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

CA 100 Scope 1+2+3 GHG emissions (Gt CO2e)

- Scope 1, 3.7
- Scope 2, 0.4
- Scope 3, 20.8
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**

<table>
<thead>
<tr>
<th>Company</th>
<th>Country</th>
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</thead>
<tbody>
<tr>
<td>BP, United Kingdom</td>
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<td>Nestlé, Switzerland</td>
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<td>Repsol, Spain</td>
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<tr>
<td>Rio Tinto, United Kingdom</td>
<td>ThyssenKrupp, Germany</td>
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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

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

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

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

Council or Institutional Investors
Promoting governance policies that enhance long-term value for institutional asset owners and their beneficiaries
CalPERS: Co-Founder Co-Chair of International Committee and Board Member

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

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

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
- International Financial Reporting Standards
- Commodity Futures Trading Commission Climate Risk Council
- Public Company Accounting Oversight Board
- Financial Accounting Standards Advisory Council