Global Equity Sustainable Investment Practice Guidelines

BACKGROUND

This document sets forth the practices by which Global Equity staff will integrate Environmental, Social, and Governance (ESG) risk and opportunities at the individual and Aggregate Portfolio level. The practices described herein focus on long-term value creation and preservation, and the identification ESG of risks and opportunities. These practices are grounded in CalPERS' Investment Beliefs, the United Nations Principles for Responsible Investments (UNPRI) and Global Governance Principles.

A. CalPERS Investment Beliefs

Investment Belief 2
A long time investment horizon is a responsibility and an advantage. Long time horizon requires that CalPERS:

- Consider the impact of its actions on future generations of members and taxpayers.
- Encourage investee companies and external managers to consider the long-term impact of their actions.
- Favor investment strategies that create long-term, sustainable value and recognize the critical importance of a strong and durable economy in the attainment of funding objectives.

Investment Belief 4
Long-term value creation requires effective management of three forms of capital: financial, physical and human.

Investment Belief 7
CalPERS will take risk only where we have a strong belief we will be rewarded for it.

Investment Belief 9
Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

- Sub-belief: 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.

B. UNPRI Principles

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.

C. Global Governance Principles

CalPERS believes that environmental, social and corporate governance issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, and asset classes through time.) - *Introduction - paragraph 4, page 6 (approved March 16, 2015)*

D. Global Equity Program

Global Equity's Aggregate Portfolio encompasses over 10,000 securities in 47 markets with a market value of approximately $150 billion, which is nearly 50% of the Total Market Value of fund assets. The absolute size of the portfolio and its size relative to the total fund increase the importance on how ESG risk and opportunities are identified and managed. The variety of strategies, the disparate objectives and value-add propositions, and the various implementation practices (e.g., quantitative, fundamental) makes a "one size fits all" approach impractical.

The current Aggregate Portfolio is segmented into three general classifications: internally managed index-oriented, internally managed active, and externally managed active. Assets managed internally account for approximately 85% of Global Equity assets. Because of the disparate objectives and value-add propositions within the Global Equity portfolio, each segment has different integration methods, different ESG processes, and different expected outcomes.

ESG FACTORS

Global Equity references the UNPRI ESG Factors and other sources for identifying potential relevant ESG risks and opportunities. Staff recognizes there is not one single source that provides an exhaustive or conclusive list of ESG factors pertinent to all of Global Equity's diverse investments and that only a subset of ESG factors may be relevant to any particular investment.

INVESTMENT PRACTICES

A. Selection

Global Equity utilizes the Alternative Solicitation Process to source external investment opportunities. As part of the process, staff requests detailed and pertinent information on ESG. Scoring is performed by Global Equity staff and the ESG score contributes to the final strategy selection.

B. Contracting

Global Equity seeks to promote greater alignment with its external managers by establishing, where relevant, the following items in contracts:

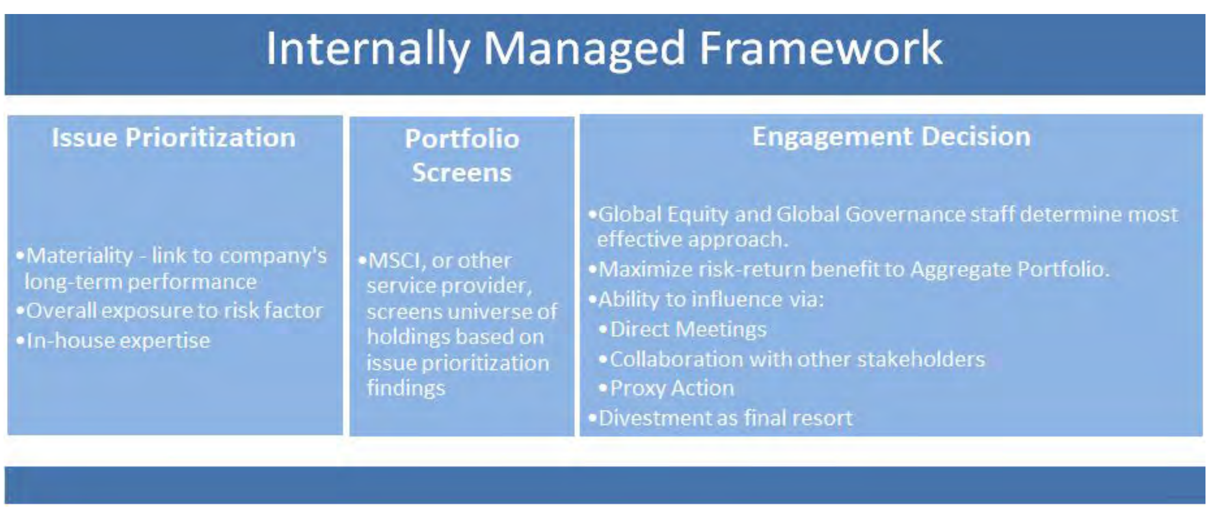
1) Managers have or will commit to have, an investment process which incorporates an assessment of relevant long-term Sustainable Investment or ESG factors;
2) Managers will incorporate relevant ESG factors and Sustainable Investment activities into reporting.

