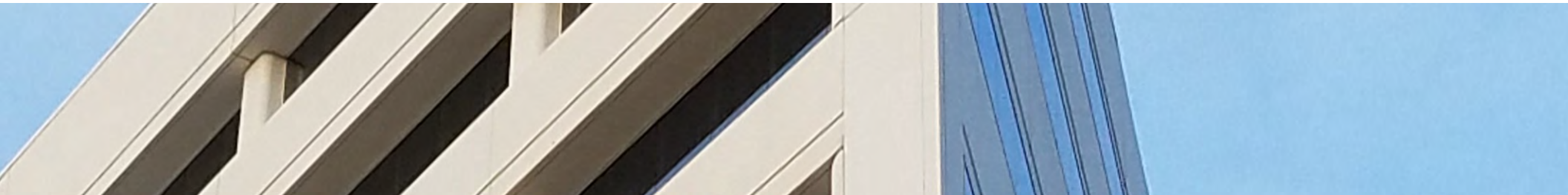




CONSULTANT REVIEW OF ESG INTEGRATION



California Public Employees' Retirement System

Presented by Daniel Ingram, VP Responsible Investment Research & Consulting

February 2018



BACKGROUND

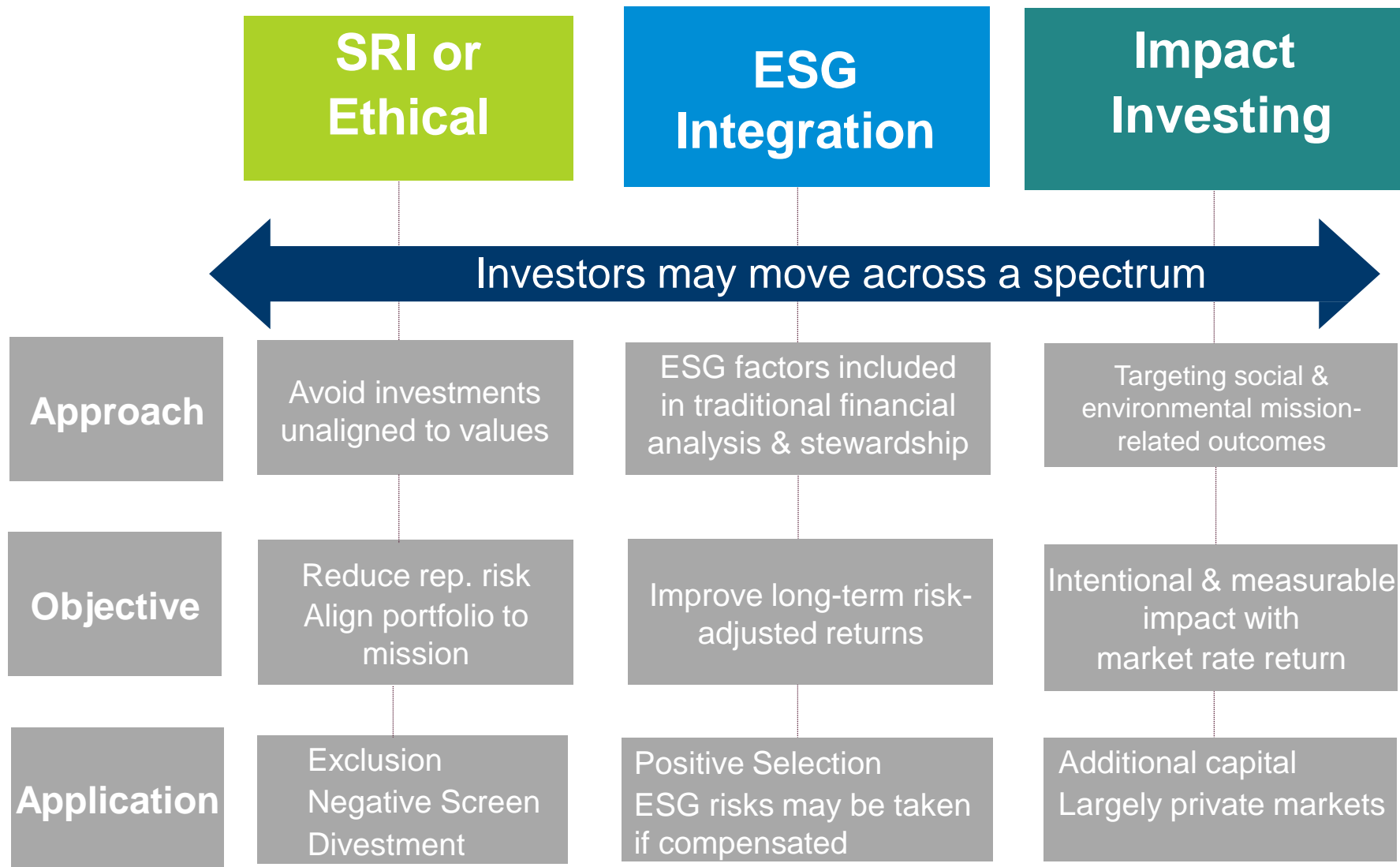
OUR ESG STRATEGY & MISSION



As a signatory to the Principles for Responsible Investment (PRI), Wilshire helps institutional asset owners such as retirement plans, endowments and foundations, to protect and enhance long-term capital by integrating Environmental Social and Governance (ESG) considerations into investment decisions by providing:

- **Educational Resources.** By facilitating workshops and conducting research we help clarify the link between ESG factors, impact objectives and risk / return for different asset classes, industries and markets;
- **Strategic Advice.** By engaging stakeholders, methodically prioritizing issues and building consensus among staff and trustees, we assist in drafting clear ESG policies and impact guidelines through a well-defined process;
- **Manager Insights.** By providing ESG manager ratings, sourcing diverse-owned managers and picking attractive impact strategies we construct portfolios consistent with our clients' broader investment objectives and risk budgets; and
- **Risk & Performance Measurement.** By conducting program reviews and portfolio analysis through our multi-factor models, we monitor the impact of our client's choices.

APPROACHES TO SUSTAINABLE INVESTMENT



WILSHIRE CLIENT SURVEY RESULTS

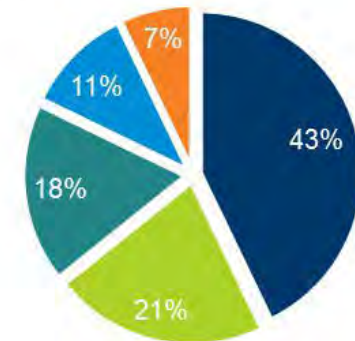
- Positive sentiment
- Impediments remain
- Education may lead to implementation
- Governance is key
- Impact is main objective
- It's not all about divestment: One-third have divested from certain industries
- Some have invested in ESG-related strategies (e.g. clean tech or impact fund)
