

# Global Governance - Environmental, Social, and Governance Strategy

July 18, 2016

CalPERS Board of Administration and Executive Offsite

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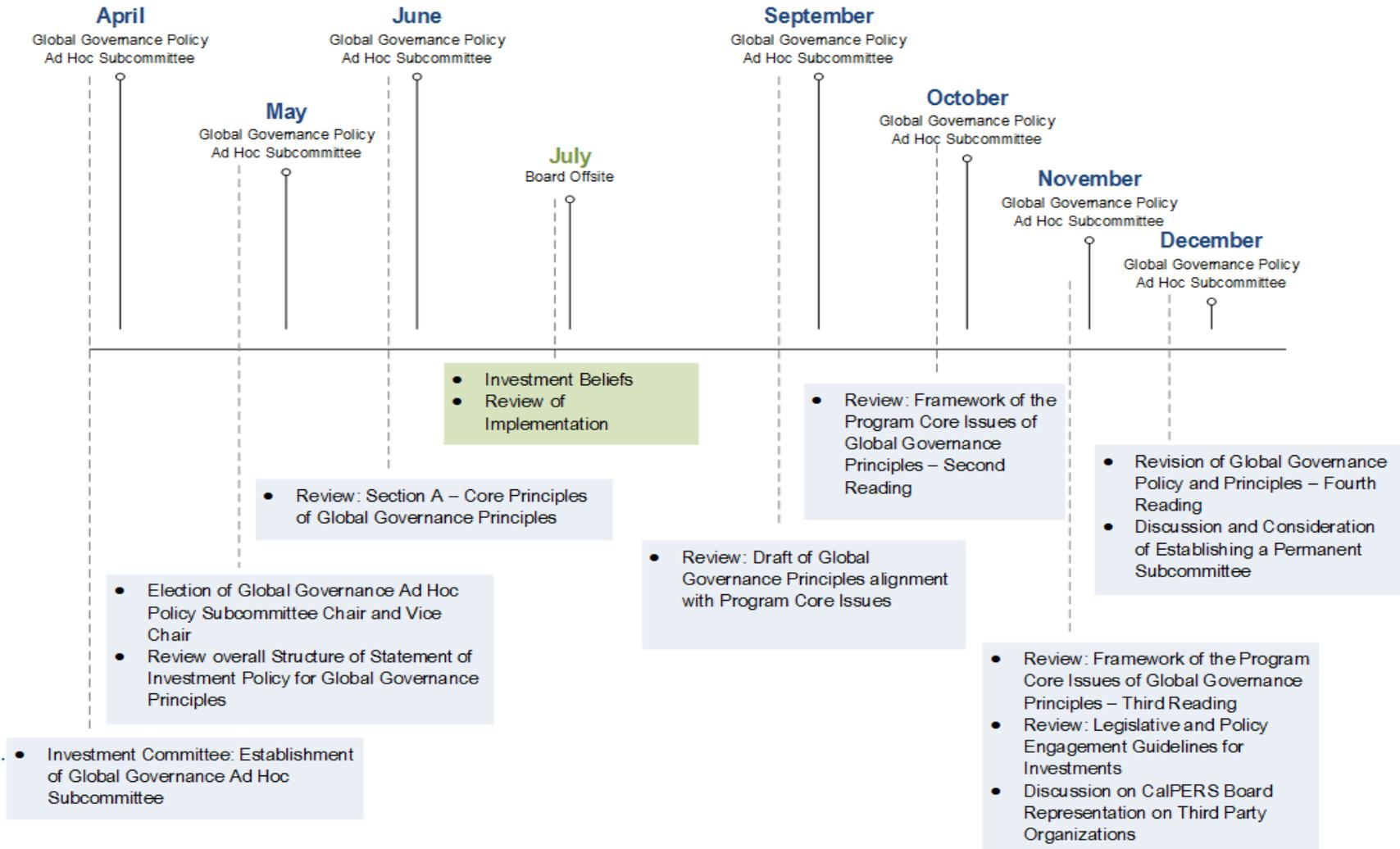
# Objectives

