October 14, 2026

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

Re: Agenda Item 7c: Consultant Letter re: Sustainable Investments Annual Program Review

Highlights of the Sustainable Investments program were included within Wilshire's 2026 Trust Level opinion letter. This opinion letter expands upon those highlights to provide a more comprehensive review of the program, the activities within the 2025-2026 fiscal year, and the near-term outlook of the program.

Sustainable Investments Structure & Governance

Sustainability has been part of CalPERS's philosophy for decades and the Sustainable Investments (SI) team continues to operate as part of INVO and report to the CIO. The SI Managing Investment Director (MID) is responsible for setting the vision, strategy, and governance for CalPERS' sustainability work and for leading the fund's efforts to develop and implement sustainability research and processes that support investment decision-making. The team's core structure and governance remained materially unchanged during the year, although certain responsibilities evolved.

We believe that the Sustainable Investments team remains appropriately positioned, reporting directly to the CIO and operating as an integrated part of INVO. The SI MID continues to provide experienced leadership as the team advances the initiatives outlined later in this section. The breadth of the team's mandate and its demonstrated ability to collaborate across asset classes continue to position CalPERS as a leader in sustainable investing.

Moreover, the transition to a Total Portfolio Approach (TPA) remains aligned with how the team already collaborates across INVO. While cross-Trust collaboration is an increased focus under TPA, the SI team is experienced in this model, having developed asset class roadmaps, collaborative due diligence processes, and total portfolio reporting capabilities. The team is also working with Total Fund Portfolio Management to integrate climate risk into TPA portfolio construction and related dashboards.

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 inclusion-related work. A notable change is that the team now refers to ESG Integration as Sustainability Integration, reflecting a continued emphasis on financially material sustainability considerations within investment decisions. The breadth of the team continues to be notable among peers, and its work increasingly spans public markets, private markets, and total portfolio analytics.

Sustainable Investments Team Update

During the fiscal year, the SI team operated with 17 total positions, including five vacancies, while continuing to deliver across its priorities. Recruitment progressed for roles supporting emerging and diverse managers, private markets climate underwriting and Sustainability Integration, and public markets Sustainability Integration. A Stanford Fellow also joined the team in September. These hires and recruitment efforts are intended to rebuild capacity following staff transitions and add targeted expertise in areas central to the SI 2030 Strategy.

Impressively, the vacancies did not prevent the team from advancing implementation. The team supported a substantial volume of private market diligence, expanded sustainability monitoring and analytics, and continued work across emerging managers, climate solutions, labor principles, and advocacy. The onboarding of the new hires will help better distribute the workload across the team as the program moves further into implementation.

Sustainable Investments 2030 Strategy

Under the leadership of the MID and the Investment Directors, CalPERS's SI team continues to implement the Board-approved SI 2030 Strategy. The five primary objectives remain unchanged: 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 remain ambitious objectives requiring sustained collaboration across INVO, strong governance, and disciplined measurement of investment outcomes.

The team is on track for all goals within the SI 2030 Strategy. One item to note is the challenge of meeting Net Zero goals and achieving economy-wide decarbonization, as these initiatives are in part dependent on technological, policy, regulatory, and market developments occurring globally. In this context, we believe the SI team's role is appropriately focused on helping CalPERS understand, monitor, and navigate the risks and opportunities associated with the transition, while maintaining a disciplined focus on risk-adjusted returns and fiduciary obligations.

Team Priorities & Areas of Focus

Human capital remained an area of focus. The SI team developed the Labor Principles Accountability Framework, which has been reviewed and approved by executive leadership and Legal and presented to the Board. The framework builds upon the Labor Principles incorporated into the CalPERS Governance & Sustainability Principles. Separately, the labor market study was awarded to The RAND Corporation and is expected to be a 12-to-18-month project culminating in a report and presentation to the Board.

Climate investment activity also continued to progress. The SI team collaborated with Private Markets on due diligence for two climate-focused funds adding $600M to capital committed during fiscal year 2025-2026 and participated in the diligence of 9 co-investments representing over $3.3B of approved/potential[1] commitments. Diligence continues across infrastructure debt, equity funds, and co-investment opportunities, keeping the team on track to meet the $100 billion target by 2030. In parallel, SI completed Sustainability Integration due diligence reviews on 28 new private market fund and co-investment opportunities during the fiscal year.

[1] Not all transactions have moved forward and CalPERS commitments may be scaled down by the GPs.

Within public markets and analytics, SI partnered with Global Public Equity to internalize a revised Climate Transition Index. SI also co-led a climate solutions active manager search which produced a detailed market map that is expected to inform a more targeted search in the future. The team also deployed a weekly sustainability controversy monitoring tool covering public and private markets.

The emerging and diverse manager program remained another key area of activity. In Private Equity, SI monitored existing fund-of-funds relationships, tracked active pipelines, provided referrals sourced from more than 200 manager meetings, and supported investment recommendations for a co-investment vehicle and three portfolio company opportunities. Activity in Private Debt and Real Assets remained earlier-stage. We encourage continued coordination across the private asset classes to translate the established Private Equity model into appropriately tailored approaches for each market.

Advocacy, engagement, and stakeholder communication remained important given continued pressure on shareholder rights and sustainability-related disclosure. During the year, SI conducted more than 45 stakeholder engagements and more than 20 policy and standard-setting engagements and letters. The team also developed five Sustainable Investments fact sheets covering CalPERS for California, climate solutions, emerging managers, labor principles, and the Responsible Contractor Program. We support the team's continued focus on financially material information, investor rights, and clear, data-driven communication that is consistent with CalPERS's fiduciary responsibilities.

Forward-Looking Outlook

Going forward, we expect the SI team to focus on onboarding new staff deepening Sustainability Integration across public and private markets. Priority areas include supporting manager selection within public markets, providing additional support to Global Fixed Income, continuing the established private markets integration process, and collaborating with Total Fund Portfolio Management on climate risk within TPA portfolio construction and reporting.

We also anticipate continued work toward the $100 billion climate solutions objective. Progress reflects both new capital deployment and appreciation of existing climate assets, with private markets and energy-related opportunities expected to be important contributors. The team's assessment of more than 50 climate solutions subsectors provides a useful foundation for evaluating sector attractiveness and investability. Continued discipline will be important to distinguish opportunities that offer compelling risk-adjusted returns from those that primarily satisfy thematic objectives.

Other forward-looking priorities include refining the climate solutions taxonomy, expanding research on adaptation and resilience, and evaluating the intersection of AI and climate. Responsible AI is an emerging workstream encompassing responsible models and regulation, human capital considerations, responsible data center development, and partnerships. Advocacy on shareholder rights and the evolution of the emerging manager program across private asset classes are also expected to remain significant areas of focus.

Conclusion

In summary, we continue to monitor the evolution of the Sustainable Investments team and believe that the program made meaningful implementation progress during the year despite staffing vacancies. The team supported and in some cases led significant investment diligence, strengthened integration processes, expanded analytics, and advanced work across climate solutions, emerging managers, labor principles, and advocacy. Successful onboarding of the new hires should further increase capacity and help the program progress toward a more fully operational model.

Finally, as CalPERS seeks to maintain a durable sustainable investment program, measuring investment results and integrating financially material risks remain essential. Continued improvements in climate risk assessment, investment integration, and portfolio reporting should further support these objectives in the years ahead.

Best regards,



Lauren Gellhaus
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Wilshire Advisors