- Clients would like us to provide peer comparisons, examples of best practice & portfolio analysis (e.g., proxy voting audit or carbon footprint)

What are your objectives for considering ESG risks & opportunities?



How has your Fund allocated capital to any of the following ESG-related investments?

- Have Not
- Impact investment strategies (e.g., economically targeted, community-based, or program-related investment)
- Sustainable themes (e.g., cleantech / renewable energy fund)
- ESG-tilted or low-carbon index
- Other





REVIEW OF ESG INTEGRATION



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REVIEW SCOPE & PROCESS

Scope

- Resources and responsibilities for ESG integration compared to similar sized peers
- Approach to integrating ESG considerations through committee structures and asset class teams
- Leadership position compared to similar sized peers

Process

- Onsite meetings & phone discussions with almost 20 investment staff, dedicated ESG staff and other stakeholders.
- Reviewed materials and papers provided by Staff and conducted desktop research, drawing on the PRI database

Peer Group

- Establishing an appropriate peer group is challenging due to CalPERS size & structure: we chose North American asset owners with over \$100bn AUM

A GLOBAL LEADER IN SUSTAINABLE INVESTING

CalPERS' 2016 PRI summary scorecard



CalPERS, CPPIB Named Among World's Most Responsible Allocators

Canadian funds were the best-represented in the ranking developed by Bretton Woods II.

RI Award for Innovation & Industry Leadership: Asset Owners

- CalPERS WINNER
- 5-year plan for Governance & Sustainability
- Government Pension Investment Fund
- Leading Japan into a new era of responsible investment
- HSBC Pension Scheme
- Making a climate risk equity fund the default option in its DC plan
- ABP
- Leader in collaborative engagement

Which asset owner contributes most to the wider SRI debate?

