

# Total Fund Governance & Sustainability Strategic Plan Update

March 2019

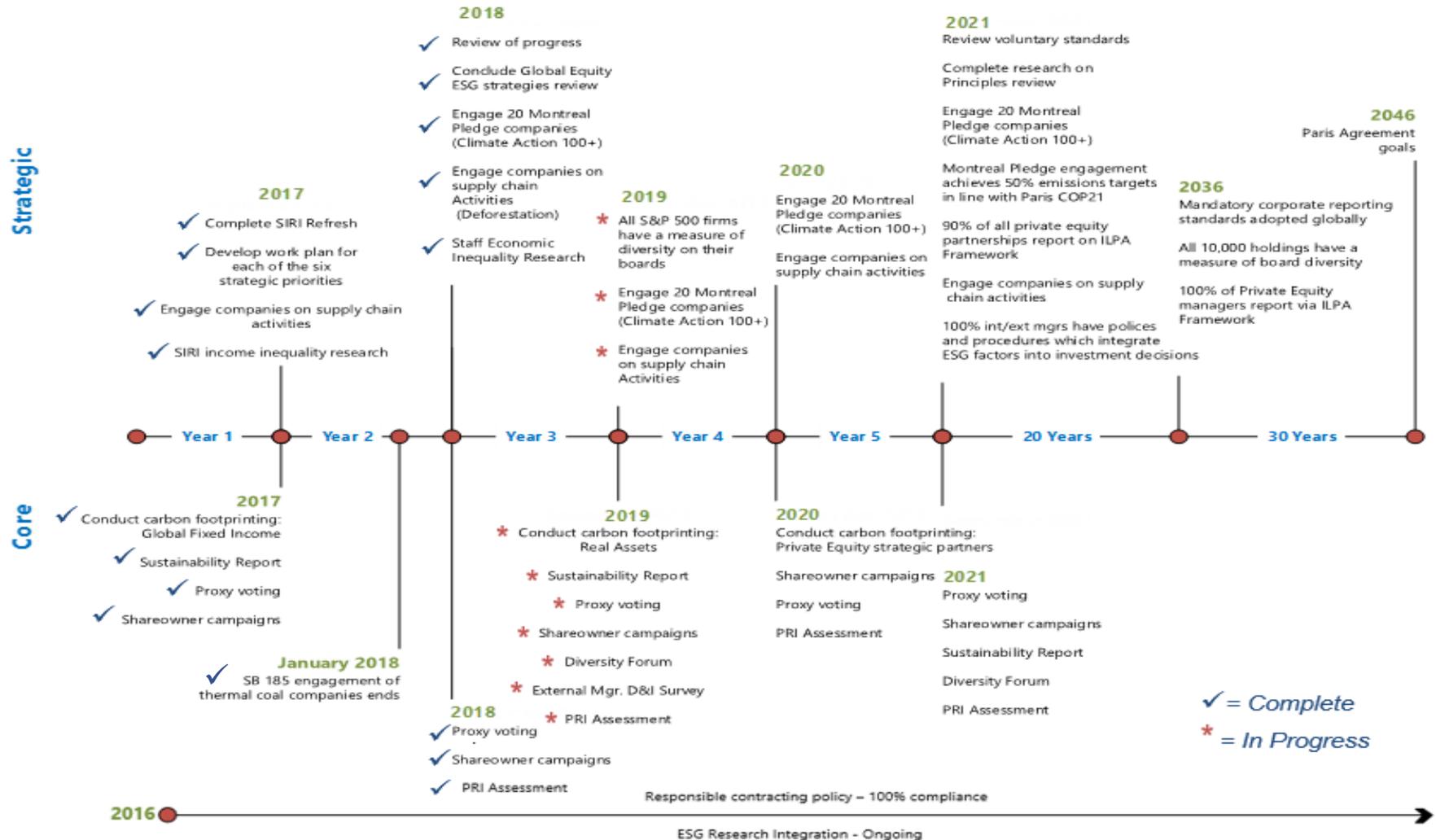
# ESG Strategic Plan | Overview



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	Environmental	Social	Governance
S T R A T E G I C	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (includes water risk)</li> <li>Manager Expectations (includes water risk)</li> </ul>	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (includes human capital)</li> <li>Manager Expectations</li> </ul>	<ul style="list-style-type: none"> <li>Data and corporate reporting standards (focusing on the long-term)</li> <li>Manager Expectations</li> </ul>
	<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>Sustainable Investment Research Initiative (SIRI)</li> <li>Global Equity Strategies</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>SIRI</li> <li>Diversity</li> <li>Income inequality (action plan if warranted)</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Research                             <ul style="list-style-type: none"> <li>Topics from Global Governance Principles Review</li> <li>Supply Chain Activities</li> </ul> </li> </ul>
	<ul style="list-style-type: none"> <li>Engage 80 PRI Montreal Pledge Companies (identify water risk candidates)</li> </ul>	<ul style="list-style-type: none"> <li>Diversity and Inclusion                             <ul style="list-style-type: none"> <li>Engagement</li> <li>Voting</li> <li>3D</li> <li>Advocacy</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Private Equity Fee and Profit Sharing Transparency (including AB 2833)</li> </ul>
	<ul style="list-style-type: none"> <li>Carbon Footprinting – Total fund</li> <li>Thermal Coal Companies – (SB185)</li> </ul>	<ul style="list-style-type: none"> <li>Responsible Contractor Program</li> </ul>	<ul style="list-style-type: none"> <li>Proxy Voting</li> <li>Shareowner Campaigns (Proxy Access/ Majority Voting)</li> <li>Focus List</li> <li>Divestment: Mandates, Policy &amp; Principles</li> </ul>
C O R E	Work through Partnerships to leverage resources and impact		
