

Sustainable Investments Annual Program Review

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November 17, 2025

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Sustainable Investments Annual Program Review

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November 17, 2025

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Market Environment



Business Updates and Key Performance Indicators



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Program Overview

Key Indicators

– Portfolio and Performance

- \$60 billion¹ in climate solutions investments
- Portfolio emissions intensity 11% lower YoY with slight decrease in absolute emissions
- Allocated \$7.3 billion to diverse managers and \$2.2 billion to emerging managers^{1&2} during FY 24-25

– People

- Human Capital Management: Implementation of Labor Principles, Responsible Contractor Program (RCP) Policy refresh complete, Lenox Park DEI survey complete
- SI team build-out: SI team build out essentially completed (8 to 18 staff since 2023)

– Process

- ESG:
 - Development of private markets ESG integration roadmap
 - Labor Principles Scoring Framework applicable to public markets
- Regulatory advocacy, corporate engagement, CA100+, EDCI and other partnerships
- CalPERS Climate Strategy Report
- Stakeholder engagements

'Top of Mind' Questions for Sustainable Investments

Are we on track for \$100 billion?

How is SI integrating with Asset Classes?

How is ESG integration evolving?

Are we on track for Net Zero by 2050?

What's happening in Human Capital Management?

Is SI team build out complete?

What's happening in the Climate Market?



Climate Market Environment

State of Climate (in brief...)

Lot happening in the global climate market this year... Let's distill it down into 4 points:

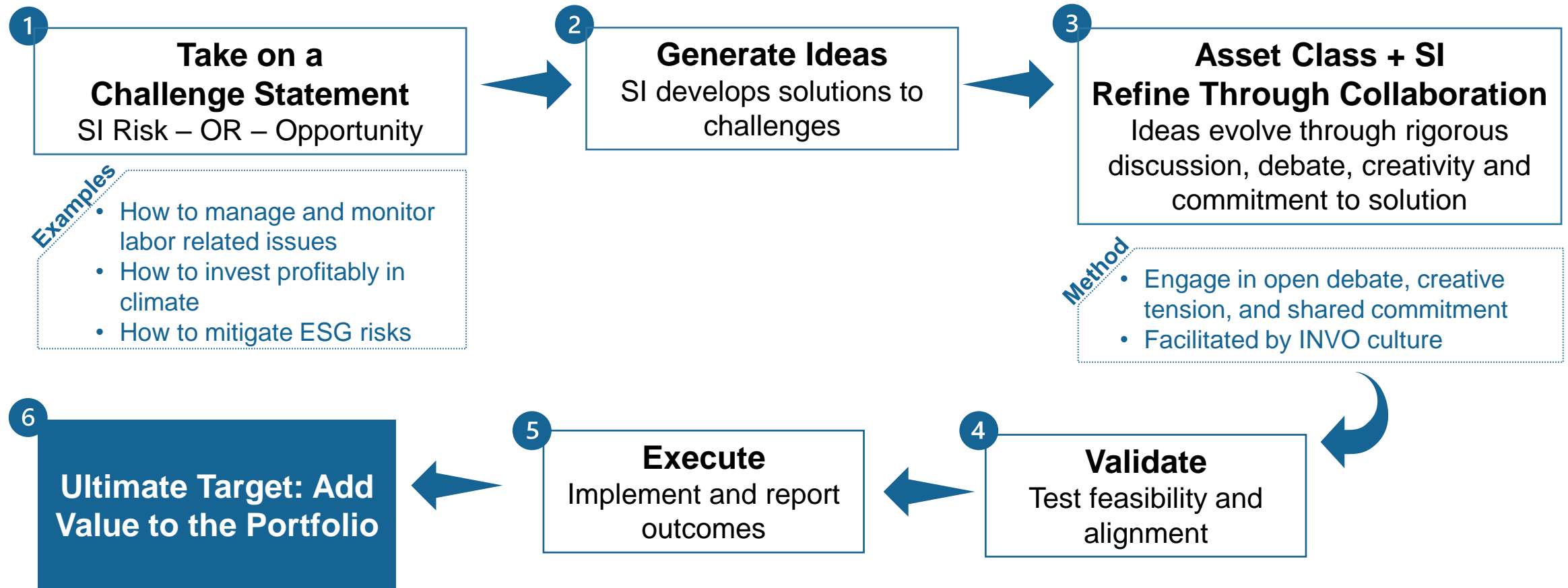
1. Climate as a mega trend: Despite US climate policy headwinds, climate remains very much a mega trend alongside AI and de-globalization. 'Climate' will play out over the coming years AND decades to come. Why is this case? Climate solutions can be faster, cheaper, more efficient. Climate Risk is real and escalating – Adaptation investment needed.
2. Global climate market: All systems go. Climate transition is accelerating from India, to China to the EU
3. US climate market – more nuanced. 2 opposing forces: (i) policy changes → partial headwind versus (ii) economics & necessity. Energy Supply & Demand factors will be key drivers
 - Policy detractors: Offshore wind, EVs, building electrification, tariffs
 - Policy winners: Nuclear, grid improvements, carbon capture, geothermal
4. Implications for CalPERS, where we are, and where we are going

