation               <ul style="list-style-type: none"> <li>– CalPERS letter writing campaign to communicate company “against” votes (488)</li> </ul> </li> <li>• Board Quality and Diversity</li> <li>• Diverse Director Data Source (3D)</li> <li>• Enhanced Focus List – Japan (8)</li> <li>• Majority Voting for Director Elections Campaign (45)</li> <li>• Proxy Voting – Vote at 11,000 company meetings and 105,000 resolutions annually</li> <li>• Proxy Voting Engagements               <ul style="list-style-type: none"> <li>– Over 1000 company engagements (via conference call, email, letter, and in-person meetings) on corporate governance related matters and proxy voting</li> </ul> </li> <li>• The Conference Board – Boardroom Roundtable - Co-sponsored with CalPERS (Potential Board candidates meet with members of corporate nominating committees at round-table)</li> </ul>

## 3. Current Work | Human Capital Initiatives

### Advocacy Work

Completed	Evolving	Core
<ul style="list-style-type: none"> <li>• Climate Change Policy Advocacy               <ul style="list-style-type: none"> <li>– Global Investor Statement on Climate Change</li> <li>– “Pocantico Statement” on Climate Resilient Infrastructure</li> <li>– Paris Pledge for Action</li> <li>– Participation in United Nations climate events including: COP 21 (Paris), 2014 &amp; 2015 UN Climate Summits (New York)</li> </ul> </li> <li>• Securities and Exchange Commission               <ul style="list-style-type: none"> <li>• Diversity Petition</li> <li>• Pay Ratio Rule</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Work with Public Affairs and Legislative advisor to continue Climate Change Policy Advocacy               <ul style="list-style-type: none"> <li>– Environmental Protection Agency Clean Power Plan review</li> <li>– Carbon Pricing</li> </ul> </li> <li>• United Nations Environmental Programme Finance Initiative               <ul style="list-style-type: none"> <li>– Inquiry into the Design of a Sustainable Financial System</li> <li>– Evolve work with United Nations to focus on 2018 meeting following up on Paris Agreement and engagement of Montreal Pledge companies</li> </ul> </li> <li>• SEC Board Diversity disclosure rule</li> </ul>	<ul style="list-style-type: none"> <li>• Legislative and Regulatory Guidelines               <ul style="list-style-type: none"> <li>– Investor Independence; Corporate Accountability; Financial Markets; Diversity; Sustainability</li> </ul> </li> <li>• Commodities and Futures Trading Commission               <ul style="list-style-type: none"> <li>– Derivatives; CFTC Funding</li> </ul> </li> <li>• Financial Accounting Standards Board               <ul style="list-style-type: none"> <li>– Materiality</li> </ul> </li> <li>• International Accounting Standards Board               <ul style="list-style-type: none"> <li>– Conceptual Framework; Agenda</li> </ul> </li> <li>• Securities and Exchange Commission               <ul style="list-style-type: none"> <li>– Proxy Access; Universal Proxy Ballots; Shareholder Proposal Rights; Executive Compensation; Derivatives; Political Spending; SEC Funding; Diversity disclosure rule; Climate Change</li> </ul> </li> </ul> <hr/> <ul style="list-style-type: none"> <li>• International Listing Standards (Hong Kong)</li> <li>• Litigation</li> <li>• Public Company Accounting Oversight Board               <ul style="list-style-type: none"> <li>– Auditing Standards; Audit Partner Disclosure</li> </ul> </li> <li>• Targeted Investments Program – California Legislative Policy</li> </ul>

