Global Fixed Income Corporate Portfolio Carbon Footprint – Montreal Pledge

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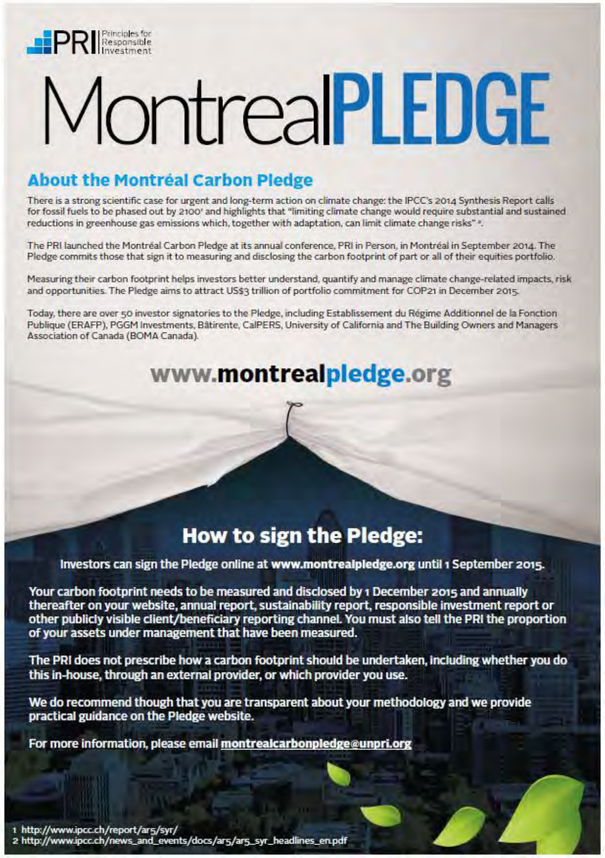
The Montreal Pledge

- The Pledge was launched on September 25, 2014 at PRI in Person in Montreal

- By signing the Pledge, investors commit to measure and publicly disclose the carbon footprint of their investment portfolios annually
  - "The purpose of a carbon footprint is to better understand, quantify and manage the carbon and climate change related impacts, risks and opportunities in our investments."

- CalPERS was the first U.S. signatory to the Montreal Pledge



Carbon Footprint for Fixed Income

- Measures a corporate credit portfolio's carbon intensity relative to the benchmark index

Weighted Average Carbon Intensity = (Scope 1 + 2 Emissions / $m Sales) X Weight

Scope 1: Direct emissions from sources owned or controlled by the company
Scope 2: Indirect emissions from consumption of purchased electricity

- Results
  - Total credit portfolio weighted average carbon intensity:

    656 tons CO2e[1] / $m sales vs. 475 tons CO2e / $m sales for the GFI benchmark
  - Differential to benchmark driven by utilities exposure overweight
  - 20 companies = 75% of portfolio carbon intensity

[1] CO2e = Carbon Dioxide Equivalent

Source: MSCI

Findings

- CalPERS is the first US public pension plan to disclose fixed income carbon footprint
- Bondholders have a contractual obligation with the issuer, whereas equity holders have ownership rights: equity holder engagement = driver of change
  - CalPERS' engagement strategy is Global Climate 100 = a high percentage of largest emitters in GFI portfolio will be included
- Carbon intensity is one of many factors when assessing credit risk
  - For the Utilities sector, considerations include:
    - Position in capital structure: First mortgage bonds historical low default rate, high recovery
    - Regulatory compact: Recovery of and return on capital costs
    - 25% reduction in carbon intensity over the last 10 years
      - Coal generation reduced from 50% to 30%
      - Increasing investment in renewables and gas generation
- Limitations to carbon footprint analysis
  - Data coverage
  - Carbon footprinting for fixed income is nascent