Program Overview | From Strategy to Implementation



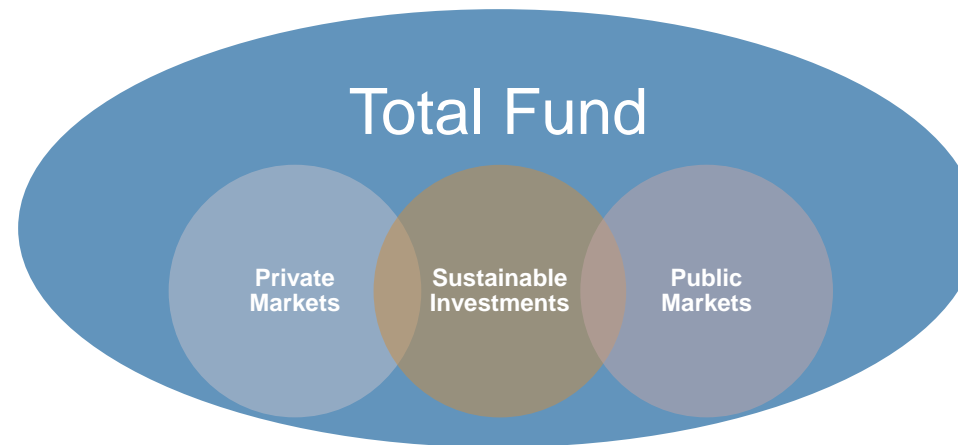
The SI Team's Role – In Essence

Our team translates a challenge statement into a value-add solution for the portfolio



SI + Asset Class Collaboration

Continuous collaboration with the Asset Classes through debate, discussions, creativity and finally, commitment to solution.



SI provides support and expertise across a variety of sustainability areas:

- Stakeholder engagement
- Advocacy
- Partnerships
- Sustainability networks
- Stewardship support
- Sustainability reporting
- Human capital
- Climate investing
- Emerging Manager
- ESG integration and climate risk assessment



Business Updates and Key Initiatives

SI 2030 Strategy | Objectives

1

Generate **outperformance** by investing in climate solutions and emerging and diverse managers

2

Increase **portfolio resilience** by fully integrating ESG analysis, including climate risk analysis

3

Implement a **thoughtful path to Net Zero** through investments, engagement and advocacy

4

Promote greater **inclusion and representation** in the financial industry and the global economy

5

Build and promote **efficient and equitable** financial markets through advocacy and regulatory action

Targets and KPIs | Annual Progress Update

Objective		KPI	Target	Status
1	Generate Outperformance	Sustainable Investments performance relative to asset class benchmarks	Outperformance in each asset class	In progress
2	Increase Portfolio Resilience	Periodic Total Fund climate risk reporting	At least annually	✓
		Proportion of investments with ESG analysis integrated in diligence process	100% of new investments	✓
3	Pathway to Net Zero by 2050	Investments in Climate Solutions	\$100B by 2030	In progress
		Monitor and report carbon footprint and emissions intensity by asset class	At least annually (subject to data availability)	✓
4	Promote Inclusion and Representation	Cumulative investments with diverse and/or emerging managers	Provide yearly update	✓
		Completion of DEI external manager survey	Provide yearly update	✓
		Percentage of diverse public corporate board directors	Provide yearly update	✓
5	Improve Financial Markets Efficiency	Compliance with Responsible Contractor Program (RCP) Policy	100% compliance for annual report	✓
		Percentage of Global Public Equity engaged annually	Engage 50% of GPE AUM	✓
		Proxy voting and corporate engagements update	Provide yearly update	✓

1 Generate Outperformance

Generate **outperformance** through investments in Climate Solutions and Emerging Managers

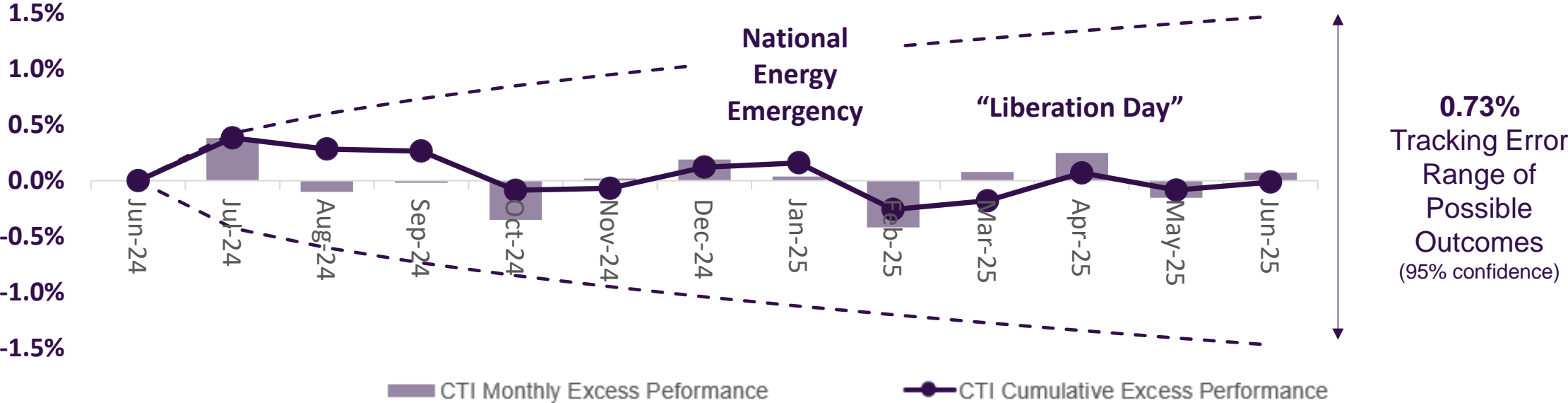
- Generating out-performance entails investment **origination**, asset **tracking** and **performance measurement**
- **Origination:** In addition to allocating to a Public Equities climate index, over \$7 billion has been committed to climate-dedicated private funds since November 2023
- **Tracking:** SI collaborates with all asset classes to tag climate investments across climate dedicated climate active strategies, generalist funds and co-investments
- **Performance Measurement:**
 - **Publics: Yes** – performance can be measured from the start
 - **Privates: Not yet** – early-stage performance data for private investments does not provide meaningful information because of J-curve effects. Performance for privates will be reported after multiple years, consistent with current practice
 - **Emerging Managers'** performance has been tracked for years¹, with recent results in Private Equity showing **outperformance** in contrast with historical underperformance

