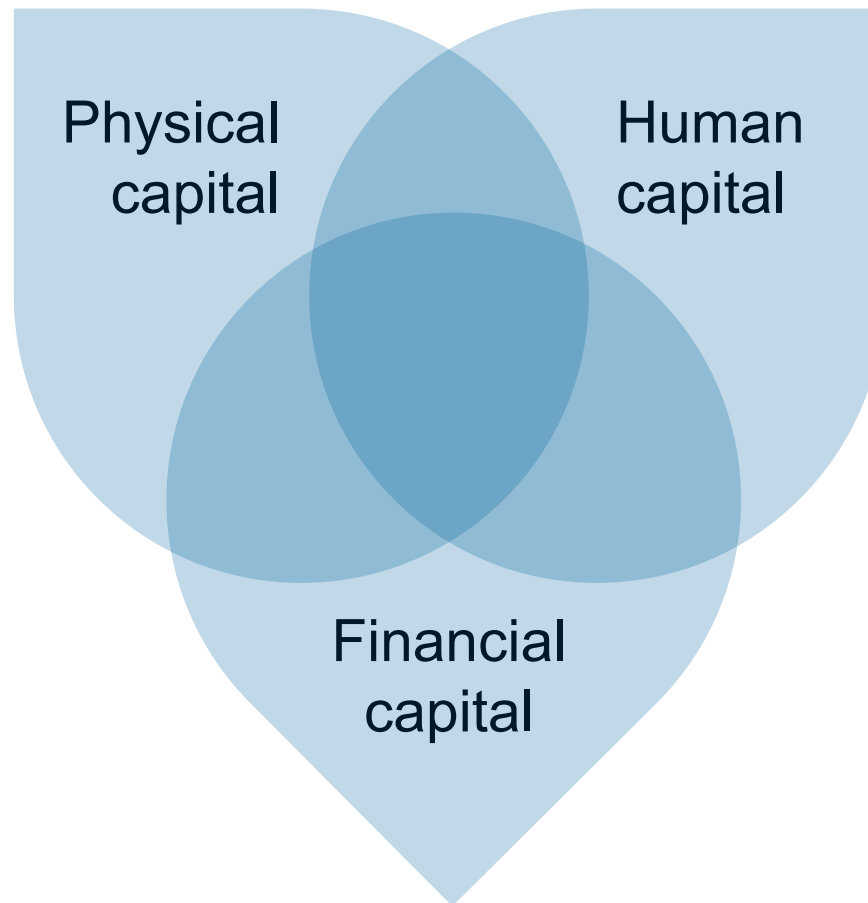


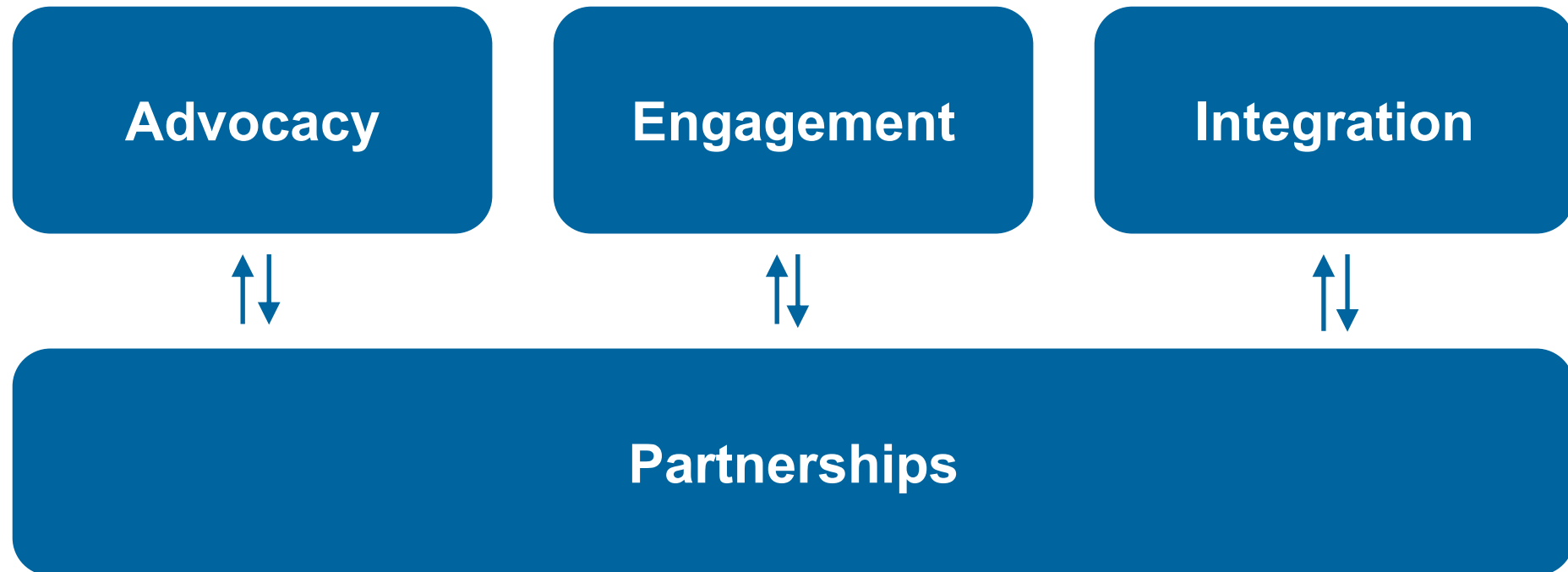
2016-21
Sustainable Investment Strategic Plan:
Five Year Progress Report

