

# Sustainable Investments Responsible Contractor Program Annual Report

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Investment Committee  
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# Responsible Contractor Program Policy | Overview

## About

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- Seeks to secure the condition of workers employed by CalPERS and its investment managers on domestic Real Assets without adverse effect on investment returns, access to investment opportunities, or significant cost impacts.
- Supports and encourages fair market wages and benefits based on local conditions for workers employed by contractors and subcontractors, subject to fiduciary principles.
- Contracts occur when the Real Assets program makes investments in the service, maintenance, development, and improvement of CalPERS domestic Real Estate and Infrastructure assets.

## Scope

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- U.S. Real Estate and Infrastructure assets where CalPERS holds > 50% interest
- **Contracts of  $\geq$  \$100k**
- Managers<sup>1</sup> provide an annual RCP compliance and certification report

## RCP Policy | FY 2017-18 Summary Results

- All managers reported 100% compliance<sup>1</sup>
- \$861 million paid to certifying Responsible Contractors
- All managers certified they and their contractors / sub-contractors had complied, to the best of their knowledge, with the RCP Policy
- All Managers reported the RCP Policy had no material impact on performance
- When issues arose, managers and staff spent significant time researching issues and engaging with stakeholders

# RCP Policy | Compliance and Total Contracting

FY	RCP Compliance (%)	Total Paid to Responsible Contractors (billions)	Real Assets Ending Market Value (billions)
2013-14	99.87	\$0.95	\$27.69
2014-15	99.49	\$1.36	\$29.63
2015-16	99.73	\$1.22	\$29.89
2016-17	99.97	\$1.18	\$34.32
2017-18	100.00	\$0.86	\$36.12
<b>Total</b>		<b>\$5.57</b>	

## RCP Policy | Formal Complaints and Issues

- The Investment Office continues to address labor issues as they occur, in accordance with the RCP Policy.
- RCP issues and issues that fall outside of RCP continue to absorb a significant amount of staff time.
- Prioritization of topics which have the highest potential to affect CalPERS returns prevents staff engagement on issues outside of the RCP, such as:
  - CalPERS has no ownership interest in the asset
  - Contract is < \$100,000
- No formal complaints were filed during the reporting period

# Appendix

# Investment Beliefs

## Investment Belief 4

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Long-term value creation requires effective management of three forms of capital: financial, physical and human

## Investment Belief 3

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CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries

# Program History

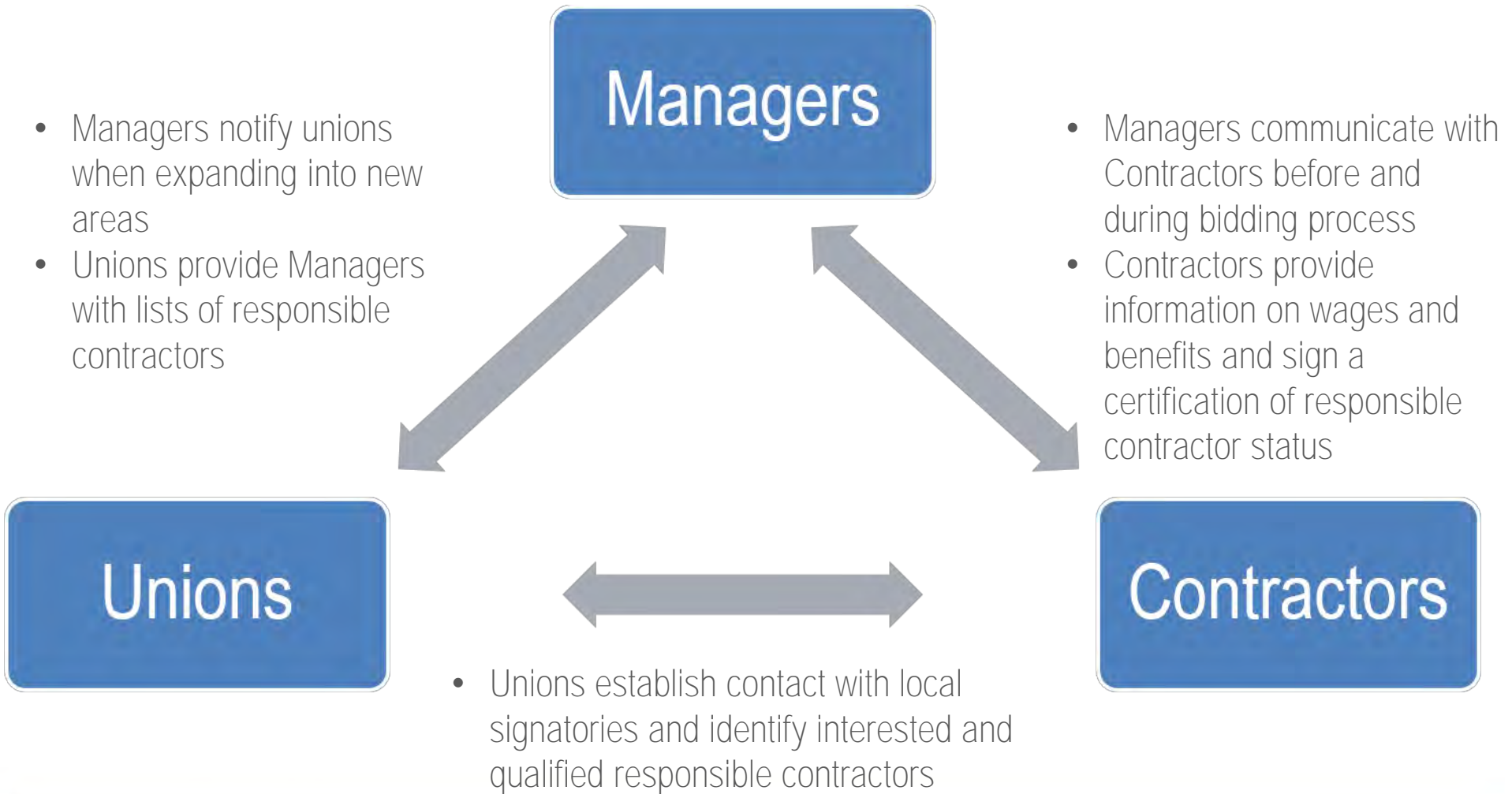
Year	Event
1990s	<ul style="list-style-type: none"><li>• Investment Committee approves establishment of Program</li></ul>
2010	<ul style="list-style-type: none"><li>• Establishment of the Neutrality Trial for core Managers on service contracts</li></ul>
2012	<ul style="list-style-type: none"><li>• RCP Policy enhanced and revised</li></ul>
2015	<ul style="list-style-type: none"><li>• 18 month policy review and engagement process</li><li>• RCP Policy enhanced and revised</li><li>• Neutrality Trial for core Managers becomes permanent policy</li><li>• New Neutrality Trial established for select non-core Managers</li></ul>



