

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

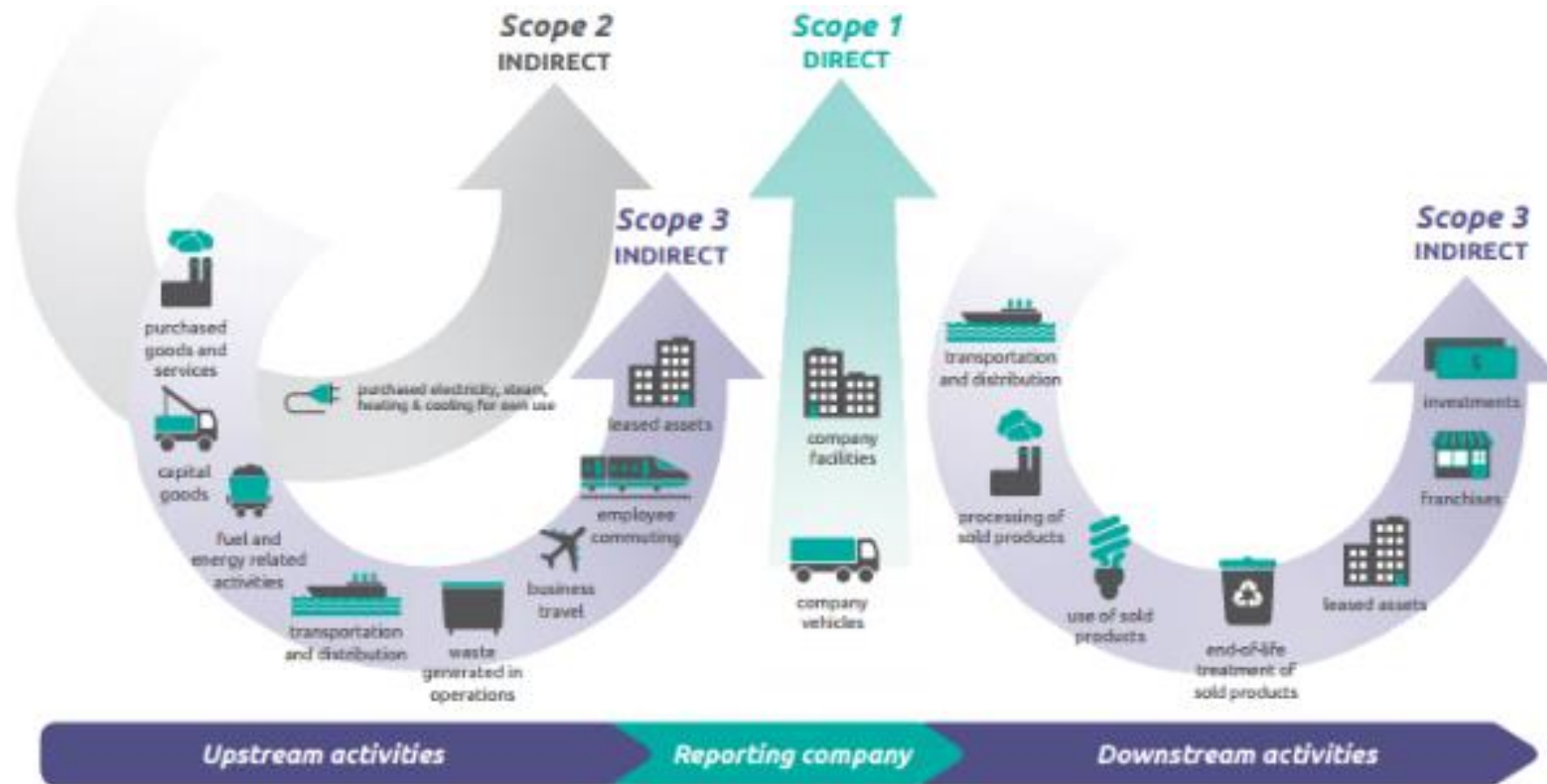
Management Process