1 Generate Outperformance | Climate Transition Index (CTI)

- CTI assets grew from \$5 billion to \$5.8 billion in FY 24-25, performing in line with the cap-weighted index despite policy headwinds in the U.S.

Objective	Outcome (Relative to Cap-Weight Index)			
Deliver rules-based and low tracking error alternative to cap-weighting delivering higher exposure to climate solutions and lower carbon intensity	Green Revenue Exposure ¹	+50%	Performance	-0.01%
	Carbon Intensity ¹	-50%	Tracking Error ²	0.73%

As of 06/30/25



(1) Target values set at each portfolio rebalance.
(2) Realized tracking error estimated using monthly excess performance relative to the CalPERS Custom FTSE Global Benchmark index.

1 Generate Outperformance | Emerging Managers

- Table compares Private Equity Asset Class return vs Private Equity policy benchmark; and Current EM Fund of Fund Performance vs Private Equity policy benchmark
- Recent performance (DEM II, III) aligns with external research indicating that Emerging Managers can outperform the benchmark (net of fees), while other funds have underperformed, some significantly. It's too early to draw conclusions on GCM Grosvenor Elevate (or TPG Next).

Emerging Manager Fund of Fund & GP Stake Performance Summary - Net of Fees Private Equity Asset Class (as of 6/30/2025)							
Partnership ¹	Ending Asset Value (M)	10 - Yr		5 - Yr		3 - Yr	
		Total Return	Excess Return	Total Return	Excess Return	Total Return	Excess Return
Private Equity	\$ 98,259	11.5%	0.2%	16.6%	-0.8%	7.4%	-1.2%
Capital Link I and II	\$ 46	5.2%	-6.2%	3.5%	-13.9%	-4.8%	-13.3%
DEM I, II, and III	\$ 828	13.2%	1.8%	20.3%	2.9%	13.3%	4.7%
GCM Grosvenor Elevate I	\$ 44	-	-	-	-	-	-

¹ Private Equity Partnerships time weighted rate of returns are net of investment expenses and are computed by State Street Bank. Market values are based on General Partners' most recent received financial statements and any cash adjustments made through the reporting date.

Excess Return Legend:

Red Font: Underperformance compared to policy benchmark

Green Font: Outperformance compared to policy benchmark

2

Increase Portfolio Resilience

Increase **portfolio resilience** by accelerating the integration of Environmental, Social & Governance (ESG) analysis, including climate risk analysis, into the investment diligence process and portfolio management

ESG Integration Enhancements:



Development of private markets **ESG integration roadmap**



Targeted **retroactive review of existing private markets manager's ESG programs** in progress



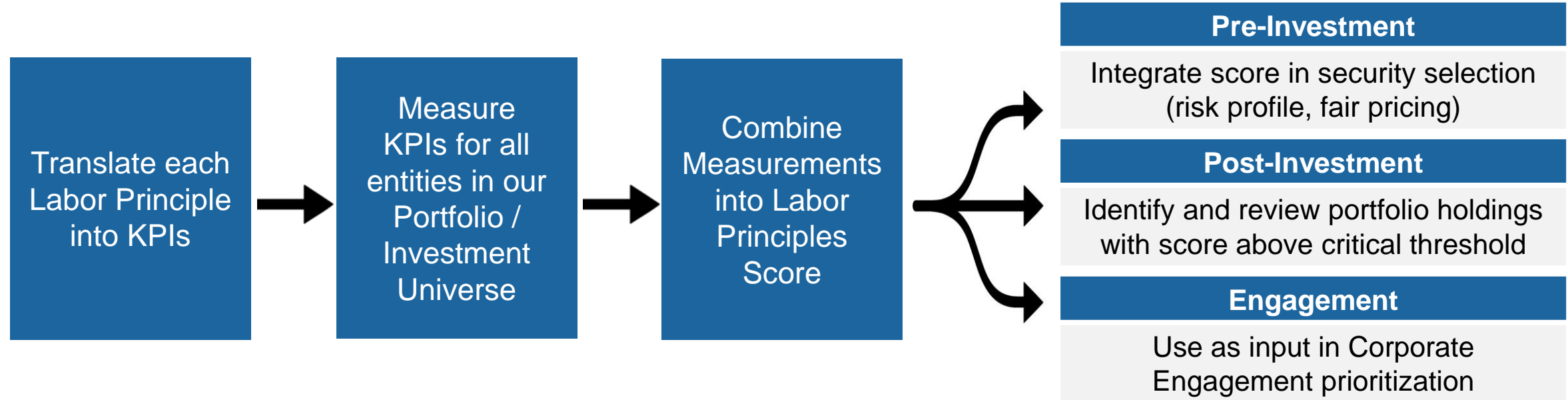
Development of **Labor Principles Scoring Framework** applicable to public markets



Building a more climate resilient portfolio in public markets (CTI, Climate active search in GPE)

