CalPERS

Investment Committee

Agenda Item 4c

November 16, 2026

Item Name: Governance and Sustainability Principles Annual Review

Program: Sustainable Investments

Item Type: Action Consent

Recommendation:

Approve the annual review of the Governance and Sustainability Principles.

Executive Summary

The purpose of this item is to approve the annual review of the Governance and Sustainability Principles (the “CalPERS Principles”).

Strategic Plan

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

Investment Beliefs

This item supports the following Investment Beliefs:

Belief 2: A long-term investment horizon is a responsibility and an advantage.

Belief 3: Decisions may reflect stakeholder views subject to fiduciary duty.

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

Belief 9: Risk to CalPERS is multi-faceted and not fully captured through measures such as volatility or tracking error.

Belief 10: Teamwork, Diversity, and Inclusion impact performance.

Background

Over the years, the CalPERS Principles have evolved from a guide to proxy voting in public markets, to a broader statement of our views on best practices guiding our engagement with companies, advocacy agenda with policy makers, and expectations for both our internal and external managers across the total fund.

As the governance and sustainability agenda has developed, so too have the CalPERS Principles. An important area of development has been integrating environmental and social factors alongside our governance agenda. We have given an economic framework to what is often called ESG in investing. As reflected in our Investment Beliefs, CalPERS considers that long-term value creation requires the effective management of three forms of capital – Financial, Physical, and Human. This economic approach grounds our sustainable investment agenda in our fiduciary duty.

A further important area of development has been the recognition that financial markets' safety and soundness are vitally important to CalPERS ability to achieve its risk adjusted returns. This focus on financial markets is also reflected in CalPERS' Investment Beliefs, which recognize that a long-term investment horizon is both an advantage and a responsibility. That responsibility requires that CalPERS advocate for policies that support the long-term with policy makers, companies, and investment managers.

The current edition distills some 20 years of experience in governance and sustainability. We continue to develop our approach on new issues which are emerging and to refresh our thinking as we learn from experience.

Analysis

CalPERS incorporates the Governance and Sustainability Principles into the investment management process, policies, and strategies such as CalPERS' Proxy Voting Guidelines and Sustainable Investments 2030 Strategy.

Budget and Fiscal Impacts

Costs associated with the implementation of the Governance and Sustainability Principles are included in current budget allocations.

Benefits and Risks

CalPERS' Governance and Sustainability Principles is expected to result in benefits including:

- Strengthened understanding and ability to achieve CalPERS' target investment returns through managing risks and opportunities

Conversely, risks of not approving the Governance and Sustainability Principles may include:

- Reduced ability to manage risk and opportunity related to the environmental, social and governance factors relevant to the creation of long-term value across the portfolio

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