Anne Simpson
Board Governance & Sustainability

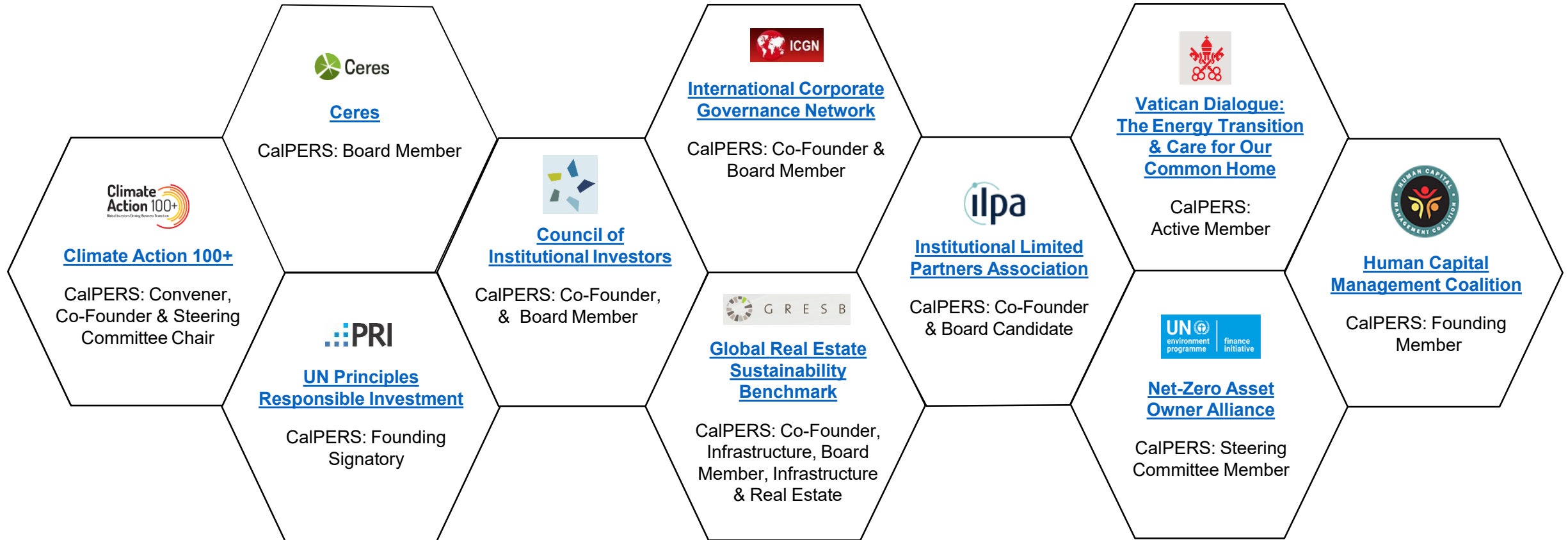
Grounding ESG in Economics for Long Term Value