2 Increase Portfolio Resilience | Systematic Integration of Labor Principles

- SI, in collaboration with Corporate Governance, developed a [Labor Principles Scoring Framework](#) that is being piloted with Global Fixed Income, and applicable across public markets



2 Increase Portfolio Resilience | Climate Risk Profile¹

- Corporate commitments to reduce emissions are pervasive, but targets in place imply significant warming ahead
- Climate risk financial impact estimates highlight the significance and policy-insensitivity of physical risk damages
- Corporate engagement and climate solutions investments are two climate risk mitigants under our control

Commitments



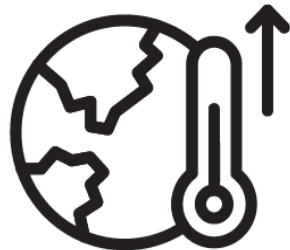
83%

Have GHG
Reduction
Targets

38%

Aligned with
Below-20C
Scenarios

Portfolio Implied Temperature Rise



2.7°C

Climate Risk Financial Impact²



Transition



Physical

2°C
Orderly

-4.6%

-2.0%

-2.6%

3°C

-5.4%

-1.9%

-3.5%

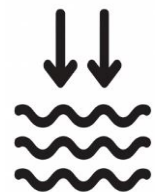
Physical Risk Drivers



Extreme
Heat



Coastal
Flooding



Low River
Flow

3 Pathway to Net Zero

- Increase in climate solutions reflects both market appreciation and additional deployment of capital in the space
- Lower emissions intensity recorded across most asset classes, accompanied by a modest decrease in absolute emissions

Climate Solutions



\$59.7 

Billion

(2024: \$50 Billion)

Financed Emissions

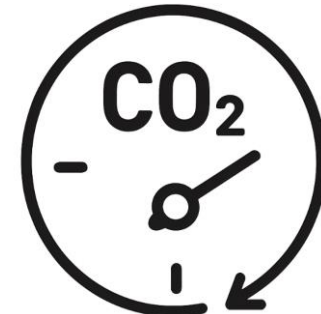



19.7 

Million tCO₂e

(2024: 21.1 Million tCO₂e)

Emissions Intensity



42.6 

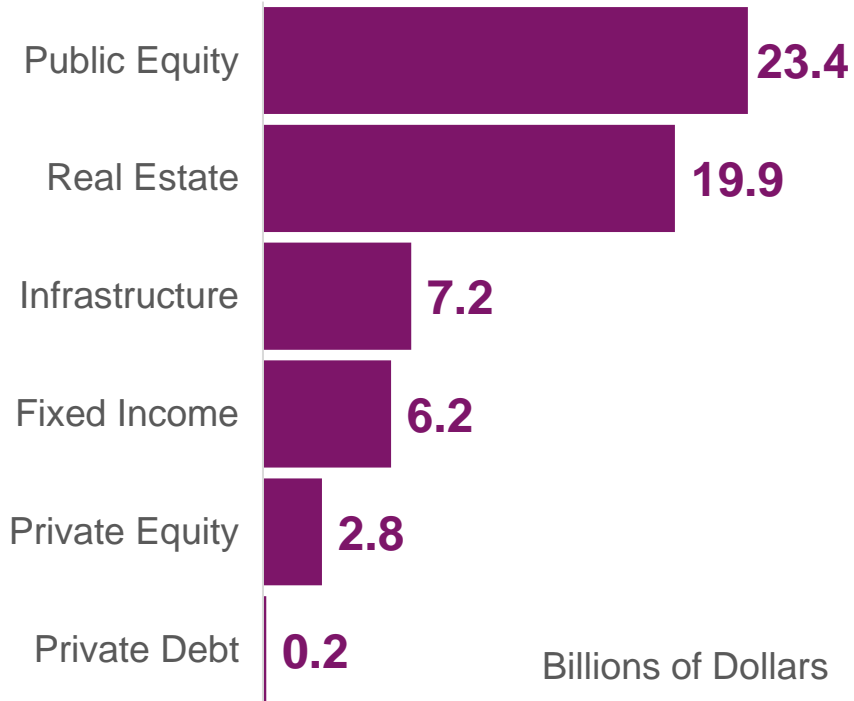
tCO₂e/\$ MM Invested

(2024: 47.9)

3

Pathway to Net Zero | Climate Solutions

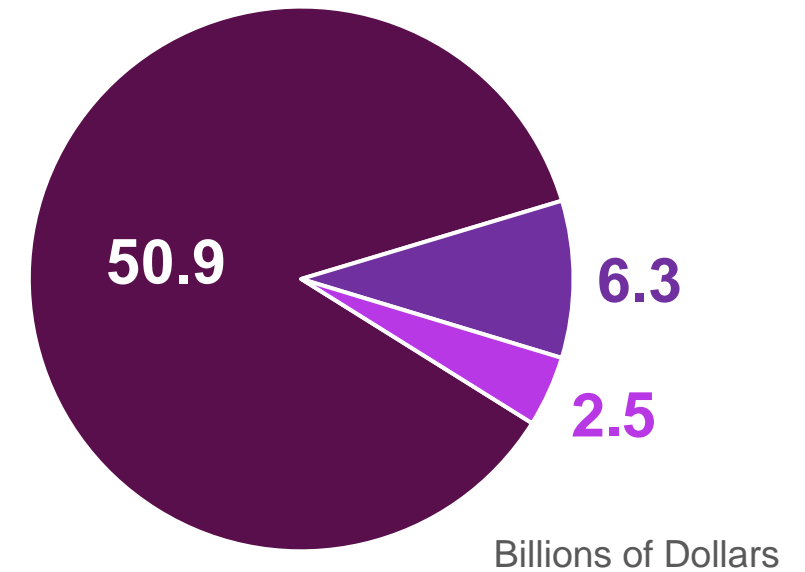
Asset Class Composition



\$59.7 Billion ↑
(2024: \$50 Billion)

