

Responsible Contractor Policy Annual Report

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Investment Committee

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Responsible Contractor Program (RCP) Policy | Overview

Purpose

- The RCP Policy supports fair market wages and benefits based on local conditions for workers employed by contractors and subcontractors, subject to fiduciary principles¹
- Applies when the Real Assets (RA) program makes investments in the service, maintenance, development, and improvement of CalPERS' domestic Real Estate and Infrastructure assets

Scope

- U.S. Real Estate and Infrastructure assets where CalPERS holds > 50% interest
- Contracts of \geq \$100k
- Managers² provide an annual RCP compliance and certification report

¹ RCP Policy is applied without significant adverse effect on investment returns, access to investment opportunities, or cost impacts

² Housing managers' report on a voluntary basis

RCP Policy | History

| Year | Event |
|-------|---|
| 1990s | <ul style="list-style-type: none">Investment Committee approves establishment of the Policy |
| 2010 | <ul style="list-style-type: none">Five year policy review and engagement process beginsEstablishment of the Neutrality Trial³ for Core managers on service contracts |
| 2012 | <ul style="list-style-type: none">RCP Policy enhanced and revised |
| 2015 | <ul style="list-style-type: none">Extensive 18-month policy review and engagement processRCP Policy enhanced and revisedNeutrality Trial for Core managers becomes permanent policyNew Neutrality Trial established for select Non-Core managers |

³ See slide 8 for Neutrality information

RCP Policy | FY 2018-19 Summary Results

- All 16 managers reported in aggregate 100% compliance⁴
- Over \$845.2 million paid to certifying responsible contractors
- All managers certified they and their contractors / sub-contractors complied with the RCP Policy to the best of their knowledge
- All managers reported the RCP Policy had no adverse material impact on CalPERS investment returns
- No formal complaints were filed during the reporting period

⁴ Qualifying contract payments were made under the Policy to certifying responsible contractors

RCP Policy | Compliance and Total Contracting

| FY | RCP Compliance | Total Paid to Responsible Contractors (\$Billions) | Real Assets Ending Market Value ⁵ (\$Billions) |
|---------|----------------|--|---|
| 2015-16 | 99.73 | 1.22 | 29.89 |
| 2016-17 | 99.97 | 1.18 | 34.32 |
| 2017-18 | 100.00 | 0.86 | 36.12 |
| 2018-19 | 99.98 | 0.84 | 39.20 |
| 2019-20 | 100.00 | 0.84 | 42.8 |
| | Total | 4.94 | |

