



# Investment Committee

## Agenda Item 8c

---

**December 17, 2018**

**Item Name:** Responsible Contractor Policy Program Annual Report

**Program:** Sustainable Investments

**Item Type:** Information

### **Executive Summary**

This agenda item provides the required annual update on the Real Assets (RA) program's compliance with CalPERS' Responsible Contractor Program (RCP) Policy. For fiscal year 2017-18, 100% of qualifying contract payments were made under the Policy to certifying responsible contractors. Managers reported implementing the Policy did not have a material impact on CalPERS Investment returns.

### **Strategic Plan**

This agenda item supports the CalPERS Strategic Plan goal to improve long-term pension and health benefit sustainability through actively managing business risks.

### **Investment Beliefs**

The Annual RCP Report supports CalPERS' Investment Belief 4 that long-term value creation requires the effective management of financial, physical, and human capital and that effective management of human capital factors increases the likelihood that companies will perform over the long-term and manage risk effectively. This agenda item also supports Investment Belief 3 in which CalPERS' investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries.

### **Background**

#### Responsible Contractor Program Policy

CalPERS has a deep interest in the condition of workers employed by CalPERS and its Managers and Delegates. CalPERS, through the RCP Policy, supports and encourages fair wages and benefits for workers employed by its investment managers, and its investment managers' contractors and subcontractors<sup>1</sup>, subject to fiduciary principles. The RCP Policy seeks to secure the condition of workers employed by CalPERS and its investment managers

---

<sup>1</sup> Under the RCP Policy, a manager's contractors and subcontractors are also referred to as Delegates

without adverse effect on investment returns, access to investment opportunities, or significant cost impacts.

### RCP Policy Scope

The RCP Policy applies to all domestic Real Estate and Infrastructure investment managers, joint ventures, and partnerships where CalPERS has greater than 50% ownership interest and the standards of the RCP Policy are met, and the contract amount is \$100,000 or more.

## **Analysis**

### Annual Report Fiscal Year 2017-18

For the Fiscal Year 2017-18, Real Estate, Infrastructure, and Housing Program managers paid more than \$861 million toward RCP contracts. Core investment and non-core investment managers paid 100% of their total qualifying contracts to certifying responsible contractors under the Policy (Attachment 1) as did Housing Program managers<sup>2</sup>, which voluntarily comply with the Policy.

### Manager Responsibilities and Responsible Contractor Certifications

For the Fiscal Year 2017-18, all Real Estate and Infrastructure investment managers subject to the RCP Policy, and all Housing Program managers voluntarily complying, have certified in writing that, to the best of their knowledge, they and their delegates and sub-delegates have complied with the RCP Policy and, more specifically, with the roles and responsibilities stated within the Policy.

All 16 of the managers that reported assets subject to the RCP Policy submitted Manager Responsibilities Reports. Managers reported the Policy had no material impact on CalPERS investment returns.

### Notification

The RCP Bidding Notification Method and Contact Sheet (Attachment 3) includes names of managers, notification methods, and email addresses. In addition to being publicly available on the CalPERS website, staff emails this list to all interested parties when it is requested.

## **Budget and Fiscal Impacts**

Existing budgetary resources fund the ongoing costs for implementation, administration, and management of the RCP Policy for the CalPERS Investment Office. During Fiscal Year 2017-18, Sustainable Investments' approximate cost to support the RCP Policy and engage on related issues was \$104,250 (which included estimated staff costs of \$90,000 and consultant services of \$14,250). This past year, there were more issues requiring RA Managing Investment Director and RA staff's time not included in this estimate.

---

<sup>2</sup> Under the RCP Policy, compliance for existing Housing Program managers is not mandatory, though strongly recommended. Housing Program managers have voluntarily submitted annual compliance reports

## **Benefits and Risks**

The design of this Policy is intended to require investment managers, and their delegates, to take prudent and careful action when selecting and employing contractors on RCP assets. The Policy helps CalPERS manage both labor risk and reputational risk by supporting the use of responsible contractors. This Policy also helps manage costs through competitive bidding, which benefits CalPERS long-term investment returns.

### Attachments

Attachment 1 – Responsible Contractor Program Annual Report Presentation

Attachment 2 – Investment Manager Compliance Report

Attachment 3 – RCP Bidding Notification and Contact Sheet

---

Beth Richtman  
Managing Investment Director  
Sustainable Investment

---

Eric Baggesen  
Interim Chief Investment Officer