



Investment Committee

Agenda Item 5a

June 16, 2025

Item Name: Market Study Scope: Financial Impact of Prevailing Wage and Labor Peace Agreements for Real Estate and Infrastructure Investments

Program: Sustainable Investments

Item Type: Action

Executive Summary

Pursuant to direction received from the Investment Committee, CalPERS staff have prepared for the Board's consideration and potential approval a scope of work, timeline, and cost estimate to initiate a competitive Request for Proposal (RFP) process to secure one or more consultants or academic institutions to carry out a market study on the financial impact of mandating (1) Prevailing Wages and (2) Labor Peace Agreements on real estate and infrastructure investments, including implications for portfolio construction, ability to deploy capital, and strategy execution.

The purpose of the market study would be to investigate how mandating Prevailing Wage requirements and Labor Peace Agreements would affect the financial performance of real estate and infrastructure investments. The study would address the financial impact of these labor practices, analyzing their influence on project costs, timelines, risk, and ultimately, investment returns. The results of the study would assist the CalPERS Board with determining whether it is prudent to mandate one or both of these labor practices into the Responsible Contractor Policy.

Strategic Plan

The agenda item intends to align with CalPERS Strategic Plan goal to strengthen the long-term sustainability of the pension fund and cultivate risk-intelligent decisions.

Investment Beliefs

This agenda item aligns with the following Investments Beliefs:

Investment Belief 3 – Investment decision may reflect wider stakeholder views, provided they are consistent with CalPERS' fiduciary duty to members and beneficiaries.

Investment Belief 4 – Long-term value creation requires effective management of three forms of capital: financial, physical, and human.

Background

CalPERS staff recently completed an extensive review of the Responsible Contractor Policy (RCP), including a diligence and engagement process to determine if there were areas of the RCP that should be updated. CalPERS staff presented the first read in March 2024, the second read in June 2024, and the third read in March 2025. The Investment Committee approved the cumulative policy revisions recommended by staff and directed that staff bring back a scoping document outlining a proposal to conduct a market study to address further revisions to the Policy that would mandate Prevailing Wage and Labor Peace Agreements and their impact on investment returns, and the costs associated with carrying out the study.

Analysis

Per the Investment Committee's direction, the Investment Office has prepared the following scope of work for the study. If directed by the Board, CalPERS would begin a RFP process to seek one or more consultants or academic institutions to carry out a market study on the financial impact of mandating (1) Prevailing Wages and (2) Labor Peace Agreements on real estate and infrastructure investments, including implications for portfolio construction, ability to deploy capital, and strategy execution. The findings could provide critical insights to help inform CalPERS Board of the impacts of these labor practices. The timeline for this project is expected to be 18 - 24 months.

Budget and Fiscal Impacts

As noted above, CalPERS would competitively bid this scope of work via an RFP. Fees to be negotiated, but likely to exceed \$1 million.

CalPERS staff would explore the use of an external project manager to help facilitate the RFP process.

Benefits and Risks

The benefit of carrying out this market study is to enhance the Committee's understanding of the financial impact of prevailing wage requirements and labor peace agreements on real estate and infrastructure assets, including implications for portfolio construction, ability to deploy capital, and strategic execution. The risks are that the costs of the study could be substantial and that the results of the study may not prove conclusive.

Attachments

Attachment 1 – Market Study Scope: Financial Impact of Prevailing Wage and Labor Peace Agreements for Real Estate and Infrastructure Investments-PPT

Attachment 2 – Proposed Market Study Scope: Financial Impact of Prevailing Wage and Labor Peace Agreements for Real Estate and Infrastructure Investments

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