- Review strategic initiatives
- Seek Investment Committee final guidance:
  - Global Governance 3 – 5 Year Strategic Plan
  - Key Performance Indicators (KPIs)
- Review key partnerships

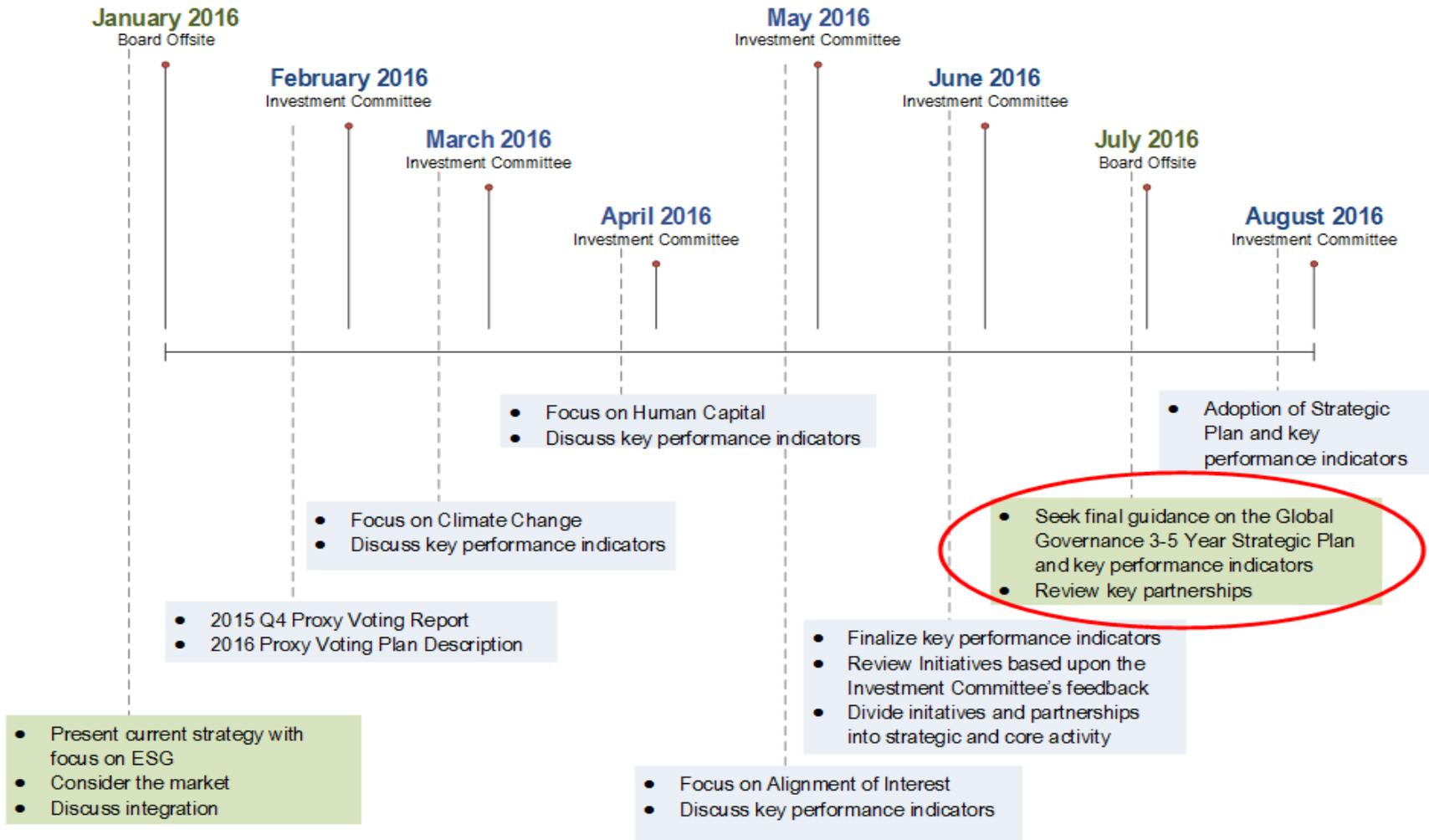
# Summary of the 5-year plan for Governance & Sustainability

