



Investment Committee

Agenda Item 5b

November 13, 2023

Item Name: Revisions to the Total Fund Policy: Governance and Sustainability Principles – Second Reading

Program: Sustainable Investments

Item Type: Action

Executive Summary

This item will provide the Investment Committee an opportunity to approve CalPERS' Labor Principles. Staff is seeking approval to give greater prominence to the existing language on labor through a dedicated section of the CalPERS' Governance & Sustainability Principles document. This item was presented to the Investment Committee in September for a first read. This November item allows the Board to take action to approve the dedicated CalPERS' Labor Principles section of the CalPERS' Governance & Sustainability Principles document.

Strategic Plan

This agenda item supports the CalPERS Strategic Plan goals to strengthen the long-term sustainability of the pension fund and cultivate risk-intelligent decisions.

Investment Beliefs

The CalPERS Labor Principles support the following Investment Beliefs:

Investment Belief 3 – Investment decision may reflect wider stakeholder views, provided they are consistent with CalPERS' fiduciary duty to members and beneficiaries.

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

Background

CalPERS has existing and well-established coverage of Labor Principles across various documents (e.g., in Governance & Sustainability Principles and Investment Beliefs). CalPERS staff was asked to report back on an update to CalPERS' Labor Principles in September and to bring this item for a second read and approval in November.

Analysis

- CalPERS regularly reviews evolving labor frameworks and best practice standards, such as the International Labour Organization (ILO), the American Investment Council (AIC), the Laborers' International Union of North American (LIUNA) and others.
- Our current coverage of Labor Principles largely reflects what is found in these other frameworks and industry best practice documents. But upon review, consolidating this coverage into one location is preferred.
- As such, we have refined CalPERS' language on labor to provide a clear and standardized message of CalPERS' core labor views, which will be called CalPERS' Labor Principles.
- We are seeking approval to include CalPERS' Labor Principles in a dedicated section of CalPERS' Governance & Sustainability Principles. These will also be integrated into CalPERS' Asset Class Sustainable Investments Guidelines.
- Managers will be made aware of these Principles and will provide periodic attestations.

Budget and Fiscal Impacts

Not applicable.

Benefits and Risks

The benefit of including CalPERS' Labor Principles in a dedicated section of CalPERS' Governance & Sustainability Principles is to provide a clear and standardized message of CalPERS' core labor views.

Attachments

Attachment 1 – CalPERS' Governance Sustainability Principles- (marked up version)

Attachment 2 – CalPERS' Governance Sustainability Principles- (clean updated version)

Attachment 3 – Wilshire Opinion Letter

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