⁵ Market value of Real Estate and Infrastructure Portfolio at end of fiscal year

Appendix

Investment Beliefs

Investment Belief 4

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

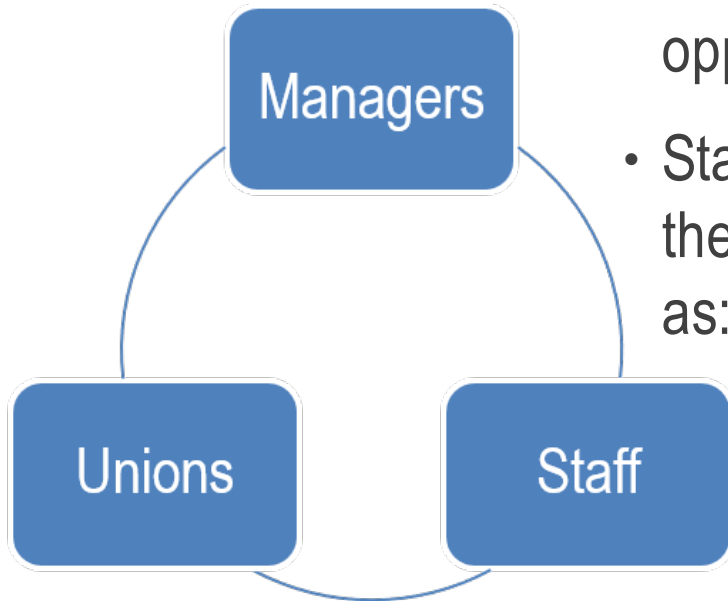
Investment Belief 3

CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries

RCP Policy | Neutrality

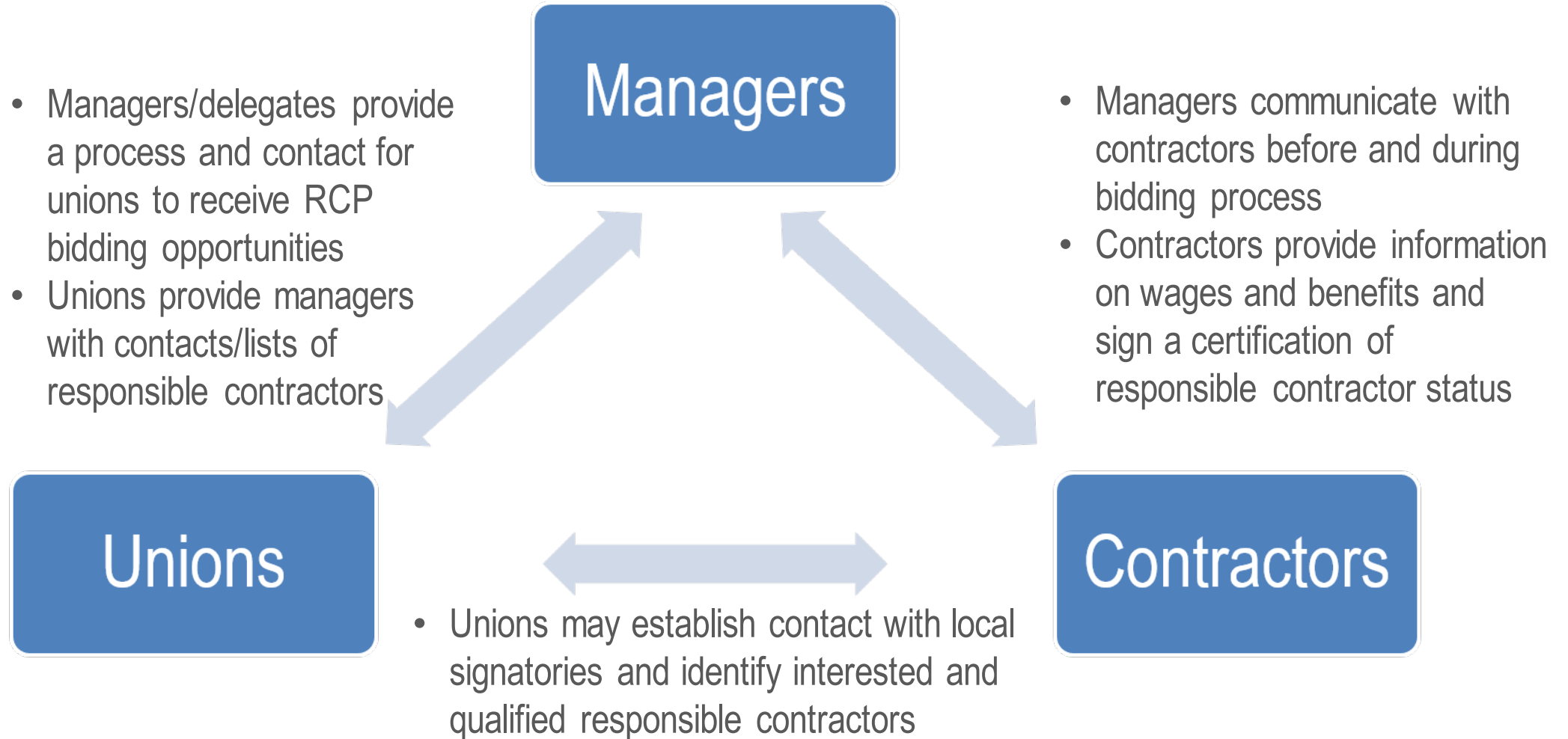
- CalPERS remains neutral in the event a labor organization attempts to organize workers on RCP Investments
- All Core investment managers and their contractors / subcontractors are required to remain neutral should workers who provide maintenance, operation, or other property related services at an RCP managed asset organize
- Select Non-Core Real Estate and Infrastructure funds and their contractors /subcontractors agree to the above on a voluntary basis

RCP Policy | Communication & Engagement



- INVO staff communicates regularly with key labor leaders and RA managers regarding implementation of the RCP Policy
- The RCP Policy, information on its implementation, annual reports and links to contact RA managers to request information on RCP bidding opportunities is available on the CalPERS website
- Staff continues to address labor issues as they occur, in accordance with the RCP Policy. Some RCP concerns fall outside of the RCP scope, such as:
 - CalPERS has no ownership interest in the asset
 - Contract is < \$100,000

RCP Policy | Bidding and Notification Process



RCP Policy | Manager Responsibilities Report ⁶

- Investment managers that reported costs to administer the RCP estimated between \$5,000 and \$235,000 per year
 - Estimates vary according to the number of qualifying contracts and unique staffing and implementation practices of each investment manager
- All investment managers (or their delegates ⁷) reported that they:
 - Maintained written policies and procedures for implementing and complying with the RCP; provided training on administering the RCP
 - Communicated the RCP Policy, and their own written policies or procedures relating to the RCP, to their employees and contractors
 - Monitored and enforced their own and delegates' compliance with the RCP, including the investigation of potential violations
 - Used a 30-day pre-bid notification procedure when appropriate
- Reviewed lists of pending RCP Contracts provided by each of their delegates
- Four (4) investment managers reported expanding into new areas during the reporting period, and have notified, or are in the process of notifying, trade/service unions of their expansion
- Most investment managers provided comments on additional activities undertaken to administer the RCP Policy
 - Majority of comments concerned outreach regarding bidding opportunities and efforts addressing labor issues