



Investment Committee

Agenda Item 9a

March 18, 2019

Item Name: Sustainable Investments Update

Program: Sustainable Investments

Item Type: Information

Executive Summary

The Sustainable Investments (SI) Program is responsible for the oversight and management of the CalPERS' Total Fund Governance and Sustainability Strategic Plan (Plan). This agenda item provides an update on staff's progress against the Plan's objectives while also highlighting additional initiatives, including Senate Bill 964, that were added to the Investment Office's (INVO) sustainable investments work during 2018. Additionally, the agenda item will discuss CalPERS overall approach to climate change and preview proposed draft language regarding carbon pricing policy to be added to the Governance and Sustainability Principles (Principles) during the Total Fund Policy Annual Review.

Strategic Plan

This agenda item supports the CalPERS 2017-22 Strategic Plan goal of Fund Sustainability, and the 2018-19 Business Plan goals of Investment Beliefs and ESG Risk Integration. Specifically, the Plan seeks to integrate Environmental, Social and Governance (ESG) risk and opportunity considerations into investment processes and decisions, thereby improving the long-term sustainability of the Fund.

Investment Beliefs

This item supports the following CalPERS' Investment Beliefs:

- Investment Belief 2: A long time investment horizon is a responsibility and an advantage
- Investment Belief 4: Long-term value creation requires effective management of three forms of capital: financial, physical and human
- Investment Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error

Background

In August 2016, the Investment Committee (Committee) approved the Plan, which identified six strategic priorities and core workload initiatives focused on ESG issues which cross the Total Fund and effect CalPERS ability to manage risk and return. Each strategic initiative has a clearly defined objective, key performance indicators to serve as measures of success, milestones and a timeline.

Over the course of the 5-Year Plan, the Committee requested Staff consider a range of areas for review and development within the Principles. In February 2019, the Committee specifically requested staff evaluate inclusion of a Carbon Pricing Framework. CalPERS has been a signatory to various investor statements, such as the [Global Investor Coalition Statement on Climate Change](#), which advocate for “a meaningful price on carbon”.

Analysis

Throughout calendar year 2018, staff focused efforts on meeting the stated Plan deliverables and driving progress on long-term key performance indicators. Accomplishments within each strategic priority during 2018 are detailed in Attachment 1, as well as details on INVO's 2018 major sustainable investments initiatives which are anticipated to require continued focus and resources throughout 2019. These initiatives include the Investor Leadership Network (a G7 initiative) and Senate Bill 964, which relates to climate-related financial risk reporting.

Additionally, based upon staff research and the Committee's request to evaluate inclusion of a Carbon Pricing Framework in to the Principles, proposed language is presented for the Committee's consideration.

Finally, the Committee requested SI staff conduct additional research on the topic of Economic Inequality. A summary of the concluded research and proposed next steps is also provided in Attachment 1.

Budget and Fiscal Impacts

Funding for activities associated with the Plan is included in the approved and existing INVO budget.

Benefits and Risks

The progress and completion of the Plan's strategic priorities are expected to result in benefits including:

- Strengthened understanding and ability to manage ESG driven risk and opportunities through improved data and disclosures and integration
- Reduced climate change risk
- Enhanced diversity of board composition, which should lead to more effective and dynamic boards to better mitigate risk and enhance long-term performance for shareowners.

Conversely, risks of not completing the strategic priorities may include a lessened understanding and management of ESG investment risk and opportunity across the portfolio.

Attachments

Attachment 1 – Sustainable Investments Update

Attachment 2 – Wilshire Opinion Letter

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