Responsible Contractor Program
Policy Annual Report

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Investment Committee
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Responsible Contractor Program (RCP) Policy | Overview

Purpose

- The RCP Policy supports fair market wages and benefits based on local conditions for workers employed by contractors and subcontractors, subject to fiduciary principles\(^1\)
- Applies when the Real Assets (RA) program makes investments in the service, maintenance, development, and improvement of CalPERS’ domestic Real Estate and Infrastructure assets

Scope

- U.S. Real Estate and Infrastructure assets where CalPERS holds > 50% interest
- Contracts of ≥ $100k
- Managers\(^2\) provide an annual RCP compliance and certification report

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\(^1\) RCP Policy is applied without significant adverse effect on investment returns, access to investment opportunities, or cost impacts

\(^2\) Housing managers report on a voluntary basis
<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990s</td>
<td>• Investment Committee approves establishment of the Policy</td>
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</table>
| 2010 | • Five year policy review and engagement process begins  
      • Establishment of the Neutrality Trial\(^3\) for Core managers on service contracts |
| 2012 | • RCP Policy enhanced and revised |
| 2015 | • Extensive 18-month policy review and engagement process  
      • RCP Policy enhanced and revised  
      • Neutrality Trial for Core managers becomes permanent policy  
      • New Neutrality Trial established for select Non-Core managers |

\(^3\) See slide 9 for Neutrality information
RCP Policy | FY 2018-19 Summary Results

• All 16 managers reported in aggregate 99.98% compliance\(^4\)
• Over $844 million paid to certifying responsible contractors
• All managers certified they and their contractors / sub-contractors complied with the RCP Policy to the best of their knowledge
• All managers reported the RCP Policy had no adverse material impact on CalPERS investment returns
• No formal complaints were filed during the reporting period

\(^4\) Qualifying contract payments were made under the Policy to certifying responsible contractors
INVO staff communicates regularly with key labor leaders and RA managers regarding implementation of the RCP Policy.

The RCP Policy, information on its implementation, annual reports and links to contact RA managers to request information on RCP bidding opportunities is available on the CalPERS website.

Staff continues to address labor issues as they occur, in accordance with the RCP Policy. Some RCP concerns fall outside of the RCP scope, such as:

- CalPERS has no ownership interest in the asset
- Contract is < $100,000
## RCP Policy | Compliance and Total Contracting

<table>
<thead>
<tr>
<th>FY</th>
<th>RCP Compliance</th>
<th>Total Paid to Responsible Contractors ($Billions)</th>
<th>Real Assets Ending Market Value(^5) ($Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014-15</td>
<td>99.49</td>
<td>1.36</td>
<td>29.63</td>
</tr>
<tr>
<td>2015-16</td>
<td>99.73</td>
<td>1.22</td>
<td>29.89</td>
</tr>
<tr>
<td>2016-17</td>
<td>99.97</td>
<td>1.18</td>
<td>34.32</td>
</tr>
<tr>
<td>2017-18</td>
<td>100.00</td>
<td>0.86</td>
<td>36.12</td>
</tr>
<tr>
<td>2018-19</td>
<td>99.98</td>
<td>0.84</td>
<td>39.20</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>6.41</td>
<td></td>
</tr>
</tbody>
</table>

\(^5\) Market value of Real Assets Portfolio at end of fiscal year
Appendix
Investment Beliefs

Investment Belief 4

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

Investment Belief 3

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

- CalPERS remains neutral in the event a labor organization attempts to organize workers on RCP Investments.
- All Core investment managers (8) 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.
- Select Non-Core Real Estate and Infrastructure funds and their contractors / subcontractors agree to the above on a voluntary basis.
RCP Policy | Bidding and Notification Process

- Managers/delegates provide a process and contact for unions to receive RCP bidding opportunities
- Unions provide managers with contacts/lists of responsible contractors
- Managers communicate with contractors before and during bidding process
- Contractors provide information on wages and benefits and sign a certification of responsible contractor status
- Unions may establish contact with local signatories and identify interested and qualified responsible contractors
RCP Policy | Manager Responsibilities Report ³

- Investment managers that reported costs to administer the RCP estimated between $3,000 and $200,000 per year
  - 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 ⁴) reported that they:
  - 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 own and delegates’ compliance with the RCP, including the investigation of potential violations
  - Used a 30-day pre-bid notification procedure when appropriate
- Reviewed lists of pending RCP Contracts provided by each of their delegates
- Four (4) 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

³ Information is for 14 managers that have RCP activity during the reporting period
⁴ Partners or general contractors