Implementation Channels



Partnership Examples



Strategic Priorities Focused on Risk and Return



Research



Data &
Corporate
Reporting



Climate
Change



Diversity &
Inclusion



Private Equity
& Profit/Fee
Sharing
Transparency



Manager
Expectations



Research

Objective: Strengthen understanding of Environmental, Social and Governance (ESG) factors relevant to risk and return specific to CalPERS' investment strategy

- Validate – identify sustainability factors relevant to CalPERS' investments
- Integrate – ensure relevant consideration across the Total Fund
- Educate – share insight and understanding to build investment team capacity

Key Performance Indicators (KPIs):

- Sustainable Investment Research Initiative (SIRI)
- Global Equity Strategies
- Water risk



Case Study:

CalPERS' Investment Strategy on Climate Change: First Response to the Taskforce on Climate-related Financial Disclosure (TCFD)

- TCFD report estimates Total Fund exposure to Climate Risk and Opportunity
- Carbon Footprint calculated for each asset class
- Climate Value-at-Risk Analysis
- Green Revenue Opportunities mapped
- Physical Risks of Climate Change (P-ROCC) framework developed



Data & Corporate Reporting

Objective: Initial voluntary corporate reporting including enhanced disclosure of ESG considerations in periodic filings globally

- Current quality and quantity of relevant ESG reporting does not meet investors' needs
- Information must be standardized and assured
- Data and reporting should be integrated into company financials

KPIs

- Benchmark and track the progress of integrated reporting globally
- Mandatory standards adopted globally



Case Study: Regulatory and Policy Advocacy

- IFRS Advisory Council establishes International Sustainability Standards Board
- [SEC Investor Advisory Committee recommendation on Human Capital Management disclosure](#)
- [Commodities Futures Trading Commission Report Managing Climate Risk in the U.S. Financial System](#)
- International example: Korean Financial Services Commission
- Congressional Testimony:
 - House Financial Services Subcommittee on Diversity and
 - Subcommittee on Investor Protection, Entrepreneurship and Capital Markets



Climate Change

Objective: Manage climate risk and opportunity through corporate engagement

- Climate change risk exacerbated by global warming
- Goal is to reduce emissions of our portfolio companies
- Engagement drives impact at Systemically Important Carbon Emitters responsible for third largest source of greenhouse gas emissions

