



California Public Employees' Retirement System

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February 21, 2019

The Honorable Brian Schatz
United States Senate
722 Hart Senate Office Building
Washington, DC 20510

The Honorable Edward J. Markey
United States Senate
255 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sheldon Whitehouse
United States Senate
530 Hart Senate Building
Washington, DC 20510

The Honorable Jeffrey A. Merkley
United States Senate
313 Hart Senate Office Building
Washington, DC 20510

The Honorable Tom Udall
United States Senate
531 Hart Senate Office Building
Washington, DC 20510

The Honorable Richard Blumenthal
United States Senate
706 Hart Senate Office Building
Washington, DC 20510

The Honorable Elizabeth Warren
United States Senate
317 Hart Senate Office Building
Washington, DC 20510

The Honorable Bernard Sanders
United States Senate
332 Dirksen Senate Office Building
Washington, DC 20510

Subject: Approach to Managing Environmental, Social, and Governance Risks Related to Investments

Dear Senator Schatz, Senator Whitehouse, Senator Udall, Senator Warren, Senator Markey, Senator Merkley, Senator Blumenthal, and Senator Sanders:

Thank you for your letter. We appreciate your interest in CalPERS and are pleased to provide some background on the initiatives we have underway to research, engage, and provide thought leadership around the challenge of deforestation.

CalPERS has undertaken the following recent efforts on deforestation risk in our portfolio:

- July 2018: CalPERS Board adopted revisions to CalPERS Governance & Sustainability Principles (CalPERS Principles), which specifically strengthened CalPERS approach to

Environmental Management Practices and specifically references deforestation, (p 30-31) <https://www.calpers.ca.gov/docs/forms-publications/governance-and-sustainability-principles.pdf>.

- Additionally, the CalPERS Principles update added language highlighting the importance of “free, prior, and informed consent as a standard in relation to Indigenous Peoples’ rights” in the Human Capital Management section (p 21).
- August 2018: CalPERS, along with a large group of investors made specific requests for improvements to the Principles and Criteria for the Production of Sustainable Palm Oil, pushing for stronger sustainability standards for the palm oil sector from the key sustainability certification body, the Roundtable on Responsible Palm Oil (RSPO).¹
- October 2018: CalPERS joined investor working groups focused on deforestation in the soy, cattle and palm oil sectors:
 - Ceres and United Nations Principles for Responsible Investing (UNPRI) initiative on Cattle and Soy
 - UNPRI Sustainable Palm Oil Investor Initiative
- December 2018: CalPERS sent letters to more than 60 companies regarding risks to their business models from climate change. In these letters we highlighted our expectations regarding their policies and practices to address deforestation, natural resource degradation (soil, water, etc.), greenhouse gas emissions, and universal human rights. Confidential engagement with the companies is on-going and outreach to additional companies is currently in progress.

Further information on how CalPERS is working on deforestation, as part of our Sustainable Investment Program’s strategy on climate change, will be presented publicly to our Board on March 18, 2019.

CalPERS views forests as providing numerous benefits, including their key role as carbon sinks helping to mitigate climate change and in turn, protect the CalPERS global investment portfolio. Currently, forests are one of the best available “technologies” to sequester carbon. Therefore, in addition to our focus on palm oil, we are also looking into other drivers of deforestation across various industries and commodities in our global portfolio.

Given the complexity and international nature of deforestation as an issue, CalPERS is working with its partners at Ceres and UNPRI, and leveraging relationships with NGOs focused on this topic, to most efficiently and effectively understand the issues and amplify our concerns to companies. We are also actively engaging with our partners about the need for better analytical tools, third party auditing, and accounting standards to help investors more efficiently detect and monitor deforestation-related issues in our portfolios.

CalPERS has the tremendous responsibility of delivering defined benefit pensions and health care benefits to the 1.9 million beneficiaries counting on us. We are currently only 71 percent funded and need to be as focused as possible on delivering a seven percent return. Delivering

¹ <https://www.ceres.org/news-center/press-releases/global-investors-call-stronger-standard-sustainable-palm-oil>

investment returns is our investment office's number one job. Achieving good investment returns helps us avoid increasing the contributions required from California's communities; increasing contributions takes away budget resources otherwise available for those communities to provide public services. This means that while managing our environmental impact we must simultaneously seek to invest in companies and strategies that can generate the returns we need to meet our obligations. Policies that encourage sustainable business practices can help us achieve both these goals.

Congress has an important role to play in creating a policy context that incentivizes the companies we invest in to employ sustainable business practices while generating returns that meet public pension funds' return needs. Congress could help CalPERS greatly reduce deforestation across our global portfolio by endeavoring to:

- Enhance trade and enact agricultural policies to reduce demand for commodities with demonstrable links to deforestation.
- Invest foreign aid dollars in the development and deployment of technologies that improve the ability to monitor land use change, provide clear demarcations around specific land concessions (including ownership information), and enhance traceability throughout the value chain for specific high-deforestation risk commodities.
 - Companies frequently cite their inability to fully account for the origin of certain commodities due a lack of local infrastructure for monitoring land use in highly diffuse value chains. Particularly when sourcing from large networks of smallholders, verifying the exact source of commodities and confirming grower adherence to local laws and company policies represents a significant challenge.
- Develop policy frameworks that create requirements and/or raise demand for sustainably grown and deforestation-free commodities. Our portfolio companies have told us on a number of occasions that currently no premium exists in the market for their RSPO-certified palm oil. This market signal remains an important obstacle to the widespread industry adoption of more sustainable production methods. Policies that drive demand through prioritizing procurement of products that utilize only RSPO-certified palm oil or relevant sustainability standards for other commodities could provide a helpful market signal.
- Mandate more stringent public reporting requirements by companies to investors around environmental metrics, such as those discussed in CalPERS Governance & Sustainability Principles.
- Establish a stable and clear carbon pricing framework which appropriately prices the externalized cost to the economy (and society) from greenhouse gas emissions. We believe this could provide powerful incentives for the protection of forests as valuable carbon sinks.

Thank you again for your interest in CalPERS sustainable investment work around deforestation and for considering what could be done at a federal level to incentivize and enable investors and their portfolio companies to profitably reduce commodity driven deforestation.

If you have any further questions, please do not hesitate to contact me at (916) 795-3818 or your staff can contact Danny Brown, Chief, Legislative Affairs Division, at (916) 795-3689.

Best regards,

Marcie Frost
Chief Executive Officer