Types of Solutions¹

■ Mitigation ■ Transition ■ Adaptation



3 Pathway to Net Zero

CalPERS Climate Report and Response to Senate Bill 964

CalPERS response to the California Senate Bill (SB) 964 references the International Financial Reporting Standards Foundation (IFRS) S2 Climate-related Disclosures issued by the International Sustainability Standards Board (ISSB). The framework consists of four climate-related parts:

- **Governance**
- **Strategy**
- **Risk Management**
- **Metrics and Targets**

CalPERS' approach on climate change is anchored by our Sustainable Investment Objectives to generate outperformance through **investments** in climate solutions and to increase portfolio resilience and improve financial markets efficiency with our **advocacy, engagement, and partnership** activities across our portfolio.

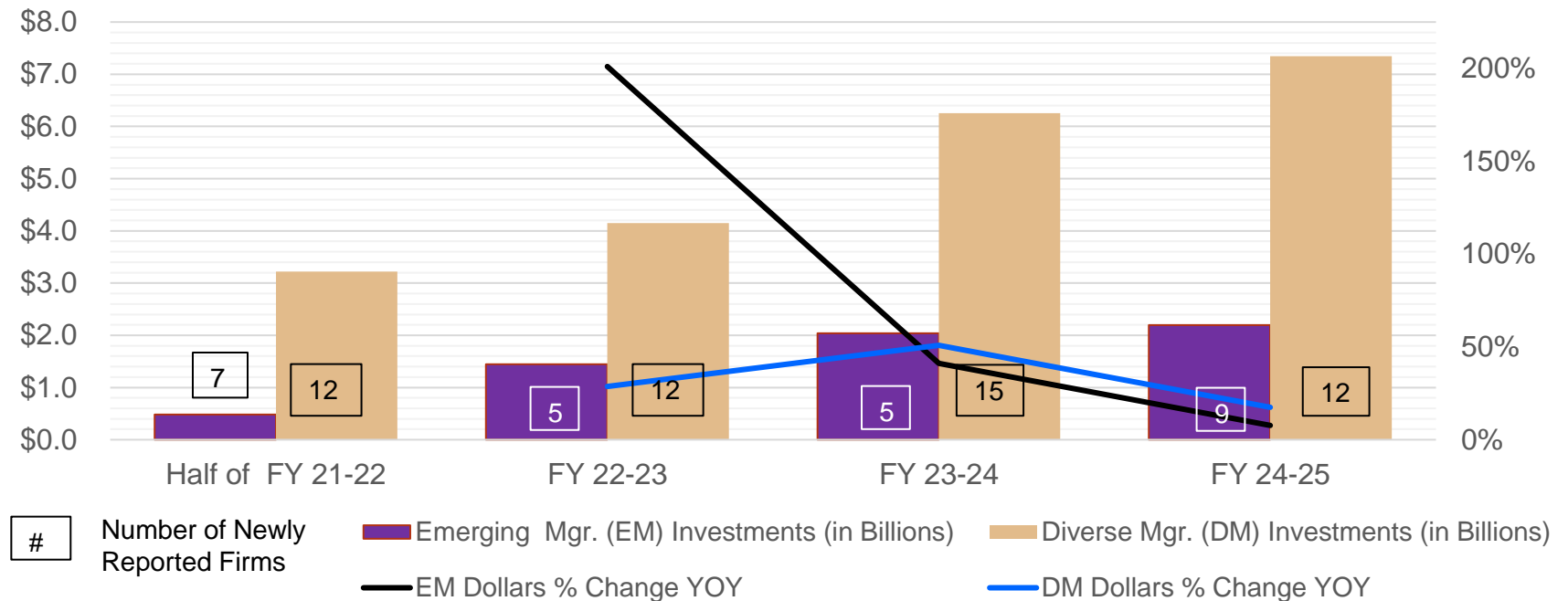


4 Inclusion and Representation | Emerging and/or Diverse Managers

- Fiscal year legislative reporting on participation of emerging and diverse managers within the investment portfolio
- \$21 billion of cumulative new investments with Diverse and/or Emerging Managers since reporting began in 2022

Cumulative New Investments ¹	
Diverse Managers	
\$20.9 Billion	51 Firms
Emerging Managers	
\$6.2 Billion	26 Firms

Diverse and/or Emerging Manager New Investments¹



4 Inclusion and Representation | 2025 Partnership Insights Survey

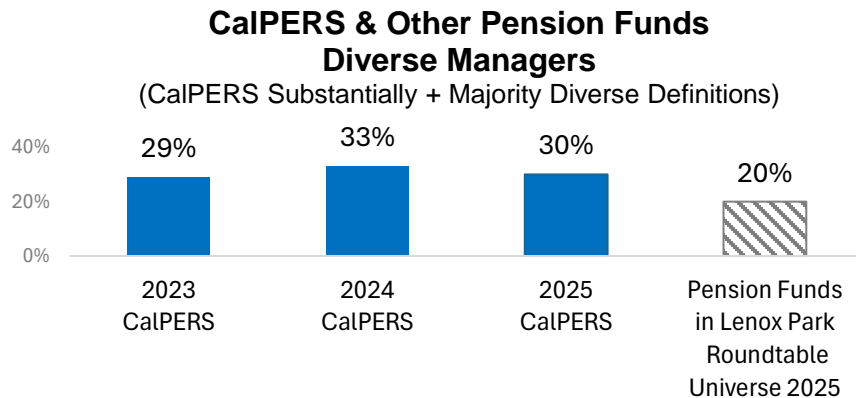
- Lenox Park survey showed more diverse managers, using CalPERS' definition, than pension funds in its universe
- External manager responses increased to 93%, and are insightful for human capital management (HCM)