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

CalPERS' Strategy

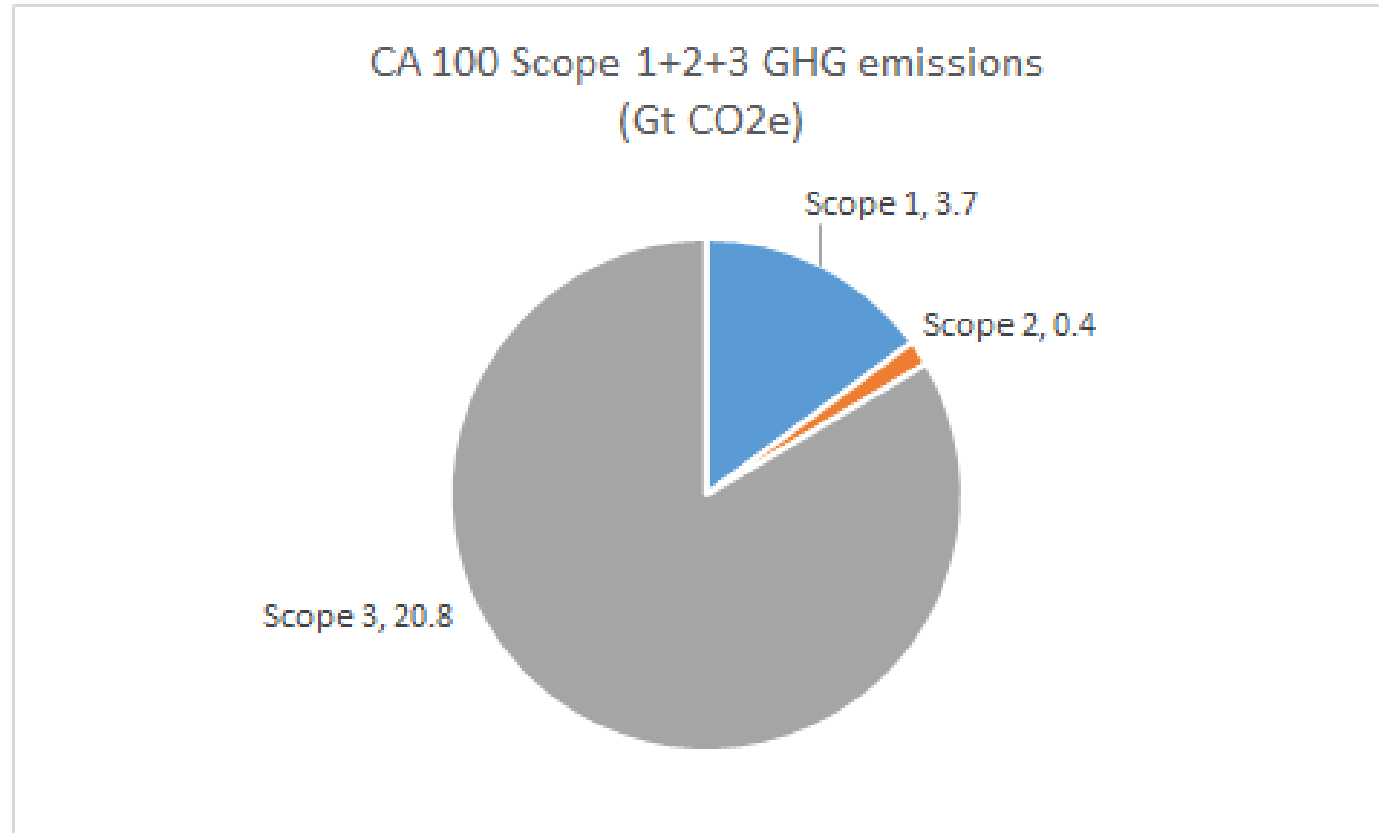


Where Do Greenhouse Gas Emissions Come From?