C. Monitoring and Management

Regarding the portfolio, Global Equity will monitor and measure ESG characteristics at the Aggregate and individual Portfolio as follows:

Internally Managed Index-Oriented and Active Assets

- Review companies that present ESG risks identified by the Global Governance Principles, legislative mandate (Iran and Sudan) and Board decision (tobacco and certain gun manufacturers) based on the framework:



- These companies will either be:
  - ❖ Engaged seeking ESG score improvements

- Excluded from the individual and policy benchmarks and not held in the internal portfolios – essentially a divestment approach
- Reviewed annually and as needed by Global Equity staff

- Proxy voting based on the Global Governance Principles

Externally Managed Assets

Regarding external managers, Global Equity will review ESG-related issues as part of investment management process in the following ways:

- Staff will inquire the Manager's ESG-related issues, including:
  - Their ongoing process for identifying and acting on ESG-related opportunities and risks
  - New or ongoing litigation issues pertaining to ESG
  - Material ESG issues that may impact the value of the portfolio
- Staff will review Manager ESG reports on at least an annual basis.
- All external managers exclude companies identified by legislative mandate (Iran and Sudan) and Board decisions (certain gun manufacturers). Tobacco companies are excluded from the individual and policy benchmarks, but not prohibited in portfolios
- Proxy voting done by CalPERS and based on the Global Governance Principles except for the Affiliate Funds when invested in commingled funds, which are voted outside of CalPERS.

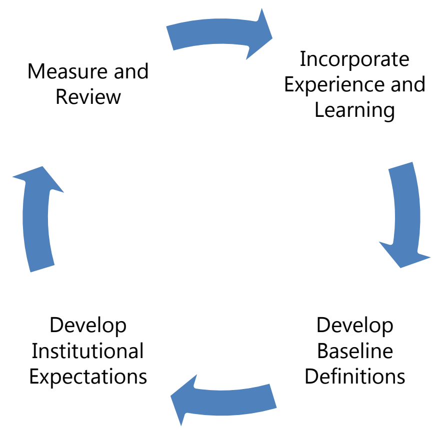
D. Ongoing

Staff will learn and identify best practice from managers for continuous enhancements for both internally and externally managed strategies

Global Equity expects that its practices will evolve and adapt over time based on program effectiveness, emergence of best practices, and engagement capacity.

Global Equity plans to evolve its practices through a multi-step process:

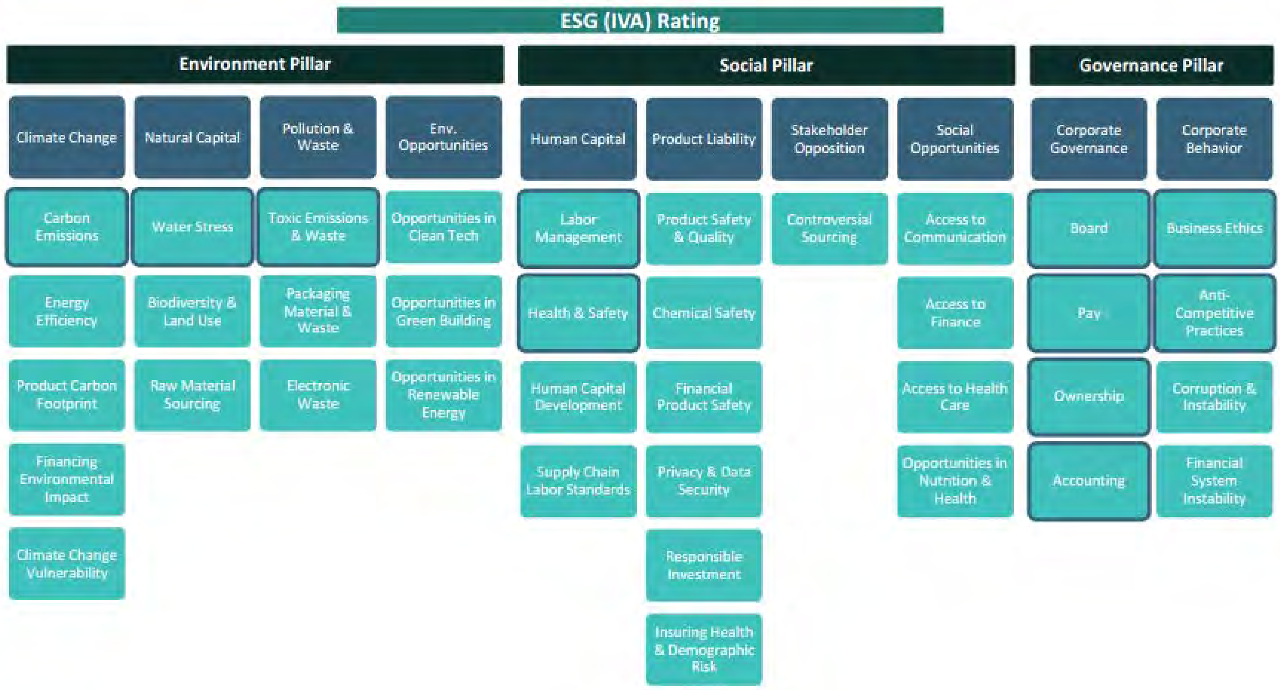
1) Continue to learn what others are doing (peers, external managers, internal model providers, ESG service providers, etc.)
2) Develop and deepen baseline understanding of ESG and expand internal knowledge
3) Develop institutional expectations
4) Measure and Review



Using this approach, Global Equity intends to clarify our ESG analysis and isolate the factors that can have a material reputational or financial impact on public companies. Part of the analysis is to identify ESG risk tools that can be used to supplement what is learned from MSCI and others and to analyze individual strategies and the Aggregate Portfolio against a comprehensive set of risk characteristics.

APPENDIX

Item A: MSCI ESG Research



Source: MSCI ESG Ratings Methodology | May 2015

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