External Manager Respondent Characteristics

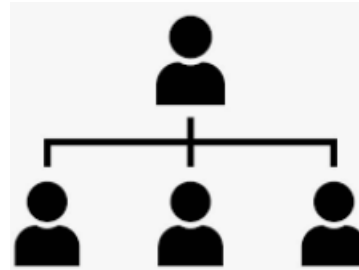
**86% Privately
Held Firms**

**30% Met CalPERS'
Diverse Manager
Definitions**

CalPERS Definition of Diverse Managers Benchmarking

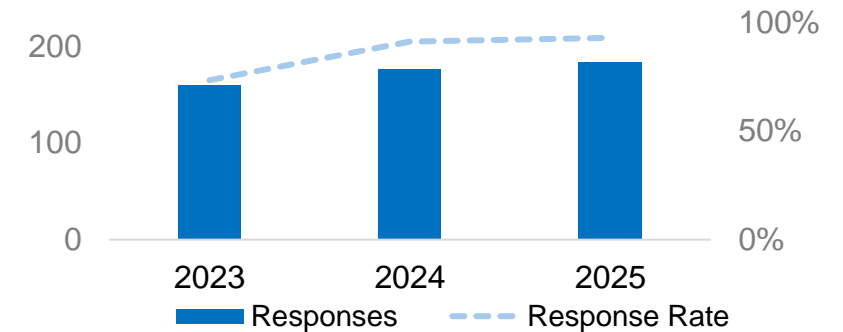


93% Response ↑

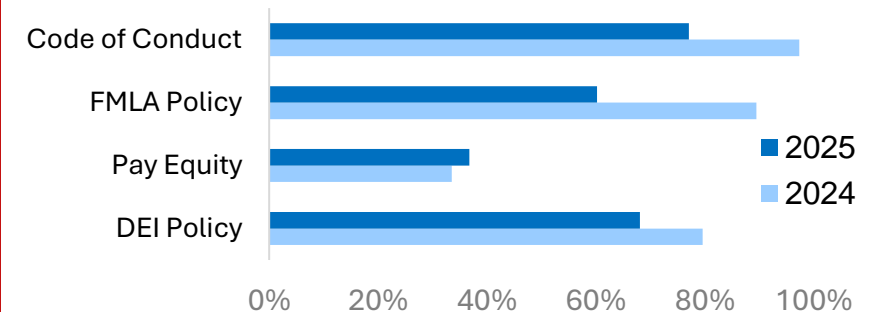


**Insights into our
external managers
organizational
diversity and human
capital management**

Lenox Park Survey Responses



HCM Related Business Policies



5 Improve Financial Markets

- The team conduct engagements with stakeholders, policy makers, and portfolio companies
- Hundreds of engagements take place each year

Stakeholder Engagements

50+**Across 20+
sustainability topics**

Compliance with RCP Policy²

100%**For annual report**

Global Public Equity Engaged Annually

54%**Of GPE AUM
(Fiscal Year 2024-25)**

Proxy Voting and Corporate Engagements Update¹

**>9,800 Meetings Voted
>93,000 Ballot Items****Opposed 400
Directors for Climate
Oversight Concerns****Opposed 41% of
Say-on-Pay
Proposals (U.S)****402 Company Engagements
Representing \$119B AUM****Climate Action
100+ Lead 21
Companies****Opposed 1,235 Directors
over HCM/Diversity
Concerns**

5

Improve Financial Markets | Communication & Partnerships

CalPERS is responsible for preparing reports and conducting several annual assessments

Sustainable Investments Related Reports

- CalPERS Climate Report and Response to SB 964
- AB 890 Emerging and Diverse Manager Report
- Responsible Contractor Program (RCP) Report
- CalPERS for California Report

Committees

- Climate Action 100+ Steering Committee
- Council of Institutional Investors (CII) Board
- Human Capital Management Coalition (HCMC) Chair
- ESG Data Convergence Initiative (EDCI) Steering Committee
- United Nations Net Zero Asset Owner Alliance
- Healthy Markets and K&L Gates
- Task-force on Inequality and Socially-related Financial Disclosures (TISFD) Steering Committee
- MSCI and S&P Climate Council and Working Groups
- New America Alliance (NAA) and 100 Women in Finance Boards
- Global Private Capital Association (GPCA) Board

Sustainable Investments Assessments

- UN Net Zero Asset Owner Alliance assessment
- PRI annual total fund sustainability survey
- External manager Partnerships Insights Survey
- Labor Principles implementation

Additional Committees and Activities

- CalPERS' Federal Legislative and Policy Priorities
- Stakeholder Engagement Process
- WEF Responsible AI Playbook for Investors
- ILPA and PRI ESG working groups
- Global Infrastructure Investment Association (GIIA)
- Energy Optimization Initiative for Real Estate
- Emerging/Diverse Manager stakeholder participation
- Labor focused Market Study
- Ownership Works
- NCREIF Reporting Standards Council and Sustainability Committee

