



# Investment Committee Agenda Item 6a

December 19, 2016

**Item Name:** Responsible Contractor Policy Program Annual Report

**Program:** Investment Manager Engagement Programs

**Item Type:** Information

### **Executive Summary**

This agenda item provides the required annual update on the Real Assets program's compliance with CalPERS' Responsible Contractor Program (RCP) Policy. For fiscal year 2015-16, 99.73% of qualifying contract payments were made to certifying responsible contractors.

### **Strategic Plan**

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability through actively managing business risks.

### **Background**

#### Responsible Contractor Program Policy

CalPERS has a deep interest in the condition of workers employed by CalPERS and investment managers at its Real Estate and Infrastructure investments. CalPERS, through the RCP Policy, supports and encourages fair wages and benefits for workers employed by its contractors and subcontractors, subject to fiduciary principles. CalPERS believes that an adequately compensated and trained worker delivers a higher quality product and service.

#### Annual Report

This agenda item is the first report under the revised and enhanced RCP Policy approved by the Investment Committee March 2015. The RCP Policy seeks to secure the condition of workers employed by CalPERS and investment managers without adverse effect on investment returns, access to investment opportunities, or significant cost impacts.

The compliance information presented is limited to contracts of \$100,000 and above, and applies to all domestic Real Estate and Infrastructure investment managers, joint ventures, and partnerships where CalPERS has greater than 50% ownership interest and the standards of the revised RCP Policy are met.

#### 2015 Responsible Contractor Program Policy Revision

In March 2015, the Investment Committee amended the RCP Policy to incorporate the 2010 Neutrality Trial RCP Policy, initiate a new Neutrality Trial applicable to select non-core Real Estate and Infrastructure managers, and establish a more comprehensive Certification of Responsible Contractor Status (Contractor Certification). On July 1, 2015, Real Estate and Infrastructure managers began operating under the revised and enhanced Policy.

## **Analysis**

### Annual Report Fiscal Year 2015-16

For the Fiscal Year 2015-16, Real Estate, Infrastructure, and Housing Program managers paid in excess of \$1.22 billion toward RCP contracts with a combined compliance rate of 99.73%. Core investment managers paid 100% and non-core investment managers<sup>1</sup> paid 99.9% of their total qualifying contracts to certifying responsible contractors under the Policy (Attachment 1).

Under the RCP Policy, compliance for existing Housing Program managers is not mandatory, though strongly recommended. All Housing Program managers have voluntarily submitted annual compliance reports. For Fiscal Year 2015-16, Housing Program investment managers awarded 99.4% of the qualified capital expenditure contract payments to certifying responsible contractors (Attachment 2).

### Responsible Contractor Certifications

For the Fiscal Year 2015-16, all Real Estate and Infrastructure investment managers subject to the RCP Policy, with the exception of one<sup>1</sup>, and all Housing Program managers voluntarily complying, have certified in writing that, to the best of their knowledge, they and their delegates and sub-delegates have complied with the RCP Policy and, more specifically, with the roles and responsibilities stated within the Policy.

### Manager Responsibilities

The 2015 RCP Policy includes a new manager responsibilities questionnaire. For Fiscal Year 2015-16, 18<sup>1</sup> of the 19 managers that reported assets subject to the RCP Policy submitted information under the enhanced reporting requirements. The following is a summary of their responses.

- All managers maintained written policies and procedures for implementing and complying with the RCP Policy. All managers provided employee training on administering the Policy.
- All managers with active RCP contracts communicated the RCP Policy, and its own written policies or procedures relating to the RCP Policy, to all of their contractors.
- Sixteen managers reviewed lists of current and pending RCP Contracts provided by each of their contractors<sup>2</sup>.
- All managers monitored and enforced their and their contractors' compliance with the Policy, including the investigation of potential violations.
- Seven managers reported expanding into new areas during the reporting period. All seven managers notified, or are in the process of notifying, trade/service unions of their expansion.
- All managers that bid contracts during Fiscal Year 2015-16 reported using or causing contractors to use a 30-day pre-bid procedure when appropriate under the circumstances.
- More than half of managers provided stated comments regarding additional activities undertaken to administer the RCP Policy. Most activities reported were communication or engagement with labor.
- All Core managers and four non-core managers reported costs related to administering RCP. Of those managers that reported costs, most estimated between \$25,000 and

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<sup>1</sup> One manager disposed of all assets during the fiscal year and did not provide a report

<sup>2</sup> The two remaining managers are Housing Managers that comply with the Policy on a voluntary basis

\$200,000 to administer the policy. Estimates vary according to the number of qualifying contracts and the unique staffing and implementation practices of each manager.

- All managers reported the Policy has little or no impact on CalPERS investment returns.

#### Notification

The RCP Bidding Notification Method and Contact Sheet (Attachment 3) includes names of managers, notification methods, and email addresses. In addition to being publicly available on the Investment Manager Engagement Programs website, staff emails this list to all interested parties whenever it is requested.

#### RCP Policy and Total Fund Labor Formal Complaints and Issues

The Investment Office continues to address labor issues as they occur, in accordance with the RCP Policy and the Investment Beliefs. These issues continue to absorb significant amount of staff time. No formal complaints were filed during the reporting period.

#### **Budget and Fiscal Impacts**

Existing budgetary resources fund the ongoing costs for implementation, administration, and management of the RCP Policy for the CalPERS Investment Office. During Fiscal Year 2015-2016, the Investment Management Engagement Program's (IMEP) approximate cost to support the RCP Policy and engage on labor issues was \$79,250 (which included estimated staff costs of \$50,000 and consultant services of \$29,250). This was a decrease from Fiscal Year 2014-15 costs of \$288,000, which occurred during the RCP Policy revision process.

In addition to IMEP's costs, there is an ancillary fiscal impact to the CalPERS Investment Office and CalPERS Legal and Executive Offices and the Board of Administration that the Investment Office is not able to quantify.

#### **Benefits and Risks**

Not applicable.

#### **Attachments**

Attachment 1 – Investment Manager Combined Compliance Report  
Attachment 2 – Voluntary Participation Report: Housing Program  
Attachment 3 – RCP Bidding Notification Method and Contact Sheet

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