# 3. Current Work | Human Capital Initiatives

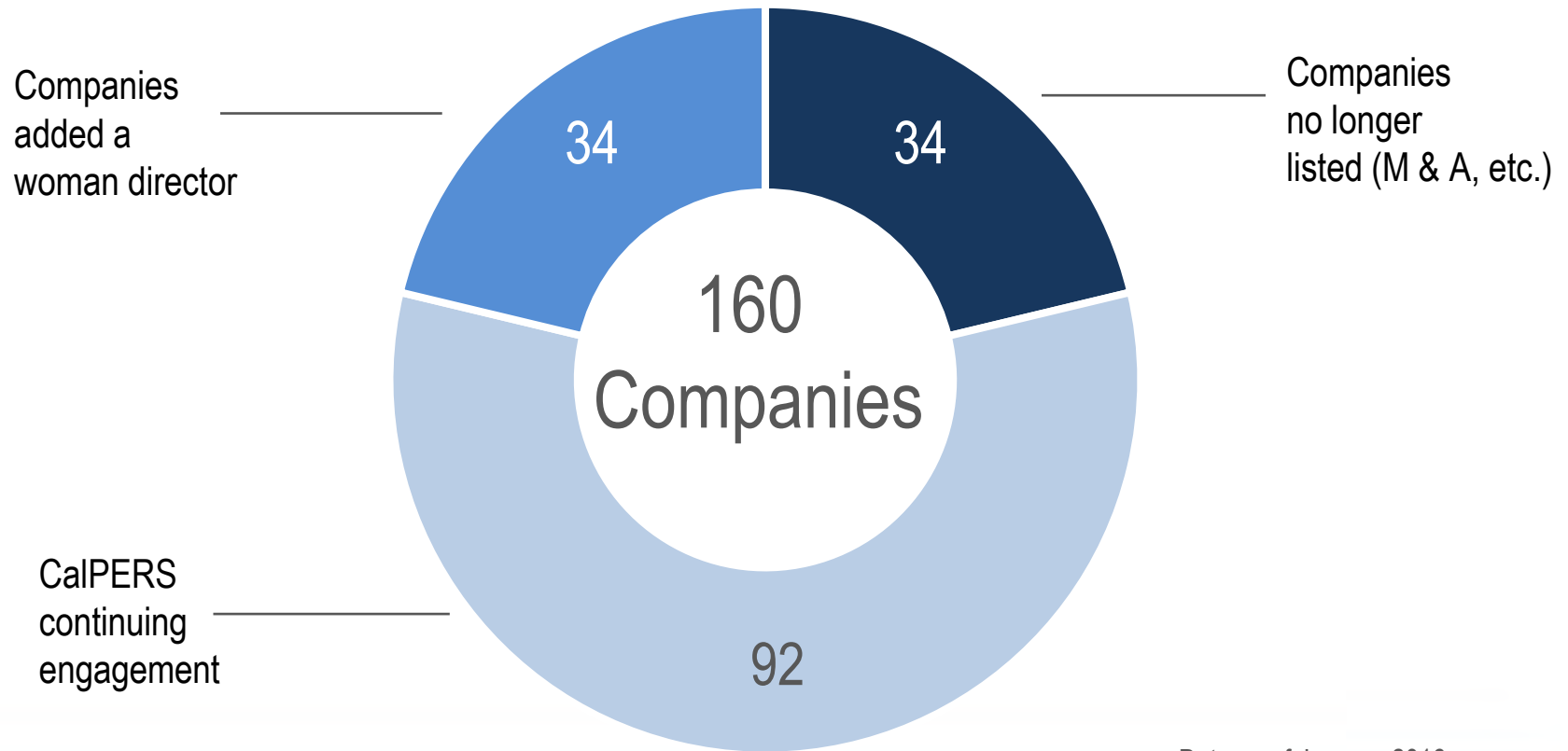
## Integration Work

Completed	Evolving	Core
<ul style="list-style-type: none"> <li>Global Equity Portfolio – HSBC</li> <li>Private Equity – Clean Tech</li> </ul>	<ul style="list-style-type: none"> <li>Principles for Responsible Investment Reporting</li> <li>Asset Owner Disclosure Project</li> </ul>	<ul style="list-style-type: none"> <li>Manager Expectations on ESG</li> <li>Montreal Pledge – carbon footprint</li> <li>ESG Data and Tools</li> <li>Global Governance Principles – <b>Principle development:</b> – Investor Rights; Compensation; Capital Allocation: Environmental and Climate; Total Fund; <b>Human Capital Management; Alignment of Interest</b></li> <li>Clean Power Research</li> <li>Greenprint</li> <li>GRESB Infrastructure – standards include human capital issues such as labor standards</li> </ul> <hr/> <ul style="list-style-type: none"> <li>Affordable Housing Policy</li> <li>CA Investments</li> <li>Responsible Contractor Policy</li> <li>INVO Diversity and Inclusion Steering Committee – Corporate Board Diversity; Manager Expectations; INVO Talent Management</li> <li>Targeted Investment Program (TIP) – Five Year Emerging, Transition, and Diverse Manager Programs; Responsible Contractor Policy</li> </ul>



### 3. Current Work | Diversity Engagements

CalPERS/CalSTRS 2014 joint letter to California companies with no women on the Board according to UC Davis study:



Data as of January 2016

## 4. Investment Risk | Human Capital Management Coalition

The Human Capital Management Coalition, of 24 institutional investors, including CalPERS, frames its engagement of companies on supply chain issues around the following:

Board Oversight – Tone at the Top	<ul style="list-style-type: none"> <li>• How does the Board ensure that its expectations on human capital management are reflected throughout the management chain?</li> <li>• What have been the Board’s priorities on human capital management in the past year, and what are its priorities going forward?</li> </ul>
Performance/Long-Term Value Creation & Operational Integration	<ul style="list-style-type: none"> <li>• What metrics does the Company view as the main material drivers of long-term shareholder value-creation? Which of these metrics does the Company view as directly related to human capital management practices as long-term value drivers?</li> </ul>