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

55 Gigatons = 12 billion cars

Honda, Japan

Repsol, Spain

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

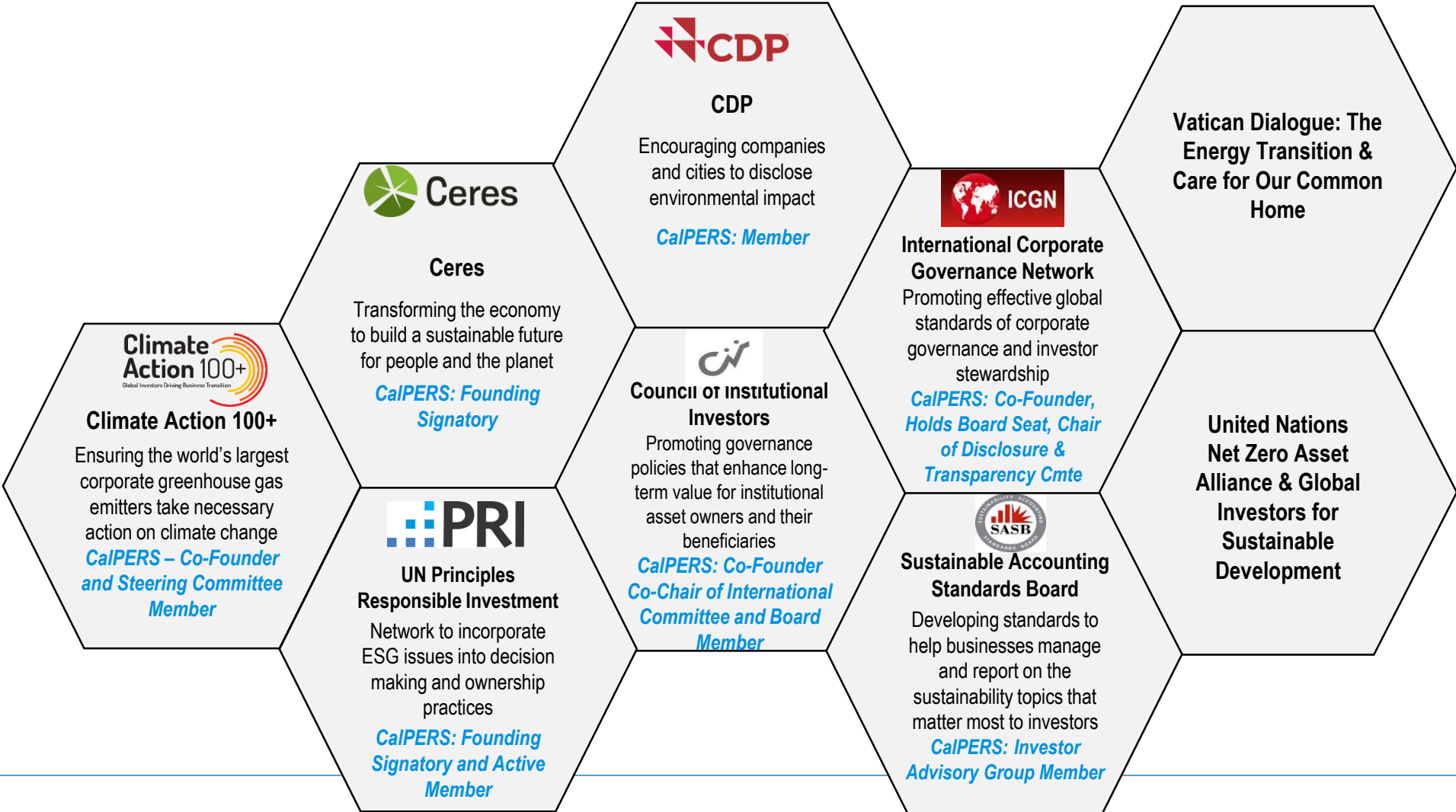
Climate scenarios

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



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