5 Improve Financial Markets | Communication & Partnerships

Communicating CalPERS' Approach on Sustainability

Sustainable Investments Fact Sheets

- Labor Principles
- Emerging Managers
- CA Report
- Responsible Contractor Program Policy
- Climate Solutions



Appendix

Climate Solutions | CalPERS' Taxonomy

CalPERS considers investments as eligible for **full** or **partial** 'climate solutions' classification if their **underlying activities** or **purpose** fall into one of three categories:

- 1 **MITIGATION:** **Directly reduce** or **enable** the **reduction of GHG emissions** at scale.
- 2 **TRANSITION:** Operate in **hard-to-abate sectors**¹ with a **credible decarbonization plan**², consistent with the latest state of climate science and technological capabilities.
- 3 **ADAPTATION:** Enhance **climate resilience** by **preventing** or **reducing harm** to humans, assets, and natural systems, caused by acute and chronic effects of climate change.



¹ Sectors with major technological and economic barriers to decarbonization, including (but not limited to) heavy industrial activities (e.g., cement, steel, chemicals) and transportation (trucks, ships, planes).

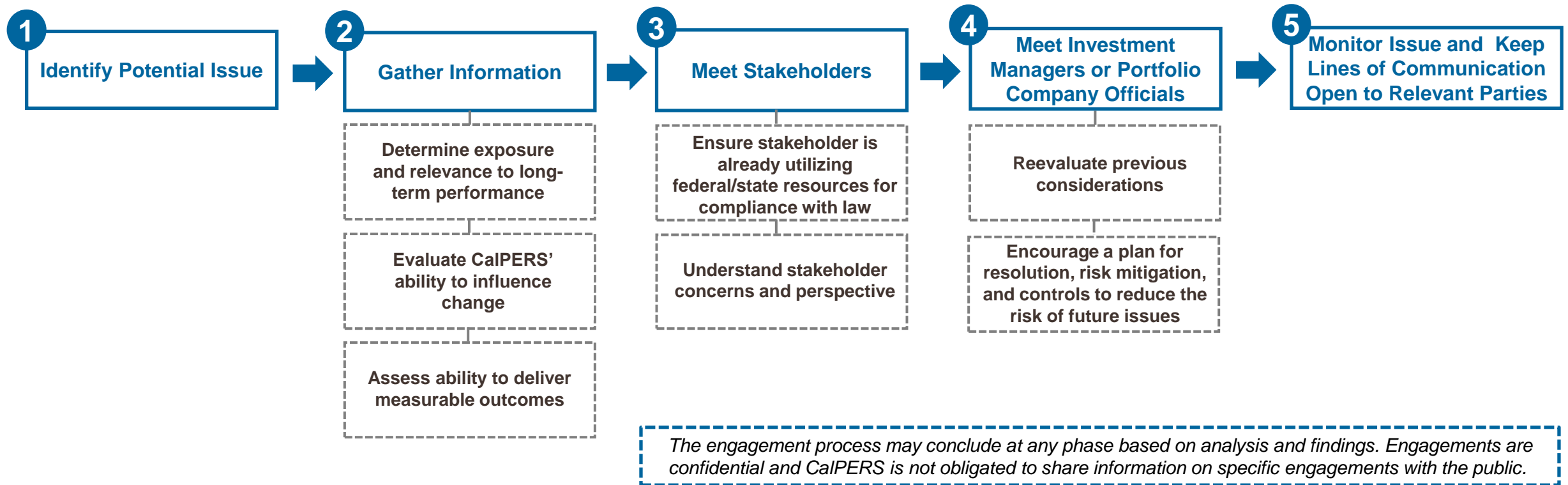
² SBTi (Science Based Transition Initiative) and TPI (Transition Pathway Initiative) are key frameworks for assessing decarbonization strategies.