1. CalPERS
2. PFZW (Stichting Pensioenfonds Zorg en Welzijn)
3. ERAFP
4. Government Pension Fund Global (Norway)
5. ABP
6. Environment Agency (Pension Fund)
7. AP4
8. CALSTRS
9. Fonds de réserve pour les retraites - FRR
10. Cometa Pension Fund

Extel survey 2015

BEST PRACTICE ESG INTEGRATION EXAMPLES

CalPERS sends letters to 504 companies regarding lack of gender diversity on their boards

BY RANDY DIAMOND · AUGUST 22, 2017 4:20 PM · UPDATED 6:49 PM

CalPERS is stepping up efforts to increase the number of women on corporate boards, spokeswoman Megan White confirmed in an email Tuesday.



Energy Optimization (EO) Initiative

Phase I:

- September 2016 Kick-off Roundtable
- New EO component added to 2017/2018 AIP:
 - 20 EO projects submitted
 - Expected cost of projects \$8.5M
 - Expected Annual savings 9.8 M kWh/year or \$1.6M/year
 - **Expected combined NPV \$14.8M**





PEER COMPARISON

STRATEGY SETTING & STRATEGIC ASSET ALLOCATION

How Frequently does your Organization set and review Objectives for its Responsible Investment Activities? (SG 5.1)

Annually	Quarterly
International Finance Corporation (IFC)	Sun Life; (Canada)
Ontario Teachers' Pension Plan	University of California
New York State	Canada Pension Plan
CalSTRS	Public Sector Pension Investment Board
Caisse de dépôt (Canada)	
CalPERS	

Peer group example of strategy-setting

La Caisse de dépôt et placement du Québec sets objectives according to a strategic and action plan developed by the executive committee. They set out the following criteria for setting new strategic objectives:

- Must support the investment strategy
- May center on responsible investment activities around new asset classes/ regional strategies
- May involve relevant ESG themes

Indicate if your organisation considers ESG issues in strategic asset allocation and/or allocation of assets between sectors or geographic markets. (SG 12.2)

We Do	We Do Not
International Finance Corporation (IFC)	Sun Life Assurance Company of Canada
University of California	Ontario Teachers' Pension Plan
CalSTRS	New York State Local Retirement System
	Canada Pension Plan Investment Board
	Caisse de dépôt et placement du Québec
	Public Sector Pension Investment Board
	CalPERS

Source: CalPERS PRI assessment response; PRI database

ESG INTEGRATION RESOURCE & DELEGATION

Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment. (SG 7.1)

Dedicated Role	Shared Delegation
International Finance Corporation (IFC)	Canada Pension Plan Investment Board
Sun Life Assurance Company of Canada	Caisse de dépôt et placement du Québec
Ontario Teachers' Pension Plan	CalPERS
University of California	
New York State Local Retirement System	
CalSTRS	
Public Sector Pension Investment Board	

Indicate the roles present in your organisation and for each, indicate whether they have oversight and/or implementation responsibilities for responsible investment. (SG 7.1)