	Environmental	Social	Governance
S T R A T E G I C	<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 (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>Topics from Global Governance Principles Review</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Engage 80 PRI Montreal Pledge Companies (identify water risk candidates)</li> </ul>	<ul style="list-style-type: none"> <li>Diversity and Inclusion                             <ul style="list-style-type: none"> <li>Engagement</li> <li>Voting</li> <li>3D</li> <li>Advocacy</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Private Equity Fee and Profit Sharing Transparency (including AB 2833)</li> </ul>
C O R E	<ul style="list-style-type: none"> <li>Carbon Footprinting – Total fund</li> <li>Thermal Coal Companies – (SB185)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible Contractor Program</li> <li>Supply Chain Activities</li> <li>Income Inequality (placeholder)</li> </ul>	<ul style="list-style-type: none"> <li>Proxy Voting</li> <li>Shareowner Campaigns (Proxy Access/ Majority Voting)</li> <li>Focus List</li> <li>Divestment: Mandates, Policy &amp; Principles</li> </ul>
	Work through Partnerships to leverage resources and impact		
	<ul style="list-style-type: none"> <li>Corporate Engagements – (1,000 annually)</li> <li>Federal and Legislative Guidelines</li> <li>Response to Ad Hoc Stakeholder Requests</li> </ul>		

# 2015 Timeline: Global Governance Principles Review



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



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# Strategic Initiatives

- Data and Corporate Reporting Standards
- Engage UN PRI Montreal Pledge Companies
- Diversity and Inclusion
- Manager Expectations
- Research
- Private Equity Fee and Profit Sharing Transparency

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# Data & Corporate Reporting Standards

## Objectives

- Initial voluntary corporate reporting including enhanced disclosure of ESG considerations in periodic filings globally
- Adoption of enhanced mandatory reporting of ESG in periodic filings globally

## Key Performance Indicators

- Benchmark and track the progress of integrated reporting globally
- Mandatory standards adopted globally

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# Engage UN PRI Montreal Pledge Companies

## Objective

- Manage climate risk and opportunity by engaging 80 Montreal Pledge companies

## Key Performance Indicators for 80 Montreal Pledge Companies

- All 80 companies establish a carbon reduction target consistent with Paris COP 21
- Measure and report reduction in carbon footprint
- Track financial performance of companies with established reduction targets

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# Diversity & Inclusion

## Objective

- Enhance Total Fund performance by increasing corporate board diversity

## Key Performance Indicators

- All public companies in which CalPERS invests have a dimension of board diversity\*
- Track financial performance of companies with diverse boards

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# Manager Expectations

## Objective

- Manager Expectations that allow CalPERS to better understand and manage ESG investment risk and opportunity across the portfolio

## Key Performance Indicators

- All managers have policies and procedures for including ESG information in decision making
- Asset classes establish and implement documented procedures for due diligence, contracting, and monitoring activities

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# Research

## Objective

- Strengthen understanding of ESG factors relevant to risk and return specific to CalPERS investment objectives

## Key Performance Indicators

- Complete evidence review
  - SIRI refresh (inclusive of diversity and income inequality)
  - Global Equity strategies
  - Topics from Global Governance Principles review
- Integrate relevant research findings into investment decision making

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# Private Equity Fee & Profit Sharing Transparency

## Objective

- Industry adoption of the Institutional Limited Partners Association (ILPA) framework for transparency of fees and profit sharing

