

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 principles¹
- 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 \geq \$100k
- Managers² provide an annual RCP compliance and certification report

RCP Policy | History

Year	Event
1990s	<ul style="list-style-type: none"> Investment Committee approves establishment of the Policy
2010	<ul style="list-style-type: none"> Five year policy review and engagement process begins Establishment of the Neutrality Trial³ for Core managers on service contracts
2012	<ul style="list-style-type: none"> RCP Policy enhanced and revised
2015	<ul style="list-style-type: none"> 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

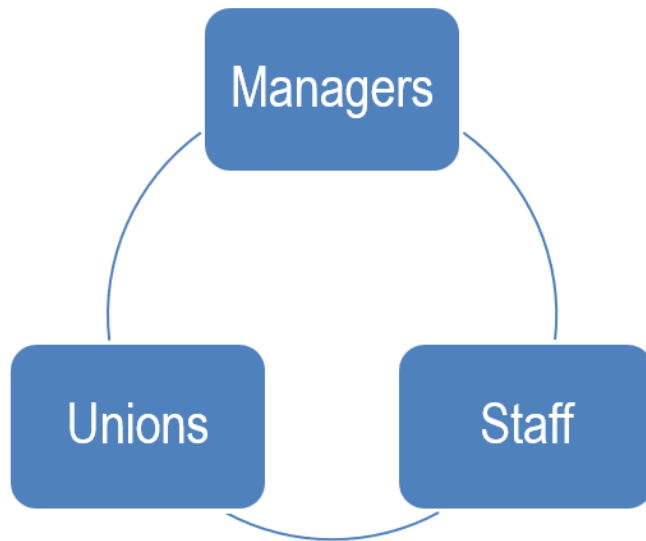
³ See slide 9 for Neutrality information

RCP Policy | FY 2018-19 Summary Results

- All 16 managers reported in aggregate 99.98% compliance⁴
- 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

RCP Policy | Communication & Engagement

- 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

FY	RCP Compliance	Total Paid to Responsible Contractors (\$Billions)	Real Assets Ending Market Value ⁵ (\$Billions)
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
2018-19	99.98	0.84	39.20
	Total	6.41	

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

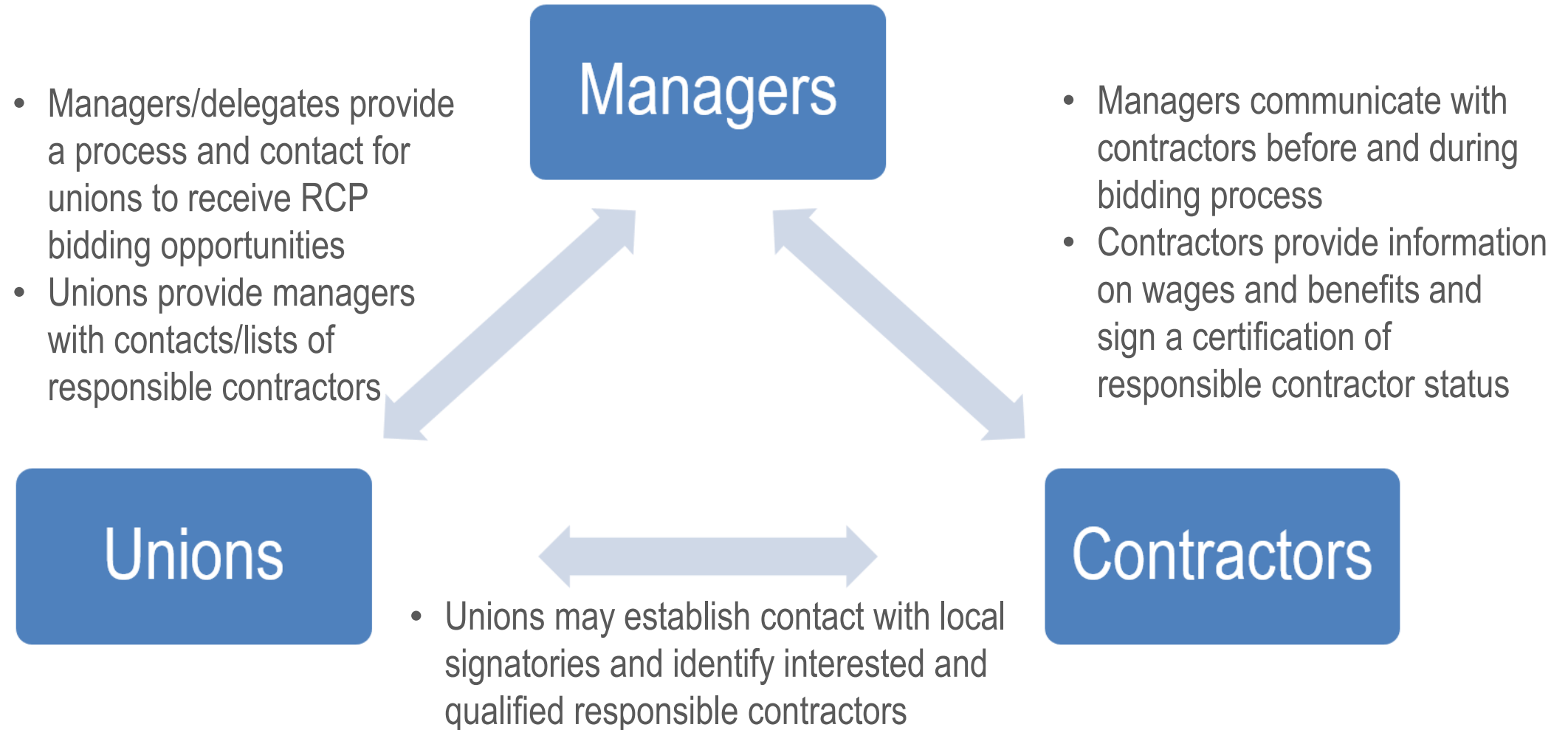
Investment Belief 3

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



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