

Item 8c. Climate Change Risk Strategy

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Executive Office

Overview

- Climate Change
- CalPERS Portfolio and Investment Strategy on Climate Change
- Sustainable Investment Strategy
- Engagement: Climate Action 100+
- Advocacy: Working with Regulators and Standard-setters
- Integration: How Asset Classes are Addressing Climate Risk and Opportunity
- Partnerships
- Appendix: Asset Classes Sustainable Investment Practice Guidelines

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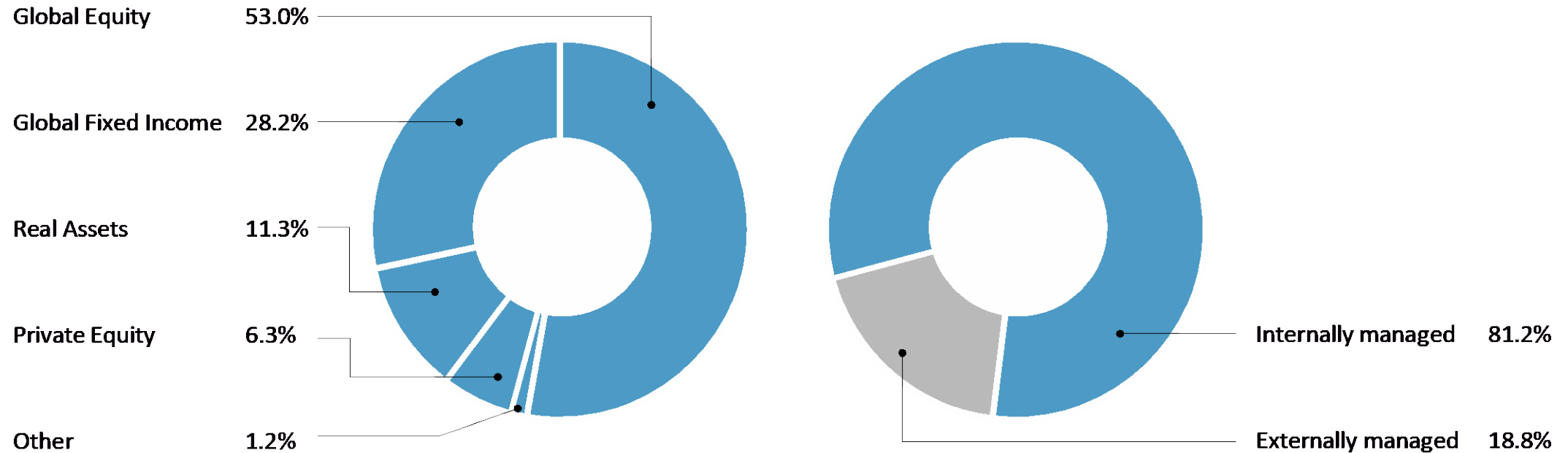
Climate change creates new risks and exacerbates existing vulnerabilities in communities across the United States, presenting growing challenges to human health and safety, quality of life, and the rate of economic growth.

–US National Climate Assessment

<https://nca2018.globalchange.gov>

CalPERS Portfolio Context

\$ 389 Billion (Public Employees' Retirement Fund (PERF) as of June 30, 2020)



CalPERS' Investment Strategy on Climate Change¹

Our first report aligned with the Taskforce on Climate-related Financial Disclosure (TCFD) framework

TCFD Sector	Combined Weight in Portfolios ²
Energy ³ (<i>Includes Energy and Utilities Holdings</i>)	8%
Materials and Buildings	6%
Agriculture, Food, and Forestry	4%
Transportation	3%
Total	21%

