Introduction to Principles for Responsible Investment (PRI): CalPERS’ History and Role

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PRI | CalPERS’ History and Role

- **Early 2005:** Invited by UN Secretary-General to join an investor working group to develop set of global best-practice principles for responsible investment
  - Coordinated by the United Nations Environment Programme Finance Initiative (UNEP FI) and the UN Global Compact
- **March 2006:** Investment Committee voted to become one of original signatories to PRI
- **April 2006:** Principles were publicly launched, with signing ceremony at the New York Stock Exchange
  - 32 institutional investors, representing over $2Trillion in AUM, formally signed the principles
  - CalPERS publicly committed to adopt and implement, where consistent with its fiduciary responsibilities
- **CalPERS continues to be represented on the UN PRI Board**
**Principle #1: We will incorporate ESG issues into investment analysis and decision-making processes**

*Possible Actions:*
- Address ESG issues in investment policy statements
- Support development of ESG-related tools, metrics, and analyses
- Assess the capabilities of internal investment managers to incorporate ESG issues
- Assess the capabilities of external investment managers to incorporate ESG issues
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis
- Encourage academic and other research on this theme
- Advocate ESG training for investment professionals

Source: [https://www.unpri.org/about/the-six-principles](https://www.unpri.org/about/the-six-principles)
**PRI | Six Principles**

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

**Possible Actions:**
- Develop and disclose an active ownership policy consistent with the Principles
- Exercise voting rights or monitor compliance with voting policy (if outsourced)
- Develop an engagement capability (either directly or through outsourcing)
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights)
- File shareholder resolutions consistent with long-term ESG considerations
- Engage with companies on ESG issues
- Participate in collaborative engagement initiatives
- Ask investment managers to undertake and report on ESG-related engagement

Source: [https://www.unpri.org/about/the-six-principles](https://www.unpri.org/about/the-six-principles)
**PRINCIPLE #3: WE WILL SEEK APPROPRIATE DISCLOSURE ON ESG ISSUES BY THE ENTITIES IN WHICH WE INVEST**

**POSSIBLE ACTIONS:**
- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative)
- Ask for ESG issues to be integrated within annual financial reports
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact)
- Support shareholder initiatives and resolutions promoting ESG disclosure

Source: [https://www.unpri.org/about/the-six-principles](https://www.unpri.org/about/the-six-principles)
**PRI | Six Principles**

**Principle #4: We will promote acceptance and implementation of the Principles within the investment industry**

**Possible Actions:**
- Include Principles-related requirements in requests for proposals (RFPs)
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate)
- Communicate ESG expectations to investment service providers
- Revisit relationships with service providers that fail to meet ESG expectations
- Support the development of tools for benchmarking ESG integration
- Support regulatory or policy developments that enable implementation of the Principles

Source: [https://www.unpri.org/about/the-six-principles](https://www.unpri.org/about/the-six-principles)
Principle #5: We will work together to enhance our effectiveness in implementing the Principles

Possible Actions:
- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning
- Collectively address relevant emerging issues
- Develop or support appropriate collaborative initiatives

Source: https://www.unpri.org/about/the-six-principles
Principle #6: We will each report on our activities and progress towards implementing the Principles

Possible Actions:
- Disclose how ESG issues are integrated within investment practices
- Disclose active ownership activities (voting, engagement, and/or policy dialogue)
- Disclose what is required from service providers in relation to the Principles
- Communicate with beneficiaries about ESG issues and the Principles
- Report on progress and/or achievements relating to the Principles using a ’Comply or Explain’[1] approach
- Seek to determine the impact of the Principles
- Make use of reporting to raise awareness among a broader group of stakeholders

[1] The Comply or Explain approach requires signatories to report on how they implement the Principles, or provide an explanation where they do not comply with them.

Source: https://www.unpri.org/about/the-six-principles
Consistent with Principle #6, CalPERS reports annually on the following:

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational Overview</td>
<td>Basic information</td>
</tr>
<tr>
<td>Strategy and Governance</td>
<td>Polices, procedures, partnerships</td>
</tr>
<tr>
<td>Indirect- Manager Selection, Appointment and Monitoring</td>
<td>Similar to <em>Manager Expectations</em>, covers all asset classes</td>
</tr>
<tr>
<td>Direct- Listed Equity Incorporation</td>
<td>Integration in to Public Equity investment decisions</td>
</tr>
<tr>
<td>Direct- Listed Equity Active Ownership</td>
<td>Engagement in Public Equity</td>
</tr>
<tr>
<td>Direct – Fixed Income</td>
<td>Integration and engagement in Fixed Income</td>
</tr>
</tbody>
</table>
## PRI 2017 PRI Assessment

### Summary Scorecard

<table>
<thead>
<tr>
<th>Module Name</th>
<th>Your Score</th>
<th>Median Score</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>AUM</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>01. Strategy &amp; Governance</td>
<td>A+</td>
<td></td>
</tr>
<tr>
<td><strong>Indirect - Manager Sol., App. &amp; Mon</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-50% 02. Listed Equity</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>&lt;10% 03. Fixed Income - SSA</td>
<td>Not reported</td>
<td></td>
</tr>
<tr>
<td>&lt;10% 04. Fixed Income - Corporate Financial</td>
<td>Not reported</td>
<td></td>
</tr>
<tr>
<td>&lt;10% 05. Fixed Income - Corporate Non-Financial</td>
<td>Not reported</td>
<td></td>
</tr>
<tr>
<td>&lt;10% 07. Private Equity</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>&lt;10% 08. Property</td>
<td>A</td>
<td></td>
</tr>
<tr>
<td>&lt;10% 09. Infrastructure</td>
<td>A+</td>
<td>B</td>
</tr>
<tr>
<td><strong>Direct &amp; Active Ownership Modules</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-50% 10. Listed Equity - Incorporation</td>
<td>A+</td>
<td>A</td>
</tr>
<tr>
<td>10-50% 11. Listed Equity - Active Ownership</td>
<td>A+</td>
<td>A</td>
</tr>
<tr>
<td>&lt;10% 12. Fixed Income - SSA</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>&lt;10% 13. Fixed Income - Corporate Financial</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>&lt;10% 14. Fixed Income - Corporate Non-Financial</td>
<td>A</td>
<td>B</td>
</tr>
<tr>
<td>&lt;10% 15. Fixed Income - Securitised</td>
<td>C</td>
<td>E</td>
</tr>
</tbody>
</table>

Source: PRI Assessment Report 2017 California Public Employees’ Retirement System CalPERS