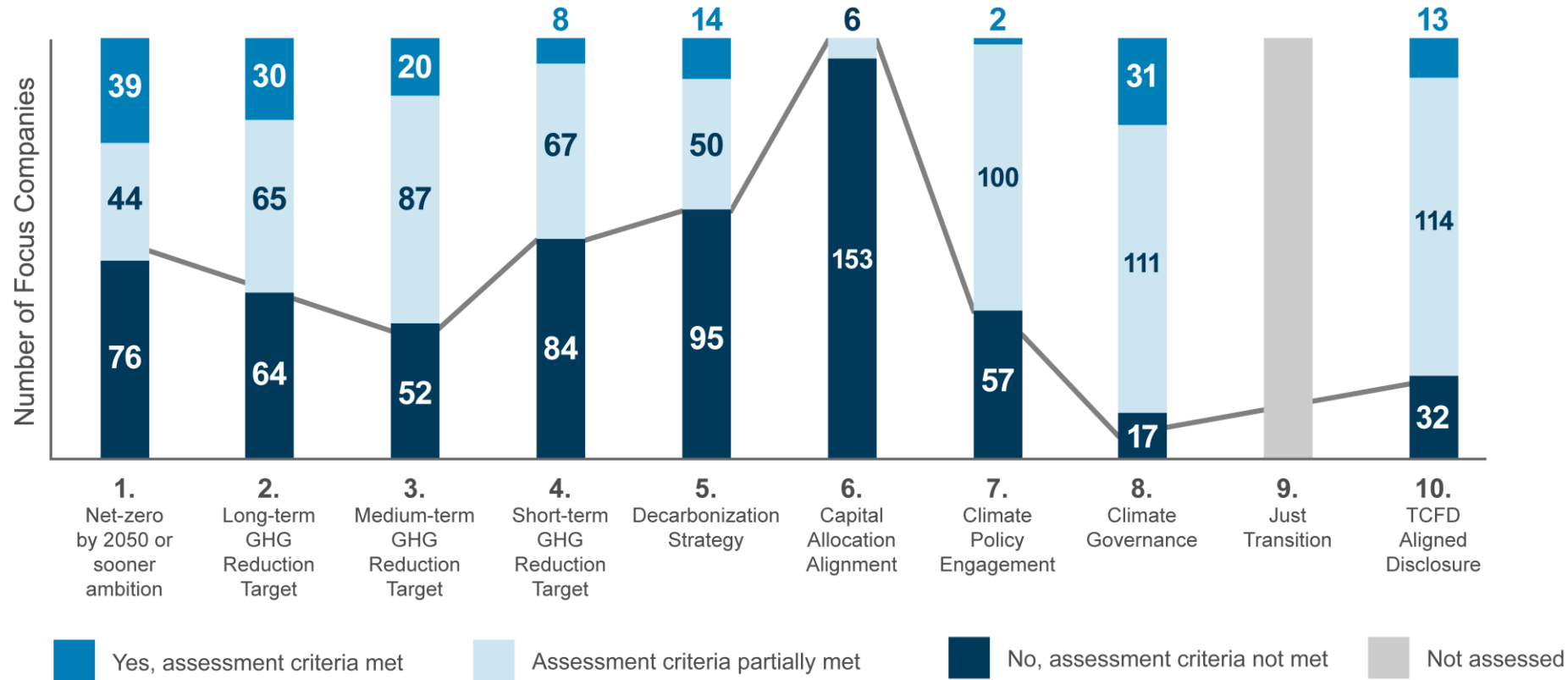
KPIs

- All 80 companies establish a carbon reduction target consistent with Paris COP 21 later expanded to Climate Action 100+
- Measure and report reduction in carbon footprint
- Track financial performance of companies with reduction targets



Case Study

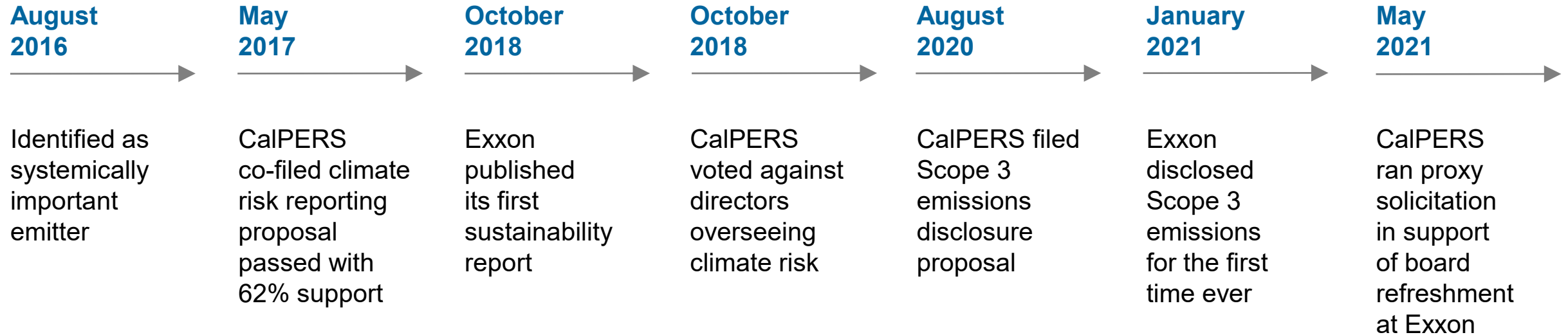
Climate Action 100+ Net Zero Company Benchmark





Climate Change: Case Study

ExxonMobil





Diversity & Inclusion

Objective: Enhance Total Fund performance by increasing corporate board diversity

- Extended our engagement more broadly in order to drive board quality
- Focus on Board independence, competence and diversity in line with CalPERS' Governance & Sustainability Principles

KPIs:

- All public companies in which CalPERS invests have a dimension of board diversity, focusing on S&P 500 company boards in the 5-year strategic plan
- Track financial performance of companies with diverse boards



Diversity & Inclusion: Impact

- All S&P 500 companies have a female director
- 65% of companies engaged since July 2017 have added at least one diverse director
- Of active companies, 71% of those engaged have added a diverse director

