



***Daniel Ingram,
Vice President, Wilshire Consulting***

February 28, 2019

Mr. Bill Slaton
Chairman of the Investment Committee
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Re: Consultant Update on CalPERS' Sustainable Investment team

Dear Mr. Slaton:

Background

As outlined in its Investment Beliefs (IB) on long-time horizon (IB #2) and on long-term value creation (IB #4), CalPERS has a long-standing commitment to sustainable investment. In March 2018, Wilshire presented a strategic review of CalPERS' Environmental, Social and Governance (ESG) integration practices which made a number of recommendations for further consideration including: "translating" ESG issues into investment terms; prioritizing research topics; and utilizing resources.

This year we have provided an update on CalPERS' Sustainable Investment (SI) team. The SI team works with and across all asset class programs by providing centralized leadership and strategy related to the identification, analysis, and management of sustainable investment risks and opportunities.

Wilshire believes asset owners should consider financially material ESG risks and opportunities in their investment analysis and decision-making. ESG risks such as natural resource efficiency, human capital management, and board diversity can have a material impact on asset values. With a well-defined process and a cost-effective approach to identifying, valuing, and managing ESG risks and opportunities, investment portfolios may be better protected from losses and more resilient in downturns.

SI Team Update

- The SI team has undergone significant changes since it was (re)launched in 2013 as a team that included some members on loan from different asset classes.
- With the creation of a Managing Investment Director (MID) position to lead the team and the hiring of staff dedicated exclusively to the SI program, the team now looks and operates more like CalPERS' other asset class teams than it did in the past.
- With the support of senior leadership, the newly appointed MID has a clear vision for the SI team and has started to prioritize SI topics to focus CalPERS' research, engagement, advocacy and integration work.
- With its relatively low-cost structure (the SI team's expenses are less than 3% of the investment office's total operational costs) and its full complement of 14 staff soon to be in place, the team can demonstrate examples of delivering high-quality and innovative research projects, engagements, and integration successes across the asset class programs.
- In conducting its work, the SI team had historically adopted a project-oriented approach which did not necessarily prioritize the highest value topics and could spread the team too thinly across discrete and unconnected topics.
- To increase its focus, effectiveness, and depth, the team is now shifting to more of a strategy and outcome-oriented approach. For example, in addition to engaging portfolio companies through Climate Action 100, the team is also researching and analyzing physical and transition risks to the investment portfolio. This strategic approach should lead to better prioritization, more in-depth analysis of higher value topics, and more coherency across the SI team's work on research, integration, engagement, and advocacy.
- Going forward, given the long-term, and often forward-looking, nature of ESG risks and opportunities, the non-trivial challenge lies in communicating clearly how the SI team's efforts have tangibly helped to support CalPERS' core mission: to deliver retirement benefits to members and their beneficiaries.

Conclusion

Our SI team update is positive: there is a collaborative team culture; there is evidence of increased curiosity from the other asset class teams; and the team's work is consistent with CalPERS' stated investment beliefs.

Please do not hesitate to contact us should you require anything further or have any questions.

Sincerely,

A rectangular box containing a handwritten signature in black ink that reads "Daniel Ingram".

Daniel E. Ingram