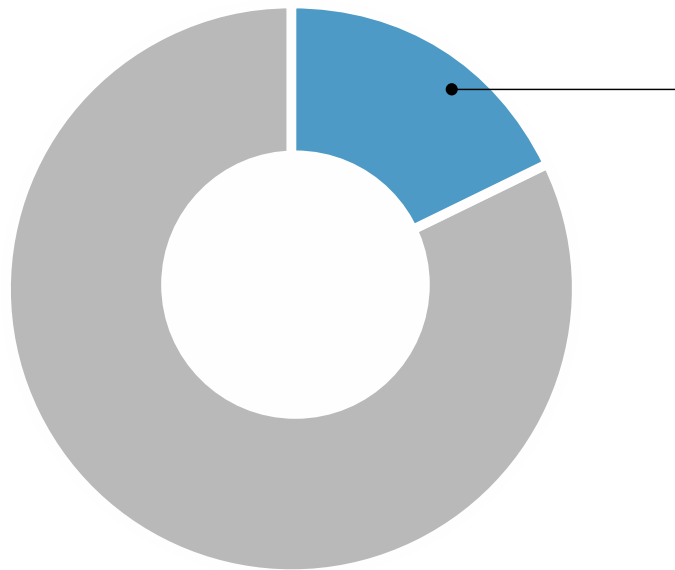
¹ CalPERS' TCFD Report: https://www.calpers.ca.gov/docs/board-agendas/202006/invest/item08c-01_a.pdf

² Considers CalPERS' Global Equity and Investment-grade Corporate Fixed Income portfolios

³ The Global Industry Classification Scheme includes the following industries in Energy: Energy Equipment and Services, Oil, Gas and Consumable Fuels

CalPERS' Investment Strategy on Climate Change

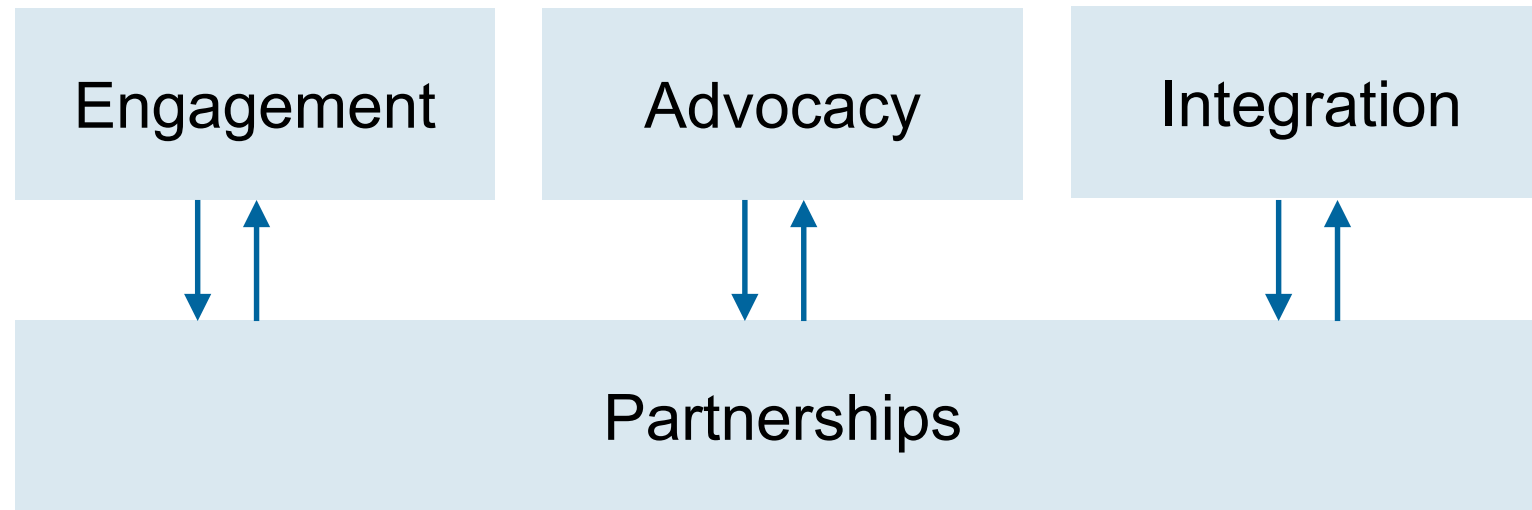
CalPERS Real Assets and Private Equity, leveraging the EU Sustainable Finance Taxonomy:



\$12.1 billion (~18%)

invested in Climate Solutions, Renewable Energy and Sustainably Certified Buildings as of December 31, 2018.