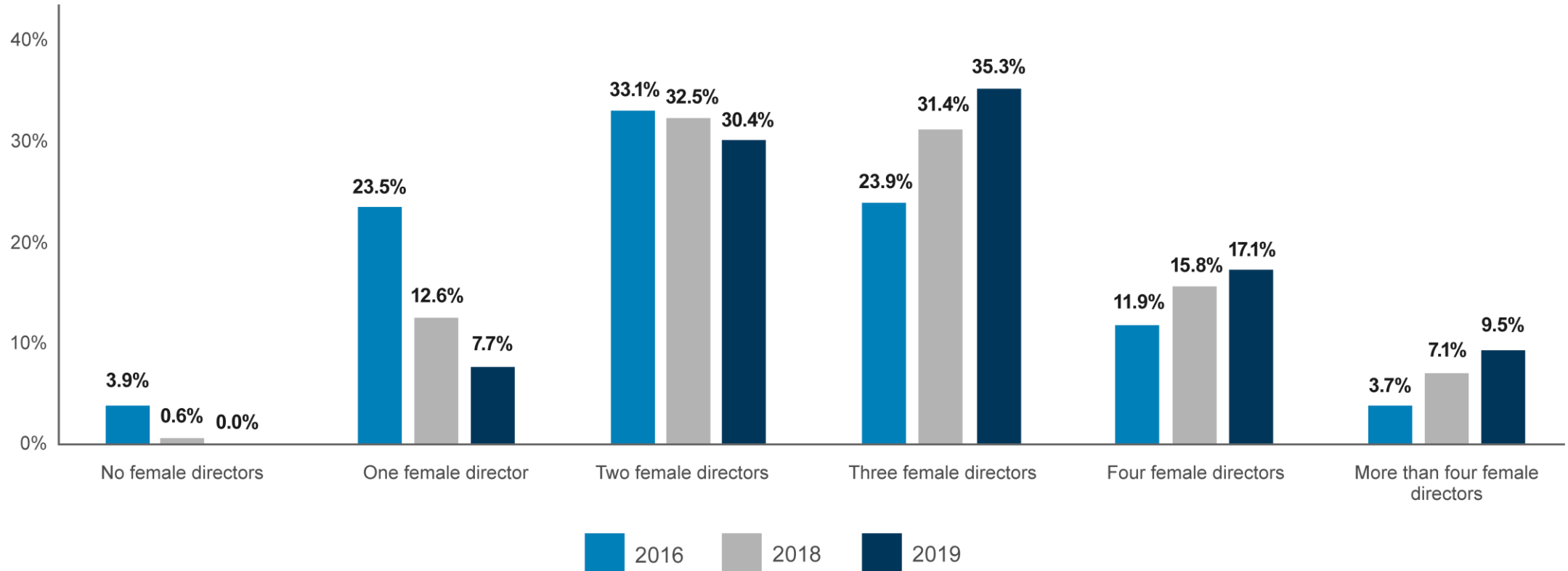
Market-wide updates

Russell 3000 companies:

- 93% have at least one female director vs 78% in 2017
- 23% have board seats held by women vs 16% in 2017
- 59% of new independent directors at S&P 500 companies are women and underrepresented minorities



Board Diversity: Trends on Gender





Diversity & Inclusion: Case Study

Lindsay Corporation

- **July 2017:** Identified as a company lacking board diversity
- **July 2017:** Requested engagement with the company's board leadership
- **2018:** Company added a female person of color to the board
- **[Diverse Director Datasource \(3D\)](#):** Nominee part of the 3D director pipeline



Private Equity & Fee Profit Sharing Transparency

Objective: Industry adoption of the Institutional Limited Partners Association (ILPA) framework for transparency of fees and profit sharing

KPIs:

- 100% core private equity partnerships complete the ILPA fee reporting template and provide profit sharing information
- Track and report industry ILPA adoption



Private Equity & Fee Profit Sharing Transparency: Outcomes

- 100% CalPERS' core private equity (PE) partnerships complete the ILPA fee reporting template and provide profit sharing information
- 94% of PE partnerships reported utilizing ILPA fee template, representing 98% of PE portfolio's NAV (as of Q3 2020)



Manager Expectations

Objective: Ensure that 100% of investment decision making policies and processes reflect relevant ESG considerations.