	<ul style="list-style-type: none"> <li>Corporate Engagements</li> <li>Federal and Legislative Guidelines</li> <li>Sustainability Report</li> <li>Response to Ad Hoc Media and Stakeholder Requests</li> </ul>		

# ESG Strategic Plan | Timeline



# Strategic Initiatives | Data and Corporate Reporting Standards

## OBJECTIVES

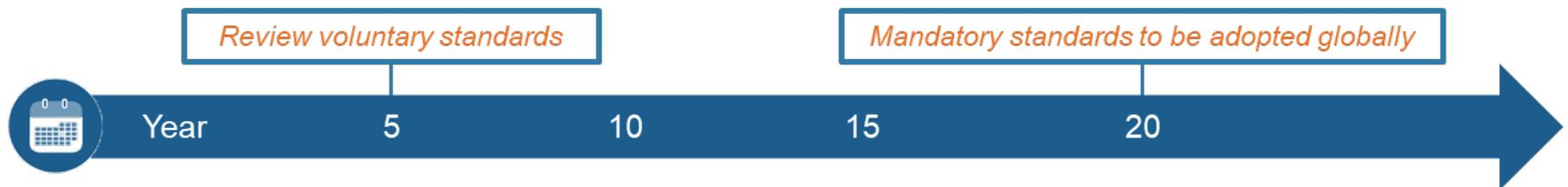
- Initial voluntary corporate reporting including enhanced disclosure of ESG considerations in periodic filings globally
- Adoption of enhanced mandatory reporting of ESG in periodic filings globally

## KEY PERFORMANCE INDICATORS

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

## 2018 ACCOMPLISHMENTS

- SI staff member appointed to both Financial Accounting Standards Advisory Council (FASAC) and IFRS Advisory Council, respectively the key domestic and international standards advisory councils
- SI and Global Equity MIDs representing CalPERS on Sustainable Accounting Standard Board (SASB) Investor Advisory Group
- Participation in the Embankment Project for Inclusive Capitalism (EPIC) identifying value drivers & potential metrics
- Participation in Investor Leadership Network (ILN) initiative on climate related disclosure under TCFD framework
- Domestically: promoted enhanced disclosures through visits with Securities and Exchange Commission (SEC) Commissioners and the petition to the SEC to require ESG Disclosures; comments on the Public Company Accounting Oversight Board (PCAOB) Draft Strategic Plan, proposed revisions to IFRS Framework, and the “JOBS and Investor Confidence Act of 2018”
- Internationally: engaged the International Accounting Standards Board (IASB) to conduct research on ESG disclosures



# Strategic Initiatives | Climate Action 100+ <sup>1</sup>



## OBJECTIVE

Manage climate risk and opportunity by engaging 80 Montreal Pledge companies

## KEY PERFORMANCE INDICATORS

- All 80 companies establish a carbon reduction target consistent with Paris COP 21
- Measure and report reduction in carbon footprint
- Track financial performance of companies with established reduction targets