Incentives and Compensation Structure	<ul style="list-style-type: none"> <li>• What specific incentive metrics are in place to encourage proper human capital management and risk oversight?</li> </ul>
Data Collection, Risk Management, and Accountability through Employee Engagement	<ul style="list-style-type: none"> <li>• What methods does the Company use to collect information from, and otherwise communicate with, its employees?</li> <li>• Is the Board provided with any information (report, stats, etc.) on this feedback? By whom? How is it integrated in the Board’s decision-making process?</li> <li>• Does the Company collect information on human capital management and HCM risks in its supply chain?</li> </ul>
Investor Engagement and Disclosure	<ul style="list-style-type: none"> <li>• Are operational changes to address human capital management risk mitigation disclosed internally and/or externally?</li> </ul>

## 5. Integration Focus | Manager Expectations (pilot)

Each asset class' Sustainable Investment Practice Guidelines (Guidelines) lay out how they are approaching ESG integration, through the Manager Expectations pilot.

Examples of the practices delineated in the Guidelines include:

- All Asset Classes include results of reviewing a potential manager's policies and responses to ESG questions as a factor in the investment decision-making process.
- All Asset Classes seek to include sustainability requirements into contracts regarding manager's Sustainable Investment processes and reporting.
- Global Fixed Income staff completes a quantitative and qualitative assessment of the Corporate Investment Grade portfolio vs the Barclays Long Liability Index on a quarterly basis using MSCI's database of ESG factor risks.
- Real Assets uses monitoring tools (such as ULI GreenPrint and GRESB Infrastructure) to monitor sustainability performance of assets and managers.



# SASB Human Capital Topics and Metrics

Summary Information for CalPERS  
March 30, 2016

SASB

# Human capital risk categories

SASB has identified four categories of human capital risk that can impact company value

