



Investment Committee

Agenda Item 8c

November 16, 2020

Item Name: Climate Change Risk Strategy

Program: Board Governance and Sustainability

Item Type: Information Items

Executive Summary

This item provides the Investment Committee with an update on CalPERS' investment strategy on climate change risk and opportunity.

Strategic Plan

CalPERS' Enterprise Strategic Plan (2017-2022) sets out a goal to improve fund sustainability, including a commitment to include environmental, social and governance (ESG) factors relevant to risk and return in 100% of policies and procedures across the Investment Office.

Investment Beliefs

This item supports the following Investment Beliefs:

Investment Belief 2: A long term horizon is an advantage and a responsibility.

Investment Belief 4: Long-term value creation requires effective management of three forms of capital: financial, physical and human.

Investment Belief 7: CalPERS will take risk only where we have a strong belief, we will be rewarded for it.

Investment Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

Background

As a long-term investor, CalPERS recognizes the scale and multi-faceted nature of climate change, which pose both risks and opportunities to the portfolio. This is reflected in the Board's adoption of a Total Fund Policy that includes Investment Beliefs which highlight climate change in long-term value creation and risk mitigation. Climate change is also addressed in CalPERS' Governance and Sustainability Principles which guide engagement, proxy voting, advocacy and partnerships. In 2016, the board approved a strategic plan for Sustainable Investment in which climate change is highlighted as one of six priorities.

In June 2020, CalPERS presented its first report in response to the recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD). This report set out the goal of CalPERS' investment strategy on climate change to ensure the portfolio is resilient to risk and positioned for the investment opportunities that the energy transition brings, in line with the target rate of return. Additionally, CalPERS served as a member of the climate risk commission at the Commodities and Futures Trading Commission (CFTC), which issued the first call to action by a US regulator to introduce carbon pricing and other measures at federal and municipal level that will drive the transition to a low carbon economy.

Analysis

CalPERS has four channels in our climate change strategy: engagement, to ensure that the companies we invest in bring down the emissions which contribute to global warming; advocacy, to support the policy and regulation that will foster the energy transition; and integration, where we bring consideration of climate change risk and opportunity into our investment decision-making. It also explains how we work in partnership with others through initiatives convened by CalPERS such as Climate Action 100+ and international work launched by the UN Secretary General, such as the Net Zero Asset Owner Alliance.

Budget and Fiscal Impacts

Not Applicable.

Benefits and Risks

Not Applicable.

Attachments

Attachment 1 – Item 8c. Climate Change Risk Strategy

Attachment 2 – CalPERS' Investment Strategy on Climate Change: First Report in Response to the Taskforce on Climate-Related Financial Disclosure (TCFD)

Attachment 3 – Managing Climate Risk in The U.S. Financial System

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