
June 19, 2017**Item Name:** Sustainable Investment Research Initiative Refresh Update**Program:** Sustainable Investment**Item Type:** Information**Executive Summary**

This agenda item shares insights from CalPERS' refresh of the Sustainable Investment Research Initiative (SIRI). The SIRI is CalPERS' periodic review of academic evidence studying the impact of environmental, social and governance factors on investment risk and return. The goal of SIRI is to identify published and working research papers of potential relevance to a large, global, long-term, and multi asset class institutional investor. Through the 2013 first round review, our academic partners identified nearly 700 papers in journals of finance, economics, accounting, law and business and added more than 1,000 papers through the 2016 update.

The SIRI review enables CalPERS to ground its approach to long-term value creation in economics and evidence. The presentation will address results of the 2016 SIRI refresh, providing examples of papers on climate change, diversity & economic inequality – specific areas of focus identified in the August 2016 ESG Strategic Plan. Though capital formation was not an explicit focus of the 2016 update, as it is an emerging advocacy priority and the review uncovered relevant research, as such the presentation will also address papers on that topic.

Strategic Plan

This agenda item supports CalPERS' Strategic Plan goal to strengthen the long-term sustainability of the pension fund.

Investment Beliefs

This agenda item is applicable to the following CalPERS' Investment Beliefs:

- Investment Belief 2: A long time investment horizon is a responsibility and an advantage.
- Investment Belief 3: CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.
- 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.

Background

CalPERS' Investment Beliefs and Governance and Sustainability Principles frame our investment approach, including the goal of considering three forms of capital – financial, physical and human – in investment decision making. Our 5-year Environmental, Social and Governance (ESG) Strategy highlights the need for greater data availability and corporate reporting to better enable us to consider the three forms of capital. Mandatory reporting

regulation and ESG listing standards in certain markets as well as voluntary reporting has improved the availability of relevant information. The most useful data is industry-specific, reported by the majority of firms across a sector and calculated according to a common standard. At present, such data is not widely available on the majority of ESG factors. Academic researchers and investors face similar constraints with data availability and comparability.

In 2012, CalPERS launched the Sustainable Investment Research Initiative (SIRI) to drive innovative thought leadership to inform and advance our understanding of sustainability factors. We are particularly interested in the impact such factors may have on companies, markets, and investment intermediaries from the perspective of a large, global, long-term, and multi asset class institutional asset owner.

CalPERS partnered with UC Davis Graduate School of Management (UC Davis) and Columbia Law School for the first round of SIRI. The universities conducted a comprehensive review of evidence resulting in a bibliography of over 700 academic studies on sustainability factors and led a rigorous academic debate at the Sustainability & Finance Symposium in 2013. The Symposium Program Committee, co-chaired by UC Davis and Columbia, issued a call for papers seeking empirical and theoretical research from academics and investment practitioners in the fields of finance, economics, accounting, law and business. The discussion centered on sustainable long-term value creation and capital market stability, focused on seven selected papers, from over 90 submissions.

CalPERS requested a refresh of the SIRI in 2016, tailored to the review of evidence and updating the bibliography. The update was conducted by UC Davis. The reviewers looked at research papers published in academic journals as well as unpublished working papers. Practitioner papers (e.g. produced by asset managers) were not included in either phase of the SIRI.

UC Davis was asked to place particular attention to papers relevant to the following issues:

- Environmental: Climate Change – including issues related to resource scarcity, water stress, carbon emissions, energy efficiency, clean technology, and renewable energy
- Social: Human Capital – including issues related to income inequality, exploitative labor practices, health and safety, responsible contracting and diversity
- Governance: Alignment of interest through corporate governance – including issues such as shareowner rights, executive compensation, fund manager terms and conditions and investor protection

The refreshed identified over 1,000 new papers and UC Davis highlighted nearly 100 with potentially higher relevance to CalPERS. The majority of new papers were published or posted since 2013, with just under half in leading journals, suggesting a shift underway in scale of research and attention of top journals to sustainable investment themes. Research into governance themes continue to account for the majority of papers.

Breakdown by broad topic area:	
Environmental	184
Governance	528
Social	176
Multiple	202
Total	1090

Budget and Fiscal Impacts

Not Applicable

Benefits and Risks

This inquiry will help staff to define relevant sustainability factors and the impact they may have on companies, markets, and investment intermediaries supporting CalPERS aim to be a principled and effective investor delivering sustainable, risk-adjusted returns.

The inability to identify relevant sustainability factors may undermine CalPERS aim to be a principled and effective investor and ultimately CalPERS ability to deliver sustainable, risk-adjusted returns.

Attachments

Attachment 1 – SIRI: Review of Evidence – Professor Brad Barber’s presentation, University of California at Davis

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