

October 16, 2025

Mr. David Miller
Chair of the Investment Committee
California Public Employees' Retirement System
400 P Street
Sacramento, CA 95814

Re: Consultant Sustainable Investments Review

Highlights of the Sustainable Investments program were included within Wilshire's 2025 Trust Level opinion letter. This opinion letter expands upon those highlights to provide a more comprehensive review of the program, the activities within the 2024-2025 fiscal year, and the near-term outlook of the program.

Sustainable Investments Structure & Governance

While sustainability has been part of CalPERS's philosophy for decades, the team evolved and expanded in the 2023 fiscal year through the creation of the Sustainable Investments (SI) team which is part of INVO and reports to the CIO. The SI Managing Investment Director (MID) is tasked with setting the vision, strategy, and governance for CalPERS's sustainability work as well as leading all aspects of the fund's efforts to develop and implement ESG research and processes to support ESG integration into the investment decision-making process. Under the SI MID, there are three teams, each lead by an Investment Director (ID) and supported by additional staff: Sustainable Investments Policy and Partnerships, Sustainable Investments Private Markets Portfolio, and Sustainable Investments Public Markets Portfolio. As of the end of the fiscal year, all ID roles within SI were filled.

We believe that the Sustainable Investments team is appropriately positioned, reporting directly to the CIO and operating as an integrated part of INVO. The SI MID has now been in the role for several years, effectively leading the team as they execute the initiatives outlined later in this section. Given the strength and size of the team, CalPERS is positioning itself to be best-in-class for sustainable investing.

Moreover, the transition to a Total Portfolio Approach (TPA) is aligned with how the team is already collaborating across the INVO, and we anticipate the SI team adapting well under the new model. While breaking down silos and cross-Trust collaboration will be an increased focus for INVO under TPA, the SI team is seasoned in this mindset having already spent the last few years working across the organization to develop asset class roadmaps, collaborative due diligence processes, and multi-asset class policies and reporting capabilities.

Sustainable Investments Responsibilities

Broadly, SI is responsible for a wide range of priorities: financial markets advocacy; human capital management; stakeholder engagement; sustainability research; sustainability-related investment support and reporting; the emerging and diverse manager program; and diversity, equity and inclusion work. The SI team is also responsible for ESG integration, which involves incorporating ESG into investment making decisions and sustainability data and reporting, all of which are trust-wide efforts across multiple asset classes. The breadth of the SI team is impressive amongst peers, and the depth continues to grow. To this end, with the team effectively at full strength, it can now more effectively execute all that falls under its sizable remit.

Sustainable Investments Team Update

This past fiscal year, SI continued its recruitment efforts, filling nearly all the vacant roles including the critical ID role for the Sustainable Investments Private Markets Portfolio. A considerable amount of time and energy went into staffing the vacant positions within the SI team. These efforts were fruitful, with nearly all vacancies now filled. As of the end of September, the team consisted of 15 contributors, three support staff, and one open position. The remaining open position is expected to be filled in the coming months. With 18 current members, the team has more than doubled since 2023.

Impressively, while the recruiting efforts were time-consuming, they did not detract from the team's ability to make progress on the various priorities and the 2030 Strategy objectives. Now that the bulk of the recruiting efforts are complete, the team can move from Stage 1 (plan and strategy development + begin recruitment), clearly into Stage 2 (implement strategy). Moreover, they can do so while operating with a team that is fully staffed and with the ability to focus more exclusively on strategy.

Sustainable Investments 2030 Strategy

Under the leadership of the MID and his Investment Directors, CalPERS's SI team is implementing the Board approved SI 2030 Strategy. The SI 2030 Strategy has five primary objectives: generating portfolio alpha; improving portfolio resilience; implementing a Net Zero plan; promoting greater inclusion and representation; and building and promoting efficient and equitable financial markets. These are ambitious efforts that require frequent and effective collaboration across multiple teams, senior buy-in, along with a sizable team to support the efforts. We believe CalPERS is taking the necessary steps to meet these goals, including hiring talent that is contributing to the 2030 Strategy objectives and adding to the team's strength as an industry leader.

Team Priorities & Areas of Focus

In recent years, human capital has been a focus for SI, with two critically important advances. First, the Labor Principles were approved by the Board and adopted thereafter last fiscal year. The Labor Principles are incorporated into the CalPERS Governance & Sustainability Principles and are a five-

point framework of beliefs that seek to address short-term and long-term labor risks and opportunities. External managers must acknowledge and conform to these principles. Second, the refresh of the Responsible Contractor Policy (RCP) is now complete.