Sustainable Investment Strategy



Engagement

Engagement: Climate Action 100+



Focus on Net-Zero Emissions

- If the top 100 companies of Climate Action 100+ were a country, their combined scope 1 and 2 emissions alone would make them **the 3rd largest global emitter**
- Ran proxy solicitations on climate-related proposals
- Over 50 companies have set aims to achieve net-zero GHG emissions by 2050 or sooner

About the Climate Action 100+



Climate Action 100+ Engagement Goals

- Governance
- Targets
- TCFD disclosure

CalPERS has leading role in strategy and implementation

- Convener and Co-Founder
- Member of the Steering Committee and Chair of the Asia Advisory Group

<http://www.climateaction100.org>

Case Studies

Duke Energy Corporation

- Updated its climate strategy with a new goal of net-zero carbon emissions from electric generation by 2050
- Accelerated its near-term goal by cutting carbon dioxide emissions by half or more from 2005 levels by 2030

BP

- In February 2020, BP announced its ambition to achieve net-zero emissions by 2050 or sooner
- The company is aiming to cut the carbon intensity of the products they sell by 50% by 2050 or sooner

Advocacy

Advocacy: Working with Regulators and Standard-setters



Federal

- Commodities Futures Trading Commission
- U.S. House of Representatives, Committee on Financial Services
- Securities Exchange Commission
- U.S. Environmental Protection Agency

Advocacy: Working with Regulators and Standard-setters



State — California

- Governor Newsom – Executive Order N-19-19 and Climate Investment Framework
- State Bill 964: Climate-related financial risk
- State Bill 185: Public divestiture of thermal coal companies

Case Study

Commodities Futures Trading Commission report *Managing Climate Risk in the U.S. Financial System (September 2020)*

- CalPERS was one of 35 members of the Climate Subcommittee to the Market Risk Advisory Committee
- First report by a US financial regulator to examine links between climate change and the economy
- The report's recommendations align with *CalPERS' Investment Strategy on Climate Change* report (June 2020), including – Carbon pricing, mandatory climate risk reporting

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Climate change poses a major risk to the stability of the U.S. financial system and to its ability to sustain the American economy.

– *CFTC report* Managing Climate Risk in the U.S. Financial System, September 2020

https://www.cftc.gov/About/AdvisoryCommittees/MarketRiskAdvisory/MRAC_Reports.html

Advocacy: Working with Regulators and Standard-setters




International


- International Accounting Standards Board
- Global Investor Statement to Governments on Climate Change
- Vatican Dialogue on Carbon Pricing and Risk Reporting
- UN Global Investors for Sustainable Development
- NetZero Asset Owner Alliance