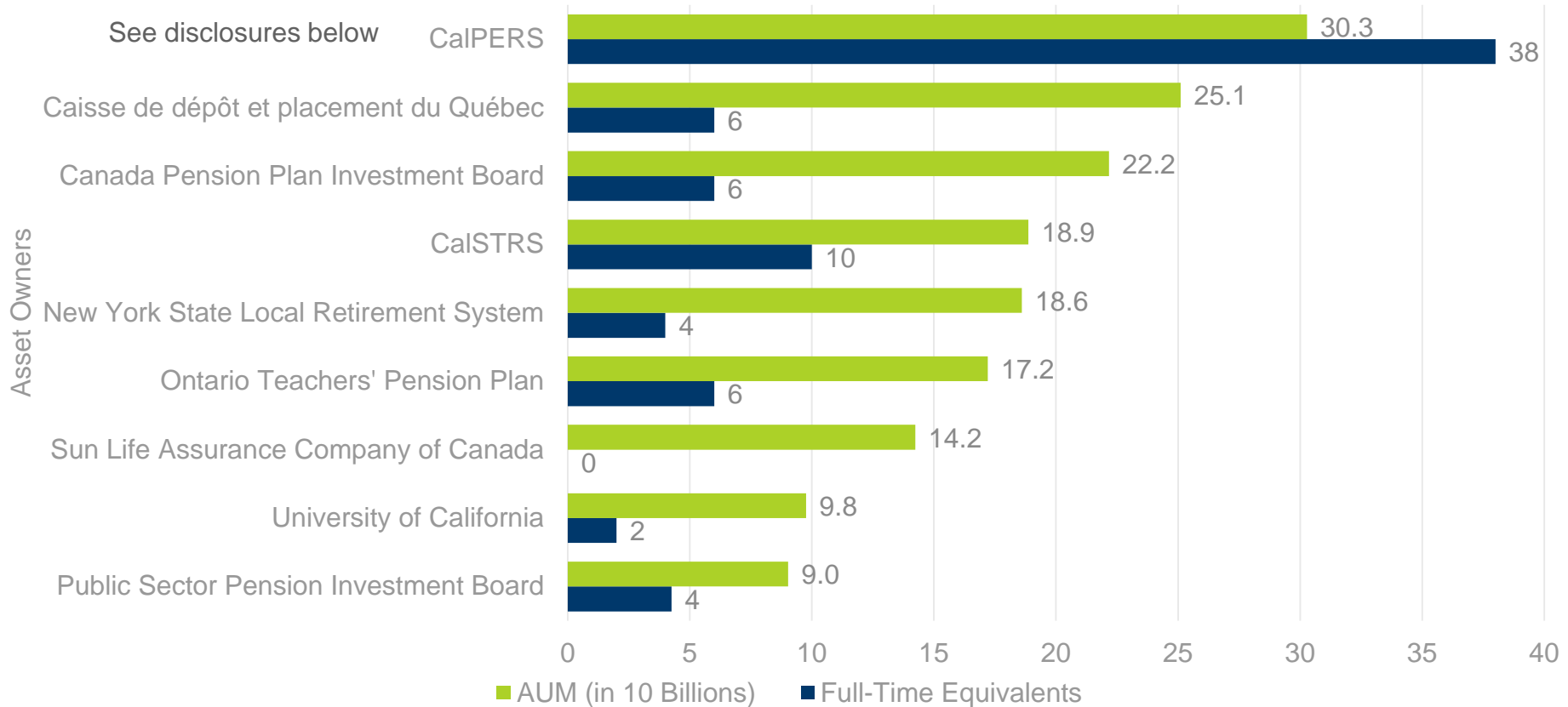
Asset Owner	Responsible Individual/Group
International Finance Corporation (IFC)	Vice President, Risk & Financial Sustainability
Sun Life Assurance Company of Canada	Chief Operations Officer
Ontario Teachers' Pension Plan	Chief Risk & Strategy Officer
University of California	Senior Advisor for Sustainability
New York State Local Retirement System	Deputy CIO
CalSTRS	Director
Public Sector Pension Investment Board	Vice President, Responsible Investment
Canada Pension Plan Investment Board	Senior Managing Directors
Caisse de dépôt et placement du Québec	Members of the Management Committee
CalPERS	Managing Investment Directors, Investment Directors

Source: CalPERS PRI assessment response; PRI database



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RESOURCES

Number of FTE's Compared to AUM in 10's of Billions (SG 7.3)