## Key Performance Indicators

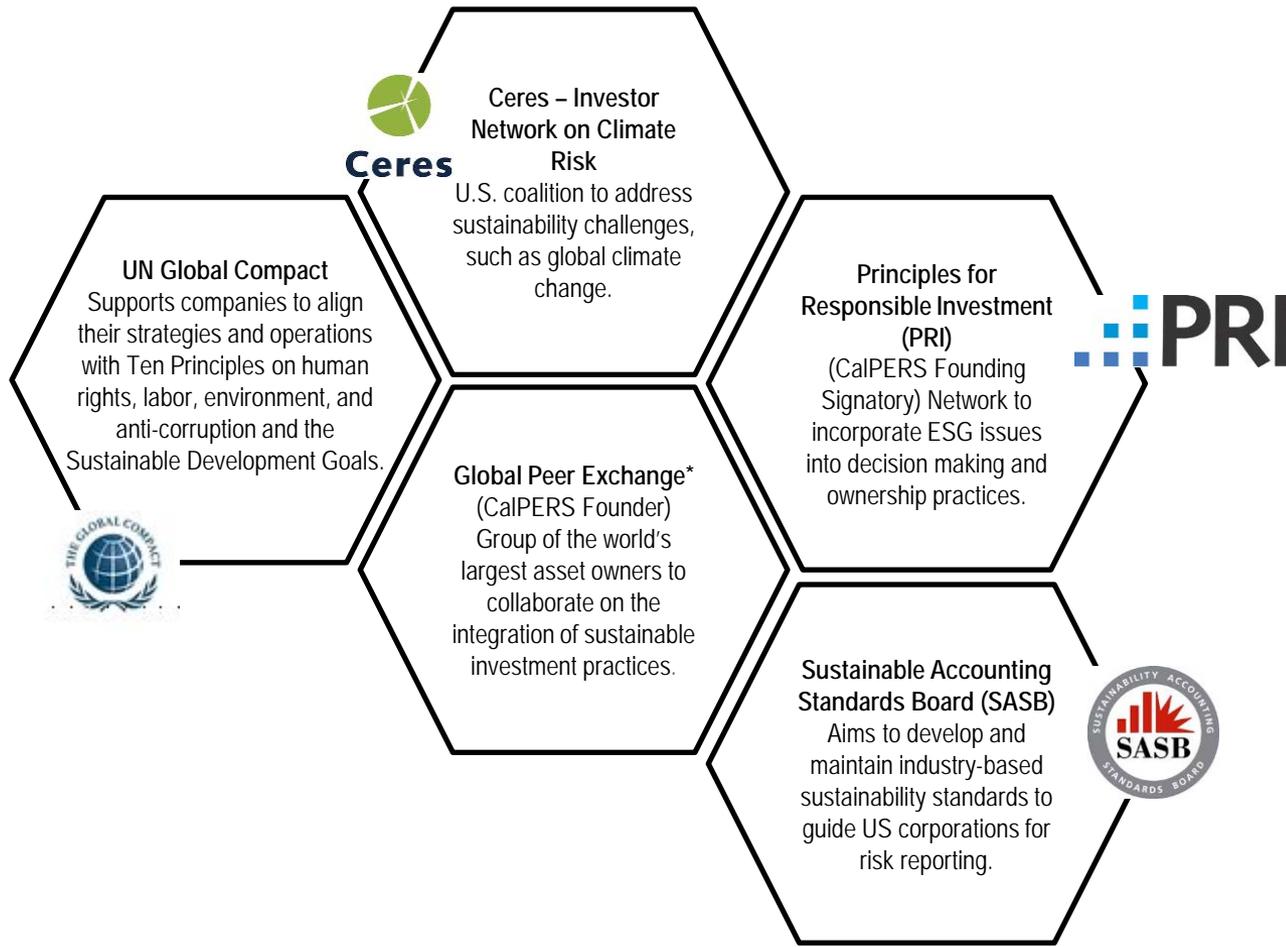
- Ensure 100% of CalPERS' strategic private equity managers complete the ILPA fee reporting template and provide profit sharing information
- Target 100% of CalPERS private equity managers complete the ILPA fee reporting template and provide profit sharing information
- Track and report industry ILPA adoption
  - Managers completing the ILPA fee reporting template and providing profit sharing information
  - Limited partners requiring such information from their general partners