Integration


Integration: How Asset Classes are Addressing Climate Risks & Opportunities




Benchmarking




Company research




Manager research



Selection






Sustainable Investment Program Guidelines

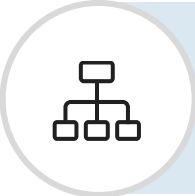




Tools

Integration: How Asset Classes are Addressing Transition Climate Risk

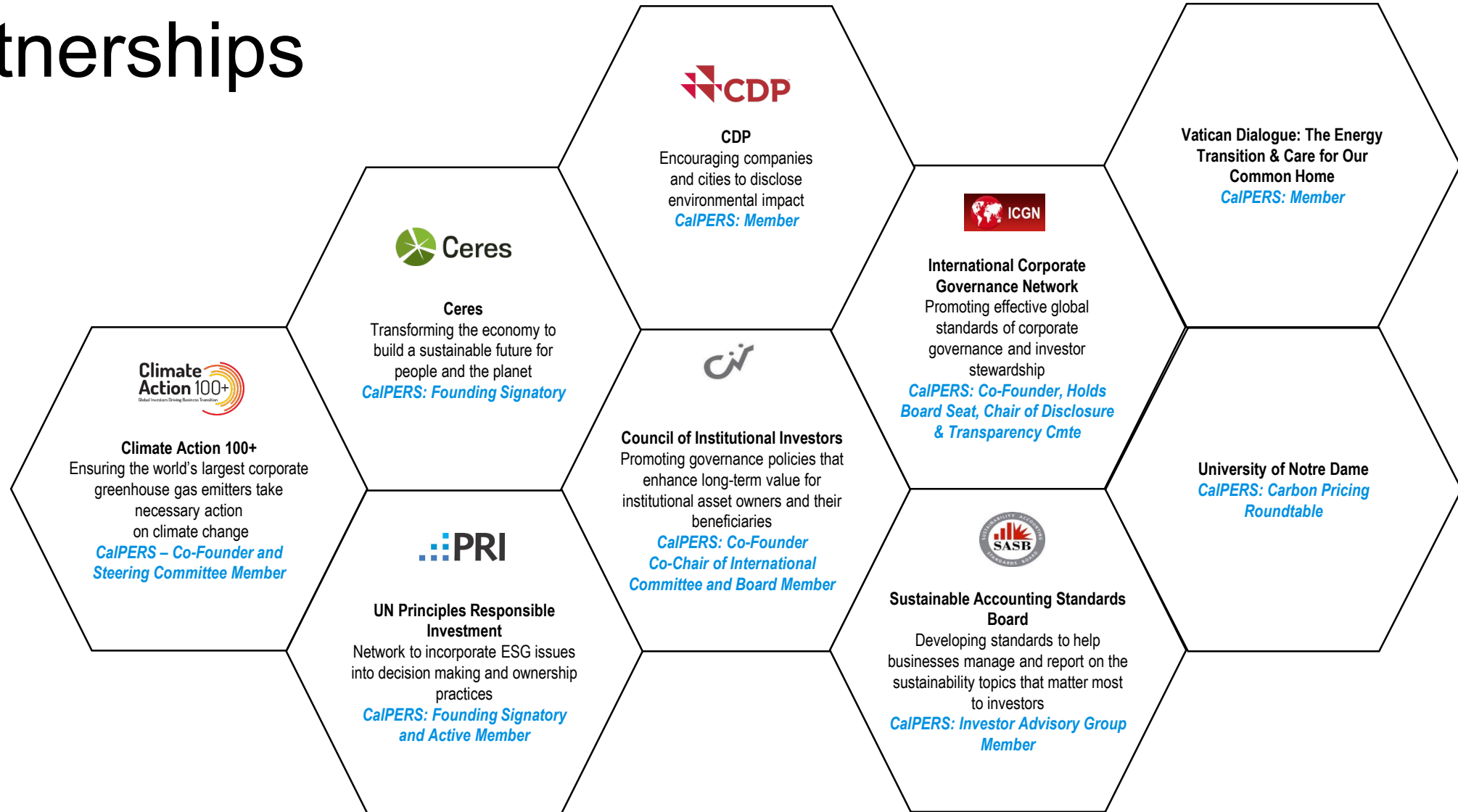
-  Carbon footprint
-  Climate solution assets
-  Engagement

Integration: How Asset Classes are Addressing Physical Climate Risk

-  CaIPERS ESG consideration matrix
-  Physical risk engagement
-  Physical risk tools

Partnerships

Partnerships



Climate Action 100+
 Global Investors Driving Business Transition

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

Ceres
 Transforming the economy to build a sustainable future for people and the planet
CalPERS: Founding Signatory

PRI

UN Principles Responsible Investment
 Network to incorporate ESG issues into decision making and ownership practices
CalPERS: Founding Signatory and Active Member

CDP

CDP
 Encouraging companies and cities to disclose environmental impact
CalPERS: Member

Council of Institutional Investors

Council of 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

SASB

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

ICGN

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

University of Notre Dame

University of Notre Dame
CalPERS: Carbon Pricing Roundtable

Vatican Dialogue: The Energy Transition & Care for Our Common Home
CalPERS: Member

UN Principles Responsible Investment

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SASB

Sustainable Accounting Standards Board
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Appendix

Links for each asset class' Sustainable Investment Practice Guidelines:

- [Global Equity Sustainable Investment Practice Guidelines \(PDF\)](#)
- [Global Fixed Income Sustainable Investment Practice Guidelines \(PDF\)](#)
- [Private Equity Sustainable Investment Practice Guidelines \(PDF\)](#)
- [Real Assets Sustainable Investment Practice Guidelines \(PDF\)](#)