Total Fund Governance & Sustainability Strategic Plan Update

March 2019
ESG Strategic Plan | Overview

**Plan Development**
- Discussions between Investment Committee and INVO Staff
- Developed Total Fund Governance and Sustainability Strategic Plan

**Plan Approval**
- Investment Committee approved the 5-Year Plan
- Environmental, Social and Governance (ESG) focused
- Six strategic initiatives, core workload and associated key performance indicators focused on

**Mid-Cycle Update**
- Strategic Plan update

**Plan Formulation**
- Develop and introduce the next 5-Year Strategic Plan
# ESG Strategic Plan | Overview as approved in August 2016

## Environmental
- Data and corporate reporting standards (includes water risk)
- Manager Expectations (includes water risk)
- Research
  - Sustainable Investment Research Initiative (SIRI)
  - Global Equity Strategies
- Engage 80 PRI Montreal Pledge Companies (identify water risk candidates)
- Carbon Footprinting – Total fund
  - Thermal Coal Companies – (SB185)

## Social
- Data and corporate reporting standards (includes human capital)
- Manager Expectations
- Diversity and Inclusion
  - Engagement
  - Voting
  - 3D
  - Advocacy
- Responsible Contractor Program

## Governance
- Data and corporate reporting standards (focusing on the long-term)
- Manager Expectations
- Research
  - Topics from Global Governance Principles Review
  - Supply Chain Activities
- Private Equity Fee and Profit Sharing Transparency (including AB 2833)
- Proxy Voting
- Shareowner Campaigns (Proxy Access/ Majority Voting)
- Focus List
- Divestment: Mandates, Policy & Principles

Work through Partnerships to leverage resources and impact

- Corporate Engagements
- Federal and Legislative Guidelines
- Sustainability Report
- Response to Ad Hoc Media and Stakeholder Requests
ESG Strategic Plan | Timeline

2017
- Complete SIRI Refresh
- Develop work plan for each of the six strategic priorities
- Engage companies on supply chain activities
- SIRI income inequality research

2018
- Review of progress
- Conclude Global Equity
- ESG strategies review
- Engage 20 Montreal Pledge companies (Climate Action 100+)
- Engage companies on supply chain activities (Deforestation)
- Staff Economic Inequality Research

2019
- All S&P 500 firms have a measure of diversity on their boards
- Engage 20 Montreal Pledge companies (Climate Action 100+)
- Engage companies on supply chain activities
- SIRI income inequality research

2020
- Engage 20 Montreal Pledge companies (Climate Action 100+)
- Engage companies on supply chain activities

2021
- Review voluntary standards
- Complete research on Principles review
- Engage 20 Montreal Pledge companies (Climate Action 100+)
- Montreal Pledge engagement achieves 50% emissions targets in line with Paris COP21
- 90% of all private equity partnerships report on ILPA Framework
- Engage companies on supply chain activities
- 100% of Private Equity Managers report via ILPA Framework
- 100% of int/ext mgrs have policies and procedures which integrate ESG factors into investment decisions

2046
- Paris Agreement goals

Core
- Conduct carbon footprinting: Global Fixed Income
- Sustainability Report
- Proxy voting
- Shareowner campaigns
- Conduct carbon footprinting: Real Assets
- Sustainability Report
- Proxy voting
- Shareowner campaigns
- Diversity Forum
- External Mgr. D&I Survey
- PRI Assessment

January 2018
- SB 185 engagement of thermal coal companies ends

2018
- Proxy voting
- Shareowner campaigns
- PRI Assessment
- Responsible contracting policy - 100% compliance
- ESG Research Integration - Ongoing

2019
- Conduct carbon footprinting: Private Equity strategic partners
- Shareowner campaigns
- Proxy voting
- Shareowner campaigns
- Diversity Forum
- External Mgr. D&I Survey
- PRI Assessment

2020
- Conduct carbon footprinting: Private Equity strategic partners
- Shareowner campaigns
- Proxy voting
- Shareowner campaigns
- Sustainability Report
- Diversity Forum
- PRI Assessment

2021
- Proxy voting
- Shareowner campaigns

2036
- Mandatory corporate reporting standards adopted globally
- All 10,000 holdings have a measure of board diversity

= Complete
= In Progress
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

Review voluntary standards

Mandatory standards to be adopted globally

Year  5  10  15  20
Strategic Initiatives | Climate Action 100+ ¹

**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 into 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/](http://www.climateaction100.org/)

¹ 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

- Asset classes to establish and implement documented procedures
- All managers to have policies and procedures for including ESG integration

Year | 2 | 5
**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\(^1\)
- 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

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\(^1\) *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.

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

![Diagram showing timeline and progress indicators]
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

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