# Neutrality

- All Core Investment Managers (9) and their contractors / subcontractors are required to remain neutral should workers who provide maintenance, operation, or other property related services at an RCP managed asset organize.
- Effective July 1, 2015, a Neutrality Trial applies to selected non-core Real Estate and Infrastructure funds on a voluntary basis.
  - All funds within the trial have agreed to continue voluntary compliance
  - Two non-core managers have qualifying assets
  - One manager has reported having qualifying contracts
    - Awarded four qualifying contracts totaling  $\approx$  \$4.8 million.
    - Reported the Neutrality Trial did not affect bidding process, awarding of new service contracts, nor have a material impact on investment in the asset.

# Bidding and Notification Process



# Manager Responsibilities Report <sup>1</sup>

- Investment Managers that reported costs to administer the RCP estimated between \$25,000 - \$200,000.
  - Estimates vary according to the number of qualifying contracts and unique staffing and implementation practices of each investment manager
- All Investment Managers (or their delegates<sup>2</sup>):
  - Maintained written policies and procedures for implementing and complying with the RCP; provided training on administering the RCP
  - Communicated the RCP Policy, and their own written policies or procedures relating to the RCP, to their employees and contractors
  - **Monitored and enforced their and their delegates' compliance with the RCP, including the investigation of potential violations**
  - Used a 30-day pre-bid notification procedure when appropriate
- 15 Investment Managers<sup>3</sup> reviewed lists of current and pending RCP Contracts provided by each of their contractors.
- Six Investment Managers reported expanding into new areas during the reporting period, and have notified, or are in the process of notifying, trade/service unions of their expansion.
- Most Investment managers provided comments on additional activities undertaken to administer the RCP Policy.
  - Majority of comments concerned outreach regarding bidding opportunities and efforts addressing labor issues.

<sup>1</sup>Information below is for managers that have RCP activity during the period

<sup>2</sup>Partners or General Contractors

<sup>3</sup>The remaining Manager is a Housing Manager that complies with the Policy on a voluntary basis

## Manager's Responsibility Report: Quotes

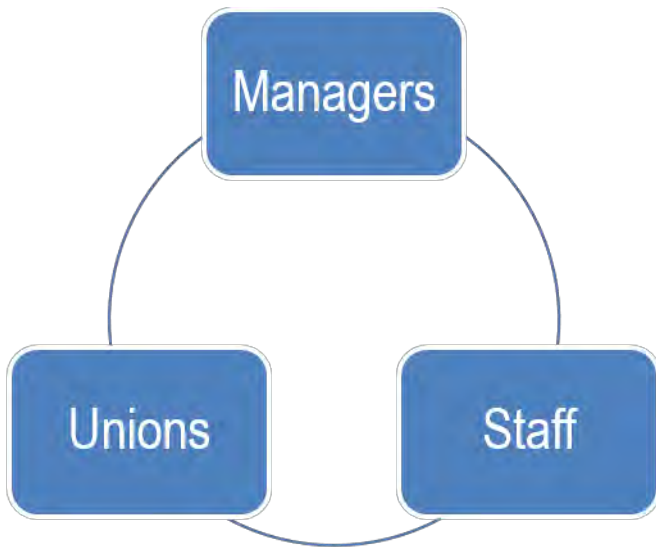
"The competition for quality subcontractors is intense in today's marketplace and the subcontractors only have enough capacity for a finite number of projects"

"During FY 2018, complying with the RCP requirements has not had a material impact on our CalPERS' investment returns"

"RCP provides governance and guidance in selection of contractors"

# Annual Report: RCP Communication and Case Studies

## Communication and Engagement



Notable Cases (FY 2017-18)	Results / Findings
Manager works with signatory contractor and workers in support of green cleaning	City of LA promoted results in a <a href="#">video</a> , using manager and workers as example
Manager recruits 8 subcontractors	Only 1 bid
General Contractors (GC) extremely busy	Managers sometimes work with unfamiliar General Contractors
Union notifies staff of issue with contractor	Manager determines subcontractor lied on certification; subcontractor replaced
Union notifies manager and staff of multiple issues with subcontractor	Manager determined Policy was followed