KPIs:

- All managers have policies and procedures for including ESG information in decision making
- Asset classes establish and implement documented procedures for due diligence, contracting, and monitoring activities



Manager Expectations: **Global Equity**

All proxy votes cast internally – 2021 highlights

- McDonalds
- Wells Fargo
- Johnson & Johnson
- Wendy's
- ExxonMobil Corporation
- Berkshire Hathaway Inc.
- Chevron Corporation
- Phillips 66



Manager Expectations: **Global Fixed Income**

CalPERS invests \$425m Green / Sustainability Bonds

- Funds projects with environmental benefits
- Equivalent credit risk as conventional bonds of same issuer
- Green bond investments based on portfolio guidelines & relative value

Global Fixed Income has invested in green bonds to fund:

- Renewable power
- Energy efficiency & clean transportation
- Green buildings



Manager Expectations: Private Equity

- Surveyed and determined 100% of external core managers have ESG policies
- Included ESG considerations in CalPERS's side letter for new managers
- Included an ESG section in the Final Investment Recommendation





Manager Expectations: Real Assets

- Separate Account contracts incorporate ESG requirements
- 100% Compliance with Responsible Contractor Program Policy
- Benchmarking 85% of the portfolio through Global Real Estate Sustainability Benchmark (GRESB)
- Sustainable Investment Practice Guidelines incorporated into Real Assets procedures manual
- Responses to ESG questions included in manager evaluations
- ESG integration in reporting, annual investment planning, third party assessments, and Energy Optimization (EO) Initiative for Real Estate
 - Over the past four years, 220 EO opportunities have been identified

Next Steps

- Maintain focus on risk/return impact to support CalPERS' investment objectives
- Requests for Information to inform next stage of work:
 - [Sustainable Investment Research Initiative III: Climate Change \(PDF\)](#) and
 - [Sustainable Investment Research Initiative III: Human Capital Management \(PDF\)](#)
- Peer benchmarking through CEM and PRI Assessment
- Board and stakeholder input on lessons learned

Appendix

Appendix

1. [CalPERS Investment Beliefs](#)
2. [Sustainable Investment Strategic Plan](#)
3. [Sustainable Investment Research Initiatives \(SIRI\)](#)
4. [Leadership in Sustainable Investing — Physical Risk of Climate Change \(P-ROCC\) Framework](#)
5. [Commodities Futures Trading Commission Report Managing Climate Risk in the U.S. Financial System](#)
6. [CalPERS Investment Strategy on Climate Change: first response to the TCFD](#)
7. [Climate Action 100+](#)
8. [CalPERS' Governance & Sustainability Principles](#)
9. [Global Equity Sustainable Investment Practices Guidelines](#)
10. [Global Fixed Income Sustainable Investment Practices Guidelines](#)
11. [Real Assets Sustainable Investment Practices Guidelines](#)
12. [International Financial Reporting Standards Advisory Council](#)
13. [International Corporate Governance Network Disclosure and Transparency Committee](#)

Appendix *(continued)*

14. CalPERS' Testimony before the House Financial Services, Subcommittees on Diversity & Inclusion and Investor Protection, Entrepreneurship and Capital Markets
 - <https://financialservices.house.gov/uploadedfiles/hhrg-116-ba16-wstate-simpspna-20200714.pdf>
 - <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba13-bio-simpspna-20210318.pdf>
 - <https://financialservices.house.gov/uploadedfiles/hhrg-116-ba16-wstate-andrusj-20190710.pdf>
 - <https://financialservices.house.gov/uploadedfiles/hhrg-117-ba16-wstate-andrusj-20210225.pdf>
15. [SEC petition on ESG disclosures to develop a comprehensive framework](#)
16. [Financial Accounting Standards Advisory Council \(FASAC\)](#)
17. [SEC petition on disclosure of human capital management](#)
18. [SEC Investor Advisory Committee recommendation on Human Capital Management disclosure](#)
19. [Commodities Futures Trading Commission \(CFTC\) Managing Climate Risk in the US Financial System](#)
20. [Korea Financial Regulator Calls for Mandatory ESG Reporting for KOSPI-listed Firms, ESG Today](#)
21. [Reform of the Public Company Accounting Oversight Board](#)

Questions & Discussion