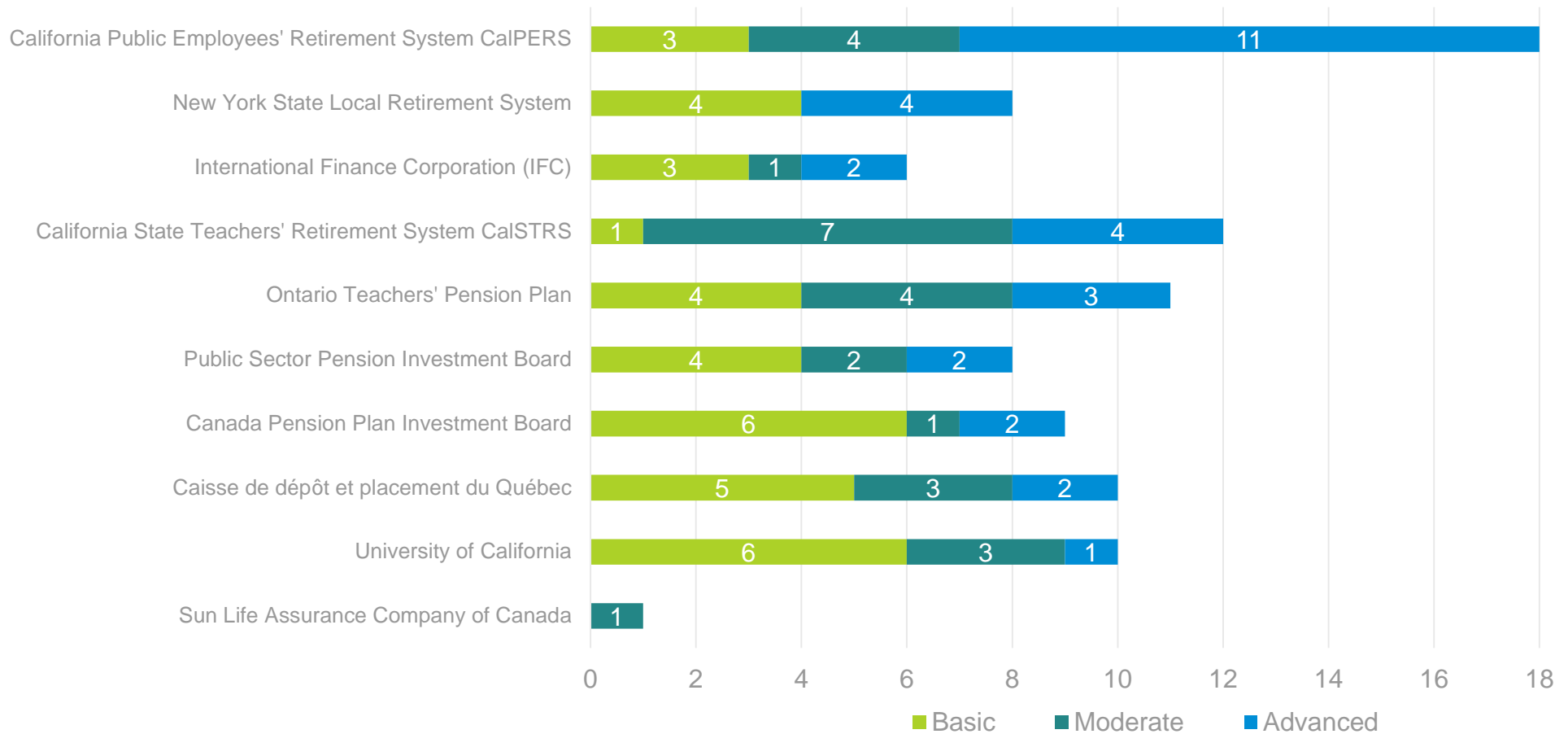
Disclosures	
CalPERS	The number of staff responsible for the oversight and implementation of ESG investment practices include members from across the enterprise such as individuals from each asset class, Sustainable Investment program, and the Governance and Sustainability Subcommittee which includes the Legal Office, Legislative Affairs program, Investment Compliance & Operational Risk, and Office of Public Affairs.
Public Sector Pension Investment Board	There are two additional resources outside the Responsible Investment team, each allocating approximately 12.5% of their time to responsible investment matters.
Caisse de dépôt et placement du Québec	This number would not include the technical support employees and external service providers. While two of them have oversight and public policy responsibilities, four advisors are divided into different sectors and within those sectors, they will carry out the ESG research and integration work, vote at their sector-based companies' shareholders meetings and engage with those companies.