Over the past two fiscal years, the SI team worked with the individual asset classes to establish asset class-specific plans, in association with the SI 2030 Strategy. This work involved significant, proactive collaboration across INVO. The asset class plans are foundational as CalPERS looks to invest \$100 billion across climate solutions by 2030. Buy-in was strong and broad-based from the asset classes, as they each developed a robust, comprehensive plan to find and invest in attractive climate solutions to drive strong portfolio returns. Stemming from these plans, the team has continued to commit capital within private markets, with significant progress made this fiscal year and a pipeline that remains robust. Moreover, with the buildout of the SI Private Markets Program and the caliber of the new hires, the ability to evaluate climate investment opportunities is enhanced.

The previous fiscal year saw the development of the CalPERS FTSE Climate Transition Index (CTI). The SI team, in collaboration with the Global Equity team, worked with FTSE-Russell to customize the CTI which seeks to mitigate climate risk and capitalize on the transition to a low carbon economy. The CTI was adopted, following Board approval in June 2024. This fiscal year, the Policy Benchmark reflects the inclusion of CTI within the factor-weighted segment of GPE. While the track record remains limited, since its adoption, the CTI has performed in line with expectations from a return and tracking error perspective. As we would expect, the team continues to work with FTSE-Russell to evaluate ways that CTI can evolve as the space continues to mature, and additional risk measures become available.

Another key function of the SI team is the work done with emerging and diverse managers. CalPERS invests in emerging managers in three primary ways: 1) direct (non-intermediary), 2) GP seeding/staking, and 3) fund of funds. A comprehensive review of the Emerging & Diverse Manager Program took place this fiscal year. The review showcased a strong and evolving commitment from the program to DEI and manager diversification, with an emphasis on the data supporting the alpha opportunities associated with investing in the space. As part of the review, the team conducted a DEI survey, which saw high engagement from managers. Private markets remain the focus of the existing investments with emerging and diverse managers. The team continues to build on the initial efforts of the Mosaic program, collaborating closely with external advisors, including external emerging and diverse manager specialists TPG and GCM Grosvenor, with the goal of enhancing returns by investing in next-generation managers. Beyond the Mosaic program, SI will continue to lead CalPERS Emerging Manager strategy across the private asset classes, supporting implementation through research, engagement, and manager evaluation. Moreover, INVO is actively exploring ways to expand emerging manager investments, similar to its approach in Private Equity, across all private asset classes.

Advocacy remains an area of focus for SI as well, particularly given the current environment where ESG has become controversial. Rather than retreating, CalPERS has continued to be a voice for asset owners who believe sustainability is in alignment with long-term performance objectives and fiduciary duties. Specifically, the team has prioritized advocating for the continuation of climate disclosure to ensure that material data is available for asset owners to make informed investment decisions. We encourage the team to continue to focus on arguments that are financial, and data driven.

Forward-Looking Outlook

Going forward, we expect the SI team to continue to develop and enhance its SI tracking and reporting capabilities including, but not limited to, tracking performance attribution from climate solutions across all CalPERS' investments. To this end, the team is in the process of securing a new data provider that will enhance its climate-related reporting capabilities. The additional data will have two primary benefits: 1) expand Total Portfolio coverage of climate-related risks, considerably increasing data for private markets, and 2) improve the assessment of materiality of climate-related risks within the portfolio.

We also anticipate the SI team continuing its industry leadership by sharing best practices with peers, serving as a voice for asset owners in industry initiatives, and leading collaborative efforts that support sustainability-aware policy and advocacy. The team continues to demonstrate its influence and leadership in this type of work as evidenced by how they are amongst the first movers to engage on emerging issues such as AI governance and changes to climate disclosure regulation.

In the coming year, we anticipate that the SI team will focus on the implementation of the Labor Principles Accountability Framework, evolve the Emerging Manager program in alignment with broader Total Fund objectives, and continue to collaborate with the respective asset classes to invest in climate solutions.

Conclusion

In summary, we continue to monitor the evolution of the Sustainable Investments team and believe that the program has taken significant strides in recent years to increase its capabilities and stand out amongst its North American peers as a leader in the space. With the build out of the team all but complete, the SI program can focus on Stage 2 (implementation of the strategy) and move into Stage 3 (fully operational) in the coming years. Continued collaboration between the SI team and the respective assets classes will be critical for the ongoing success of the program.

Finally, as CalPERS seeks to have a sustainable program, navigating, reporting on, responding to, and capitalizing on the transition to a low carbon economy remain key areas of focus for the organization and the SI team specifically. Here, we note the importance of maintaining a return-driven approach to sustainable investing. This is particularly important given the current environment where sustainability and ESG-related practices have become politicized and have fallen under increased scrutiny.