## 2018 ACCOMPLISHMENTS

- Through successful partnership with several strategic partners (including Ceres and UNPRI) more than 310 investors with \$32 Trillion in assets collectively under management are targeting 161 companies through collaborative engagement (well beyond the original 80 in the KPI and original plan for CalPERS to engage 20 companies/year)
- Appointed Chair of Global Steering Committee (through March 2019); Six staff members devoted significant time to this initiative
- Appointed Chair of Asia Advisory Group, which aims to assist the Global Steering Committee and investor signatories with insight in to the local Asian markets and developments that may be of importance or relevance to the initiative
- CalPERS is leading engagements on 21 portfolio companies globally; working to coordinate in-person meetings with senior management and director(s) from each company
- Notable progress across many companies. Details available at <http://www.climateaction100.org/>



<sup>1</sup> When approved in 2016, initiative was titled: "Engage UN PRI Montreal Pledge Companies" with timeline: Engage 20 companies: each of years 2, 3, 4, 5 of the 5-year plan

# Strategic Initiatives | Manager Expectations

## OBJECTIVE

Manager Expectations that allow CalPERS to better understand and manage ESG investment risk and opportunity across the portfolio

## KEY PERFORMANCE INDICATORS

- 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

## 2018 ACCOMPLISHMENTS

- Surveyed and determined 96% of external strategic managers have ESG policies
- Updated and published Sustainable Investment Practice Guidelines (SIPG) on the internet for all asset classes
- Identified and reviewed industry / peer ESG integration standards in advance of creating a qualitative assessment framework for the SIPGs



# Strategic Initiatives | Diversity and Inclusion

## OBJECTIVE

Enhance Total Fund performance by increasing corporate board diversity

## KEY PERFORMANCE INDICATORS

- All public companies in which CalPERS invests have a dimension of board diversity<sup>1</sup>
- Track financial performance of companies with diverse boards

## 2018 ACCOMPLISHMENTS

- 39% of the 504 companies engaged have since added a diverse director
- Diverse Director Database (3D)
  - Over 300 companies are signed up to search Equilar's BoardEdge, under which 3D is housed
  - There are 675 candidates in 3D, 526 of whom meet Equilar's criteria to be searchable in BoardEdge
  - 17 candidates within 3D were appointed to boards in calendar year 2018, up from 11 in 2017



<sup>1</sup> Diversity: Board diversity should be thought of in terms of skill sets, gender, age, nationality, race, sexual orientation, gender identity, and historically under-represented groups. Consideration should go beyond the traditional notion of diversity to include a more broad range of experience, thoughts, perspectives, and competencies to help enable effective board leadership. – Source: Global Governance Principles, Section B.9.

<sup>2</sup> Reference: 2015 Spencer Stuart Board Index - <https://www.spencerstuart.com/research-and-insight/spencer-stuart-us-board-index-2015>

# Strategic Initiatives | Research

## OBJECTIVE

Strengthen understanding of ESG factors relevant to risk and return specific to CalPERS' investment objectives

## KEY PERFORMANCE INDICATORS

- Complete evidence review:
  1. SIRI refresh (inclusive of diversity and income inequality)
  2. Global Equity strategies
  3. Research companies most exposed to water risk to inform engagement
  4. Topics from Governance and Sustainability Principles review, including supply chain issues
- Integrate relevant research findings into investment decision-making

## 2018 ACCOMPLISHMENTS

- Conducted and completed research on Water Risk and Income Inequality. Launched and made progress on research on Disruptive Technologies and Climate Risk Data Mapping
- Completed analysis on ~20 equity strategies which integrate ESG themes/ research; selected and funded two strategies, additional \$2B, for total of \$3B, allocated to ESG strategies in Global Equity
- Added staff to Sustainable Investments team to support integrating relevant research findings across the Total Fund



# Strategic Initiatives | Private Equity & Fee Profit Sharing Transparency

## OBJECTIVE

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

## KEY PERFORMANCE INDICATORS

- Ensure 100% of CalPERS' strategic private equity partnerships complete the ILPA fee reporting template and provide profit sharing information
- Target 100% of CalPERS private equity strategic partnerships complete the ILPA fee reporting template and provide profit sharing information
- Track and report industry ILPA adoption
  - Partnerships completing the ILPA fee reporting template and providing profit sharing information
  - Limited partners requiring such information from their general partners

## 2018 ACCOMPLISHMENTS

- For Q3 2018, 86% of strategic partnerships reported utilizing the quarterly ILPA fee template

