

Anne Simpson Video Transcript

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I'm Anne Simpson and I'm responsible for the programs to integrate environmental, social and governance factors here at CalPERS in the Investment Office. Now, as you are all well aware, we're a large fund and we're a long term investor. We have assets something in the order of \$240 billion. But our liabilities run for decades. So this is why we're concerned about sustainability. What's really driving the ESG agenda at CalPERS is our understanding of where value comes from. We know there are three forms of capital that create value. There's financial capital, and that's why we worry about governance. There's human capital, these are the people that work in the companies and the communities that companies operate in. That's our "S" for our social capital. And there's physical capital. This is the environment, the basic resources, the water, the infrastructure that companies need. But those three forms of capital, which is very traditional economic framework is really what links sustainability to our fiduciary duty. So how are we approaching implementation. This a big task to integrate ESG right across the portfolio. But that's our ambition. We started with first mapping the many activities that CalPERS has developed over the years and we came with over 100 different initiatives that CalPERS has got in this arena. So step one for us was to really think about the principles that should govern all of the activity. Secondly, to identify priorities which are relevant for an investor like us. And thirdly to consider procurement. Now, about 80% of our fund is managed internally. But we do have very significant funds which we have managed by external managers, typically our private asset classes. So you can find out more about this on our website but essentially we have a manager selection process called our Investment Proposal Tracking System. And this is the website through which proposals for us to consider come in to CalPERS. This has been introduced in the last couple of years, really to get a more organized way of considering investment opportunities. In the private equity asset class, the team has what they call their Manager Assessment Tool. And there are ten questions on environmental, social and governance issues which the team consider, once they've done their due diligence on the manager's potential to meet the financial targets for our investment strategy. And these range from checking on whether they have a policy, not just a policy, how it's monitored, how it's implemented, and we also ask for examples of how that policy is put into practice. For example, if the manager states that they do consider ESG factors in their investments in private equity, we want to see examples of how they've engaged companies on those issues, really to show that they've had an ability to put their policies into action. Likewise in our real estate portfolio, we have for our external managers a tracking system and also a pretty detailed policy which we call our Responsible Contractor Policy. And what this is paying attention to are really the working terms and conditions for the people who are employed by our external managers in real estate. So the issues like benefits, health and safety, are really being paid attention to in a very careful

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way. And then the managers have to report to us in some detail about what they're doing in this arena, and that report goes annually to our board so that they can keep track of that. What we're now doing is building on the work that we've had in our private asset classes to start thinking about how to focus and be more effective in our expectations on ESG with our managers. Not just our external managers, but our internal managers as well. So, last year we conducted a pilot study for global equity, which is largely invested internally. And what we did was um, identify about a dozen areas that we wanted to ask questions. Obvious things. Not just policy, but also practice around ESG, and we also wanted to find out what our managers were doing themselves as an institution. So for example, diversity is an issue that's uh, dear to the heart of CalPERS as an organization. We also believe as investors that diversity contributes to organizations being more effective and certainly at board level, we think it's part of having a high quality board. So we've asked our managers in the pilot survey to tell us not just what they do in their own investment strategies, but what they do as an organization on issues like diversity, as well as the traditional ESG agenda, which everyone's familiar with. So the next step is getting this um, ESG manager expectations document vetted. We're working with some other big investors, um, who are thinking the same way. And we think therefore as the money begins to, um, communicate, let the money talk, that's our goal, what we expect of ESG, we're going to prompt a far more effective response from managers. So we need to articulate why this matters, what we care about and how it's going to be factored into the selection process. We also have two other big projects on ESG this year at the total fund level. One is to commissioner review of evidence on ESG and its potential impact on risk and return. We're also looking at what new research needs to be commissioned because the data are all over the place. We know that some issues are well documented and others we really haven't got a clue what matters and how to track it. So we've got a big research project about to launch. And we're also planning to draw together the 111 different initiatives within the framework of a total fund set of principles on sustainability, so that we have a consistent approach and a clear message that people can understand. So we invite you to um, read more about this in our sustainability report which you can find on our website. It doesn't exist in paper form as you'd expect. It's a virtual report but we look forward to your comments and your idea son how CalPERS can be more effective in this arena. And, all good wishes for the conference. I'm sorry I can't be with you but responsible investment is an important publication and we required reading our office anyway. Thank you.