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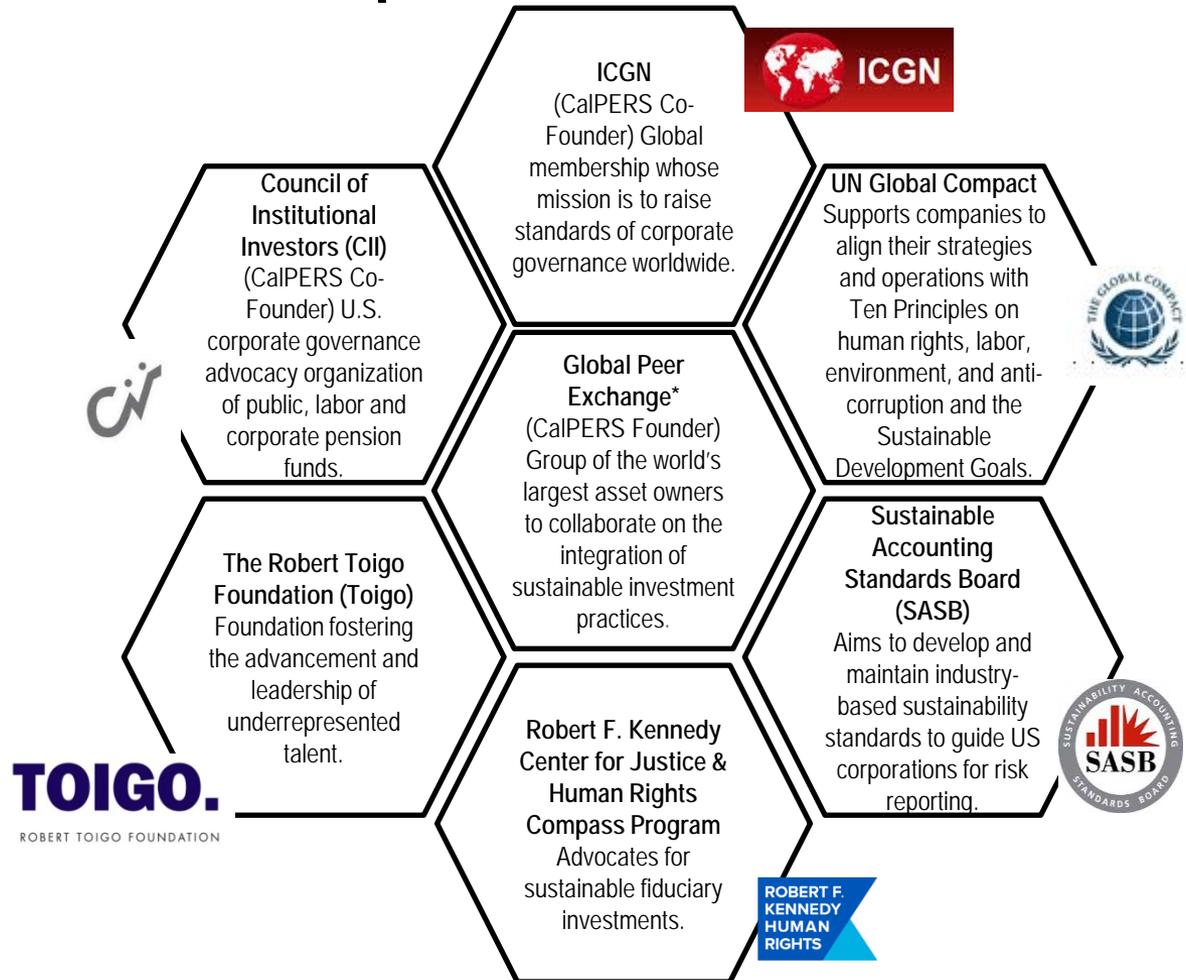
# Partnerships | Key to Strategy

- Many relationships, but certain partnerships are key to implementing ESG strategy
- Share experiences and best practices
- Leverage resources
- Enhance impact

# Key Partnerships | Environmental



# Key Partnerships | Social



# Key Partnerships | Governance