Source: CalPERS PRI assessment response; PRI database

COLLABORATIVE INITIATIVES

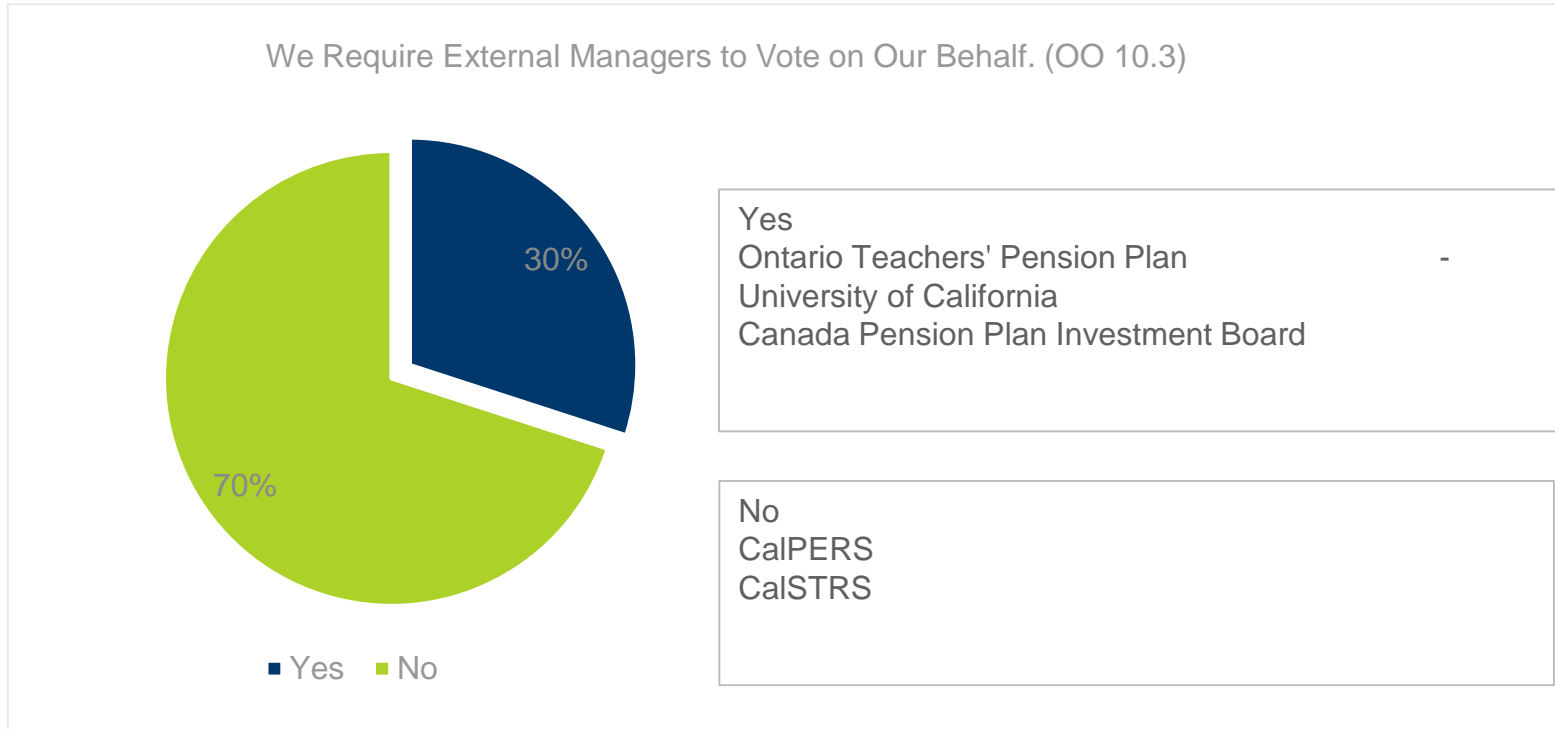
Indicate the collaborative organization and/or initiatives of which your organization is a member or in which it participated during the reporting year, and the role you played. (SG 7.9)

Number of Collaborative Initiatives



Source: CalPERS PRI assessment response; PRI database

PROXY VOTING DELEGATION



Do you use service provider engagements? (LEA 2.1)	
We engage via service providers	We do not engage via service providers
Caisse de dépôt et placement du Québec	Ontario Teachers' Pension Plan
Public Sector Pension Investment Board	University of California
Canada Pension Plan Investment Board	New York State Local Retirement System
	CalSTRS
	CalPERS

Source: CalPERS PRI assessment response; PRI database



AREAS FOR CONSIDERATION

AREAS FOR FURTHER CONSIDERATION

To sustain its leading position CalPERS should consider steps to improve upon its existing processes and be more efficient with its on-going utilization of resources including:

1. Linking strategic objectives to resources and implementation
2. Clarifying leadership roles and responsibilities
3. Creating an investment culture of innovation on ESG integration



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