CalPERS' Investment Strategy on Climate Change: First Report in Response to the Taskforce on Climate-Related Financial Disclosure (TCFD)

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Overview

- Climate change brings risk and opportunity to CalPERS
- As an intergenerational and universal owner, we have "nowhere to hide"

CalPERS has supported TCFD from the outset



Why Do We Look at Climate Risk?

 Climate change poses one of the top three risks to CalPERS



National and Global Climate Assessments

"The impacts of climate change beyond our borders are expected to increasingly affect our trade and economy, including import and export prices and U.S. businesses with overseas operations and supply chains."

United States Government Fourth National Climate Assessment



What Does the TCFD Ask Us to Do?

- The reporting framework covers:
 - Governance
 - Strategy
 - Risk Management
 - Metrics and Targets



Governance

We understand that climate change presents risk and opportunity to CalPERS.

Board Policies

CalPERS' Total Fund Investment Policy

- Investment Beliefs
- Governance and Sustainability Principles
- 5-yr Strategic Plan on Sustainable Investment

Management Process

- Governance and Sustainability
 Subcommittee
- Sustainable Investment Practice Guidelines
- Reporting to Board

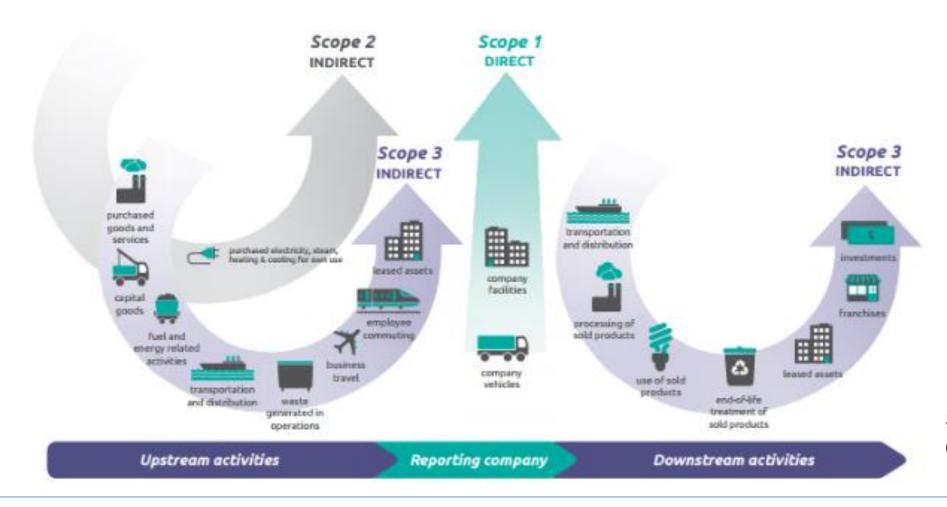


CalPERS' Strategy





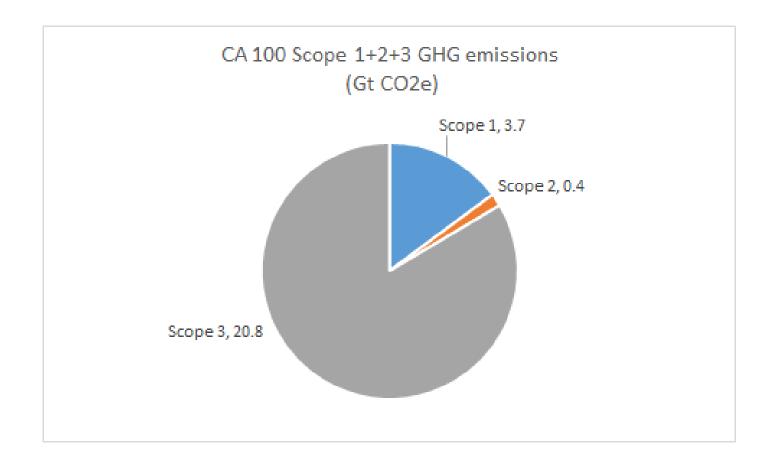
Where Do Greenhouse Gas Emissions Come From?



Source: GHG Protocol



Footprint of Climate Action 100 Companies





Engagement



- CalPERS convened and is a cofounder of Climate Action 100+
 - \$40 Trillion AUM
- Research firm CDP estimated a national potential reduction of 55 gigatons (Gt) of greenhouse gas by Climate Action 100+ companies, based on percentage reductions in scopes 1 and 2 emissions through 2050.
- Equates to 13% of the world's remaining carbon budget through 2050.



Getting to NetZero Emissions by 2050 Climate Action 100+ Multi-Sector Examples



BP, United Kingdom

Maersk, Netherlands

Rio Tinto, United Kingdom

Duke Energy, USA

Nestlé, Switzerland

ThyssenKrupp, Germany

Heidelberg Cement, Germany

PepsiCo, USA

Honda, Japan

Repsol, Spain

55 Gigatons = 12 billion cars



Advocacy

CalPERS' advocacy on policy measures can help drive the low-carbon transition

- Carbon pricing and removal of fossil fuel subsidies
- Mandatory integrated reporting



Metrics and Targets: How are investment decisions informed by climate data?

Data and models from a dozen research firms help us understand Transition Risks (market, technology, policy) and Physical Climate Risks

Carbon metrics

Asset class carbon metrics

Climate scenarios

Risks / Opportunities

Results:

- CalPERS' portfolio broadly tracks the global warming potential of the wider economy
- Identify opportunities in line with our target rate of return
 - 18% of AUM in private asset classes invested in potential climate solutions



CalPERS' Partnerships

Climate

Action 100+

Climate Action 100+

Ensuring the world's largest

corporate greenhouse gas

emitters take necessary

action on climate change

CalPERS - Co-Founder

and Steering Committee

Member





Ceres

Transforming the economy to build a sustainable future for people and the planet

> **CalPERS: Founding** Signatory



UN Principles Responsible Investment

Network to incorporate ESG issues into decision making and ownership practices

CalPERS: Founding Signatory and Active Member



CDP

Encouraging companies and cities to disclose environmental impact

CalPERS: Member



Council of Institutional Investors

Promoting governance policies that enhance longterm value for institutional asset owners and their beneficiaries

CalPERS: Co-Founder Co-Chair of International **Committee and Board** Member



International Corporate Governance Network

Promoting effective global standards of corporate governance and investor stewardship

CalPERS: Co-Founder. Holds Board Seat, Chair of Disclosure & **Transparency Cmte**



Sustainable Accounting Standards Board

Developing standards to help businesses manage and report on the sustainability topics that matter most to investors CalPERS: Investor **Advisory Group Member** Vatican Dialogue: The **Energy Transition & Care for Our Common** Home

> **United Nations Net Zero Asset** Alliance & Global Investors for Sustainable **Development**



What Did We Learn?

- The real economy is not yet on track to achieve Net Zero emissions by 2050
- CalPERS' strategy through Engagement, Advocacy, Integration, and Partnerships is having an impact
- We have to build resilience and position CalPERS' portfolio for opportunities in line with our target rate of return

"The lessons are evident: We need vision, partnership, and a relentless pursuit of science to drive decision-making."

CalPERS' First TCFD Report



CalPERS' Partnership with Regulators: Board and Advisory Positions

U.S.
Securities
and
Exchange
Commission

Public Company Accounting Oversight Board International Financial Reporting Standards

Financial
Accounting
Standards
Advisory
Council

Commodity
Futures
Trading
Commission
Climate Risk
Council

