



## Investment Committee

# Agenda Item 3b

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**November 16, 2021**

**Item Name:** Responsible Contractor Program Policy Annual Report

**Program:** Board Governance & Sustainability

**Item Type:** Information

### **Executive Summary**

This agenda item provides the required annual update on the Real Assets (RA) program's compliance with CalPERS' Responsible Contractor Program (RCP) Policy. For Fiscal Year (FY) 2020-21, 100% of qualifying contract payments were made under the Policy to certifying responsible contractors. Managers reported that implementing the Policy did not have an adverse material impact on CalPERS' investment returns.

### **Strategic Plan**

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

### **Investment Beliefs**

The Annual RCP Report supports CalPERS' Investment Belief 4 that long-term value creation requires the effective management of financial, physical, and human capital. The effective management of human capital increases the likelihood that companies will perform over the long-term and manage risk effectively. This agenda item also supports Investment Belief 3 in which CalPERS' investment decisions may reflect wider stakeholder views, provided they are consistent with our fiduciary duty to members and beneficiaries.

### **Background**

CalPERS has a deep interest in the condition of workers employed by CalPERS and its managers and delegates. The RCP Policy supports fair wages and benefits based on local market conditions, subject to fiduciary principles. The RCP Policy applies to all domestic Real Estate and Infrastructure investment managers, joint ventures, and partnerships where:

- CalPERS has greater than 50% ownership interest
- The Policy requirements are met
- Contract amount is \$100,000 or more

## **Analysis**

Core<sup>1</sup>, Non-Core<sup>2</sup>, and Housing Program investment managers<sup>3</sup> paid 100% of their total qualifying contracts to certifying responsible contractors under the RCP Policy, totaling more than \$461 million dollars in FY 2020-21. All 16 managers certified they and their delegates complied with the RCP Policy.

## **Budget and Fiscal Impacts**

Existing budgetary resources fund the ongoing costs for implementation, administration, and management of the RCP Policy for the CalPERS Investment Office.

## **Benefits and Risks**

The design of this Policy is intended to require investment managers, and their delegates, to take prudent and careful action when selecting and employing contractors on RCP assets. The Policy helps CalPERS manage both human capital and reputational risk by supporting the use of responsible contractors. This Policy also helps manage costs through competitive bidding, which benefits CalPERS' long-term investment returns.

## **Attachments**

Attachment 1 – Responsible Contractor Program Policy Annual Report Presentation

Attachment 2 – Investment Manager Compliance Report

Attachment 3 – RCP Bidding Notification Method and Contact Sheet

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Board Governance & Sustainability

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<sup>1</sup> Investments that produce a predictable current net income yield after debt service

<sup>2</sup> Investments not considered Core; 'select' are certain identified non-core investments

<sup>3</sup> Under the RCP Policy, compliance for existing Housing Program managers is not mandatory, though strongly recommended. Housing Program managers have voluntarily submitted annual compliance reports.