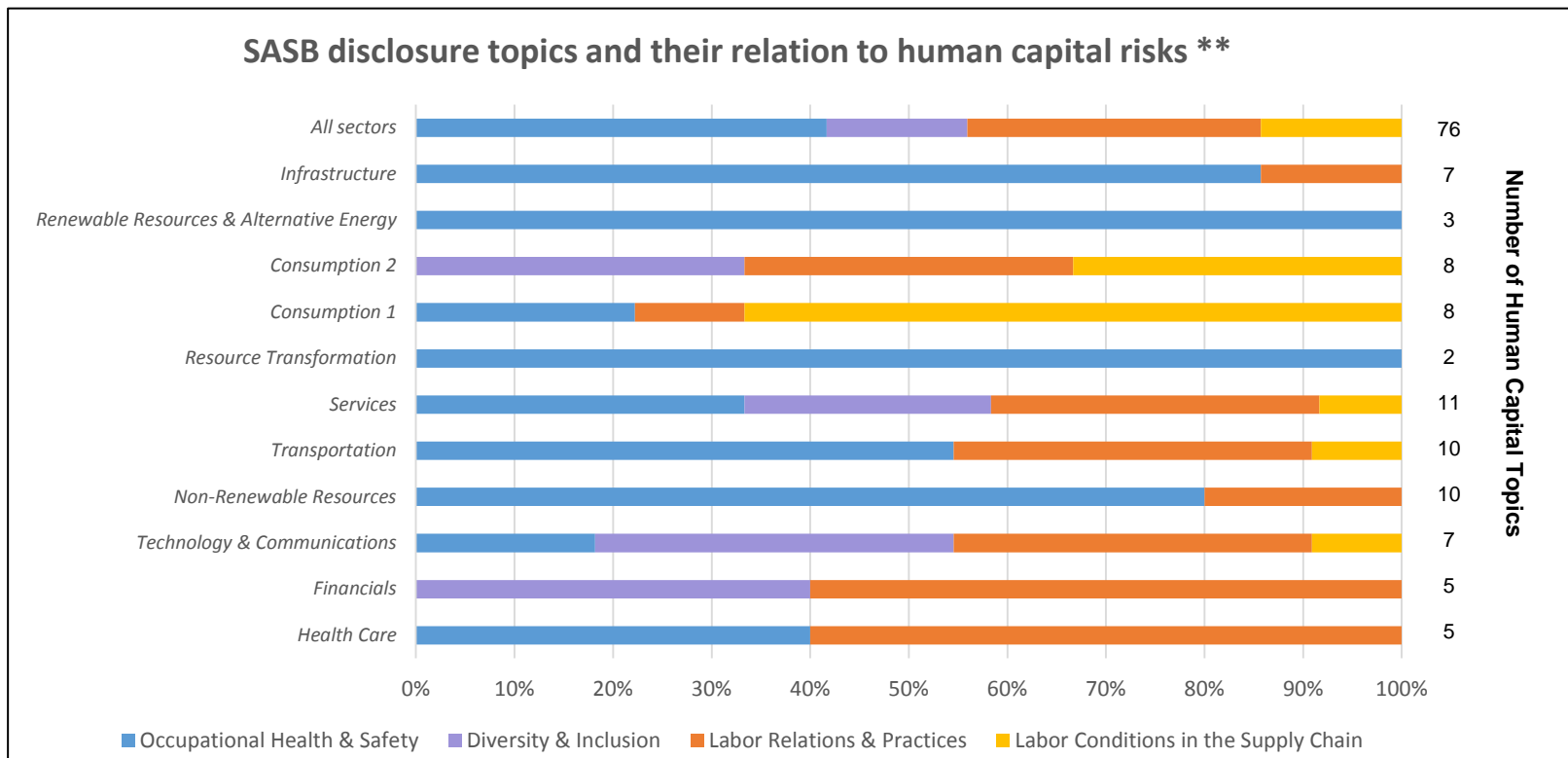
Human Capital Risk	Definition	Potential Impact on:
Occupational Health & Safety	Employees and contractors have a right to a safe work environment, including protection from any known dangers –that could result in illnesses, injuries or fatalities– and from the long term effects on human health and wellbeing of occupational hazards.	<ul style="list-style-type: none"> <li>- Workforce productivity</li> <li>- Fines and penalties</li> <li>- Contingent liabilities</li> </ul>
Diversity & Inclusion	Diversity refers to the individual differences existent in a company’s workforce; these can be based on several factors including gender and race. Inclusion refers to bringing together and harnessing these differences in a way that is beneficial for companies.	<ul style="list-style-type: none"> <li>- Market share</li> <li>- Workforce productivity</li> </ul>
Labor Relations & Practices	Employees have a right to join with co-workers to address work-related topics and improve working conditions. Labor relations refers to the management of unionized employees, collective bargaining agreement negotiations and the prevalence of work stoppages. In extreme cases, a lack of opportunity to organize, with or without a union, can lead to human right violations in the workplace (e.g. forced, child labor). Labor practices refers to the management of employee compensation and benefits, as well as employee recruitment, development and retention practices.	<ul style="list-style-type: none"> <li>- Cost of Revenue (via wages, benefits, etc.)</li> <li>- Worker productivity and turnover rates.</li> <li>- Market share (via labor strikes)</li> <li>- Fines and penalties</li> <li>- Reputation</li> </ul>
Labor Conditions in the Supply Chain	Managing working conditions in the supply chain can be important for companies with complex value chains, especially if suppliers are located in countries where labor laws and standards may not be consistently applied or where oversight and enforcement may be weak. Labor conditions refers to the elements covered by the risks mentioned above (i.e. occupational health & safety; diversity & inclusion; and labor relations & practices), but in the context of the supply chain.	<ul style="list-style-type: none"> <li>- Reputation</li> <li>- Market share</li> </ul>