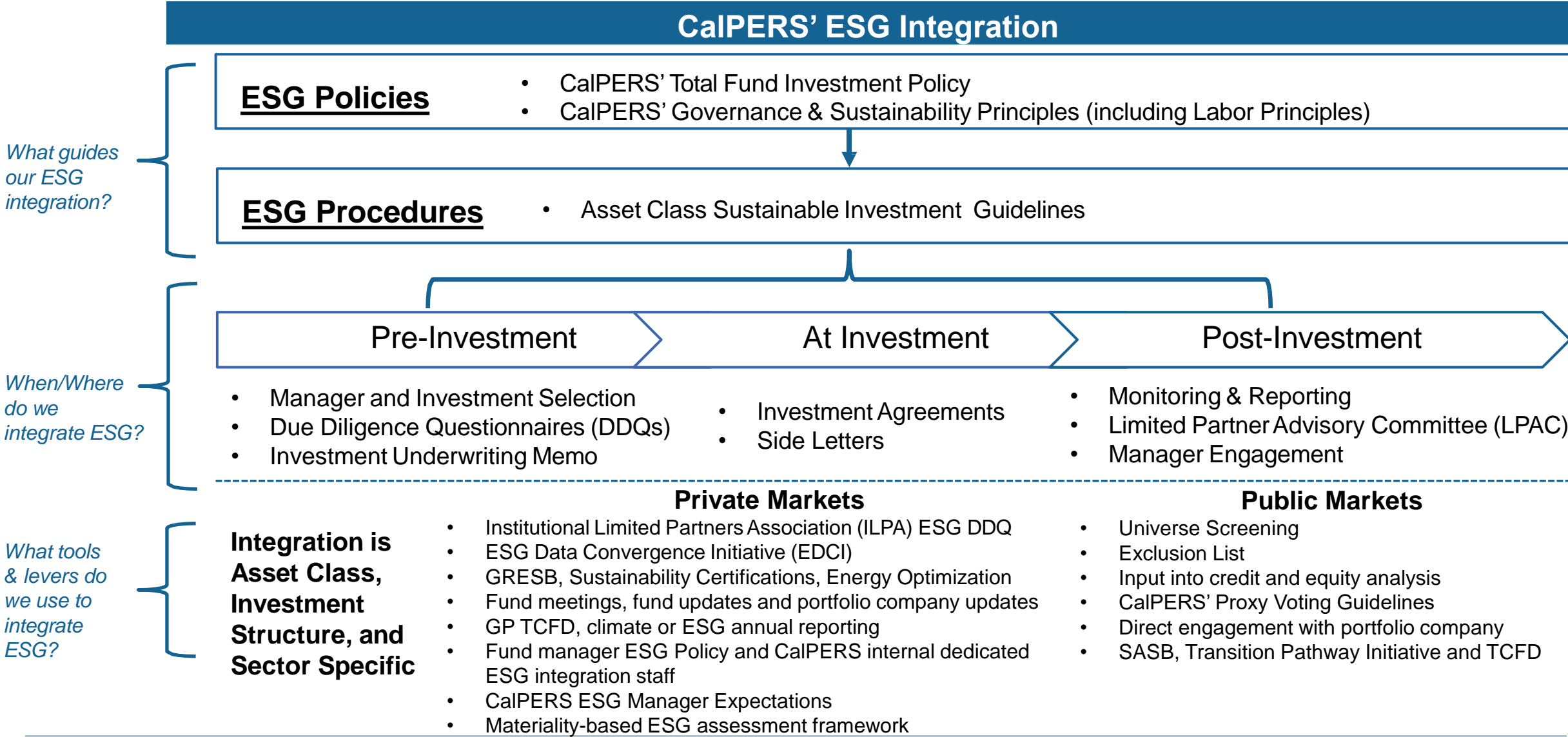
CalPERS' Labor Principles

- **Freedom of association and the effective recognition of the right to collective bargaining**
 - Seek to support and improve the well-being of employees as part of human capital management strategy and in compliance with applicable laws
- **The elimination of all forms of forced or compulsory labor**
 - Respect the human rights of those affected by their investment activities and seek to confirm that their investments do not flow to companies that utilize forced labor
- **The effective abolition of child labor**
 - Respect the human rights of those affected by their investment activities and seek to confirm that their investments do not flow to companies that utilize child labor
- **The elimination of discrimination in respect of employment and occupation**
 - Respect the human rights of those affected by their investment activities and seek to confirm that their investments do not flow to companies that maintain discriminatory policies. Seek to improve diversity, equity, and inclusion in portfolio investments to address recruitment, retention, and compensation
- **A safe and healthy working environment**
 - Seek to support and improve the well-being of employees as part of human capital management strategy that includes providing a safe, harassment-free and healthy workplace

Stakeholder Engagement Process

- We promote collaboration, support, and transparency through our stakeholder engagement and investor relations initiatives.
- We strive to identify and mitigate risks to our portfolio companies that can negatively affect CalPERS' investment returns, reputation, and trust.





Percentage of diverse public corporate board directors

S&P 500:

- Gender: 100% of S&P 500 companies have at least one female director
- Under-Represented Groups: 99% of S&P 500 have at least one director with a diverse background

Russell 3000:

- Gender: 98% of R3000 companies have at least one female director
- Underrepresented Groups: 89% of R3000 have at least one director with a diverse background

Advocacy and Regulatory Action

Comment Letters, Amicus Briefs, Sign-on Statements



- Comment letter to U.S. Environmental Protection Agency (EPA) related to agency rescinding the 2009 endangerment finding that greenhouse gases threaten public health and welfare
- Comment letter to the Dept. Of Labor (DOL) Occupational Safety and Health Admin (OSHA) related to Heat Injury and Illness Prevention in Outdoor and Indoor Work Settings
- Amicus Brief supporting Federal Trade Commission (FTC) related to rule banning non-competes
- Amicus Brief on ISS vs SEC related to proxy voting services. (CII network of investors)
- Comment letter to CARB for solicitation on SB 253 and SB 261 climate laws
- Staff contributed to Global Infrastructure Investment Association (GIIA) *Building a new Foundation for US Infrastructure* White Paper

Meetings and Engagements



- Meetings with SEC Commissioners and staff
- FTC staff related to rule banning non-competes
- Department of Energy (DOE) Loan Program Office Staff
- Members of Congress and CA State Legislature and staffers on existing or potential legislation and regulatory issues impacting CalPERS Investments
- Met with California Air Resources Board (CARB) on SB 253 and SB 261 climate disclosure law implementation
- Meetings and education provided to domestic and international government regulators, pensions, and sovereign wealth funds

Additional Human Capital Initiatives



- Implementation of CalPERS Labor Principles and education to peers and stakeholders
- RCP Policy refresh complete
- Labor Market Study underway
- Meeting with the International Sustainability Standards Board (ISSB) in partnership with the Human Capital Management Coalition (HCMC)
- Staff contributed to HCMC comment letter to Financial Accounting Standards Board (FASB) on Human Capital disclosures in financial reporting
- HCMC engaged with Japan's Financial Services Agency (JSA) on Human Capital disclosures and metrics
- Human Capital spotlight at California's Emerging and Diverse Investment Manager Forum (Catalyst)