
December 19, 2016**Item Name:** Manager Expectations Pilot Update**Program:** Total Fund**Item Type:** Information**Executive Summary**

This agenda item provides a progress report on the pilot program intended to develop Environmental, Social, and Governance (ESG) Manager Expectations. It provides a summary from each asset class setting out lessons learned and proposed next steps.

Strategic Plan

This agenda item supports the goal of CalPERS' Strategic Plan to improve long-term pension and health benefit sustainability. The update supports the Investment Committee (IC) in its oversight role to monitor performance, initiatives, and contributions to the System's investment objectives.

Investment Beliefs

The development of ESG expectations for internal and external managers across the Total Fund aligns with CalPERS' Investment Beliefs, in particular:

Investment Belief 4:

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

Investment Belief 9:

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

Background

In May 2015, staff presented a project on ESG Manager Expectations to the IC, which was intended to ensure clarity and consistency in aligning asset class practices with the Investment Beliefs, Global Governance Principles and United Nations (UN) - Principles of Responsible Investment (PRI). The plan included a review of definitions, data sources and taking stock of current practices of internal and external managers. These were benchmarked against external sources such as the UN PRI, International Corporate Governance Network guidelines, and global peers.

Following the review of best practices, each asset class developed a set of draft Sustainable Investment Practice guidelines which reflected their particular strategies. These guidelines

utilized common governance elements applied across the total fund, such as the Investment Beliefs and Global Governance Principles, as well as adapted to the particular strategies of each asset class. The objective was to ensure that sustainable investment considerations were appropriately included throughout the life cycle of investments by internal and external managers, including: selection, contracting, monitoring and management. A pilot program was initiated in order to incorporate experience over time, to ensure that lessons were learned and the project could evolve over time. This agenda item communicates the preliminary results of the 18 month pilot program.

Analysis

Each asset class has conducted a pilot of its own sustainable investment practice guidelines. Lessons learned will be incorporated into the Manager Expectations as the project evolves. Next steps include transitioning the monitoring work to the newly formed Investment Manager Evaluation Program, under the COIO's direction.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

The benefits of developing ESG Manager Expectations across the Total Fund are to ensure clarity and consistency of alignment of our manager's investment activities with CalPERS' Investment Beliefs. The risks include premature development of guidelines in the absence of sufficient quantity and quality of data around the materiality of various ESG factors.

Attachments

Attachment 1 – Manager Expectations Pilot Update

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