# Human capital risks by sector

## Material human capital risks vary across sectors

- SASB's Provisional Standards include 76 disclosure topics that cover human capital risks (18% of total topics).
  - These risks span across 55 industries which represent 66% of the market capitalization of U.S. listed securities\*.
    - **Occupational Health & Safety:** 32 industries, 29% of market cap
    - **Diversity & Inclusion:** 12 industries, 30% of market cap
    - **Labor Relations & Practices:** 25 industries, 40% of market cap
    - **Labor Conditions in the Supply Chain:** 12 industries, 12% of market cap



\* Market capitalization figures as of June 2015, for all U.S. listed, non OTC, securities

\*\* A particular industry may be affected by more than one type of human capital risk.



# SASB metrics to manage human capital risk

SASB develops industry-specific metrics to allow investors to assess human capital risks

Human Capital Risk	Sample metric #1	Sample metric #2
Occupational Health & Safety	<p><b>Industry:</b> Oil &amp; Gas – Refining &amp; Marketing</p> <p><b>Metric:</b> (1) Total Recordable Injury Rate (TRIR), (2) Fatality Rate, and (3) Near Miss Frequency Rate for (a) full-time employees and (b) contract employees.</p>	<p><b>Industry:</b> Pharmaceuticals</p> <p><b>Metric:</b> Laboratory-acquired infection (LAI) rate - LAIs per 1000 employees in human and animal diagnostic laboratories.</p>
Diversity & Inclusion	<p><b>Industry:</b> E-Commerce</p> <p><b>Metric:</b> Percentage of technical employees who are H-1B visa holders. Percentage of successful H-1B visa applications.</p>	<p><b>Industry:</b> Investment Banking &amp; Brokerage</p> <p><b>Metric:</b> Percentage of gender and racial/ethnic group representation for: (1) executives and (2) all others.</p>
Labor Relations & Practices	<p><b>Industry:</b> Restaurants</p> <p><b>Metric:</b> Average hourly wage for restaurant employees, by region; percentage of employees earning minimum wage.</p>	<p><b>Industry:</b> Airlines</p> <p><b>Metric:</b> Number and duration of strikes and lockouts. Note: Disclosure shall include a description of the root cause of the stoppage, impact on operations, and corrective actions taken</p>
Labor Conditions in the Supply Chain	<p><b>Industry:</b> Apparel, Accessories &amp; Footwear</p> <p><b>Metric:</b> Percentage of (1) tier 1 suppliers and (2) suppliers beyond tier 1 that have been audited to a labor code of conduct, percentage conducted by a third-party auditor.</p>	<p><b>Industry:</b> Hardware</p> <p><b>Metric:</b> Suppliers' social and environmental responsibility audit compliance: (1) priority non-conformance rate and associated corrective action rate, and (2) other non-conformances rate and associated corrective action rate</p>

