

Revisions to the Total Fund Policy:  
Governance and Sustainability Principles  
First Reading

Sustainable Investments  
September 18, 2023

## Summary

- CalPERS has existing and well-established coverage of Labor Principles across various documents (e.g. the Governance & Sustainability Principles and Investment Beliefs)
- We seek to give greater prominence to the existing language on labor through a dedicated section of the CalPERS' Governance & Sustainability Principles document
- As such, we have refined CalPERS' language on labor to provide a clear and standardized message of CalPERS' core labor views
- We regularly review evolving labor frameworks and best practice standards, such as the International Labour Organization (ILO), the American Investment Council (AIC), the Laborers' International Union of North American (LIUNA) and others
- Our current coverage of Labor Principles largely reflects what is found in these other frameworks and industry best practice documents. But upon review, consolidating this coverage into one location is preferred
- The Labor Principles will also be integrated into CalPERS' Asset Class Sustainable Investments Guidelines
- Managers will be made of aware of these Labor Principles and will provide periodic attestations

## Proposed CalPERS' Labor Principles for all Asset Classes

- **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

# CalPERS Current Labor Coverage & Documentation

## Investment Belief 4

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

Sub-beliefs:

- Governance is the primary tool to align interests between CalPERS and managers of its capital, including investee companies and external managers
- Strong governance, along with effective management of environmental and human capital factors, increases the likelihood that companies will perform over the long-term and manage risk effectively
- CalPERS may engage investee companies and external managers on their governance and sustainability issues, including:
  - » Governance practices, including but not limited to alignment of interests
  - » Risk management practices
  - » Human capital practices, including but not limited to fair labor practices, health and safety, responsible contracting and diversity
  - » Environmental practices, including but not limited to climate change and natural resource availability

CalPERS' Governance & Sustainability Principles  
Last Revised: September 2019



## Private Equity Sustainable Investment Guidelines

### Background

This document addresses the CalPERS Private Equity Program (PE) practices on Sustainable Investment and the monitoring of Environmental, Social and Governance (ESG) issues across the portfolio. The practices described herein focus on long-term value creation and preservation. These practices are embedded in CalPERS' Investment Beliefs, the United Nations Principles for Responsible Investments (UNPRI) and the ESG Disclosure Framework.

### CalPERS Investment Beliefs

**Investment Belief 2**  
A long time investment horizon is a responsibility and an advantage.

Long time horizon requires that CalPERS:

- Consider the impact of its actions on future generations of members and taxpayers
- Encourage investee companies and external managers to consider the long-term impact of their actions
- Favor investment strategies that create long-term, sustainable value and recognize the critical importance of a strong and durable economy in the attainment of funding objectives

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

### Investment Belief 7

CalPERS will take risk only where we have a strong belief we will be rewarded for it.

### Investment Belief 9

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

- Sub-belief: As a long-term investor, CalPERS must consider risk factors, for example climate change and natural resource availability that emerge slowly over long time periods, but could have a material impact on company or portfolio returns.

### UNPRI Principles

CalPERS is a signatory to the UN Principles for Responsible Investments (UNPRI), which includes the principles below:

#### Principle 1

We will incorporate ESG issues into investment analysis and decision-making processes.

#### Principle 3

We will seek appropriate disclosure on ESG issues by the entities in which we invest.

### Global Governance Principles

CalPERS believes that ESG issues can affect the performance of investment portfolios. Its varying degrees across companies, sectors, regions, and asset classes.

CalPERS currently has documented statements and guidelines on labor-related issues in various documents:

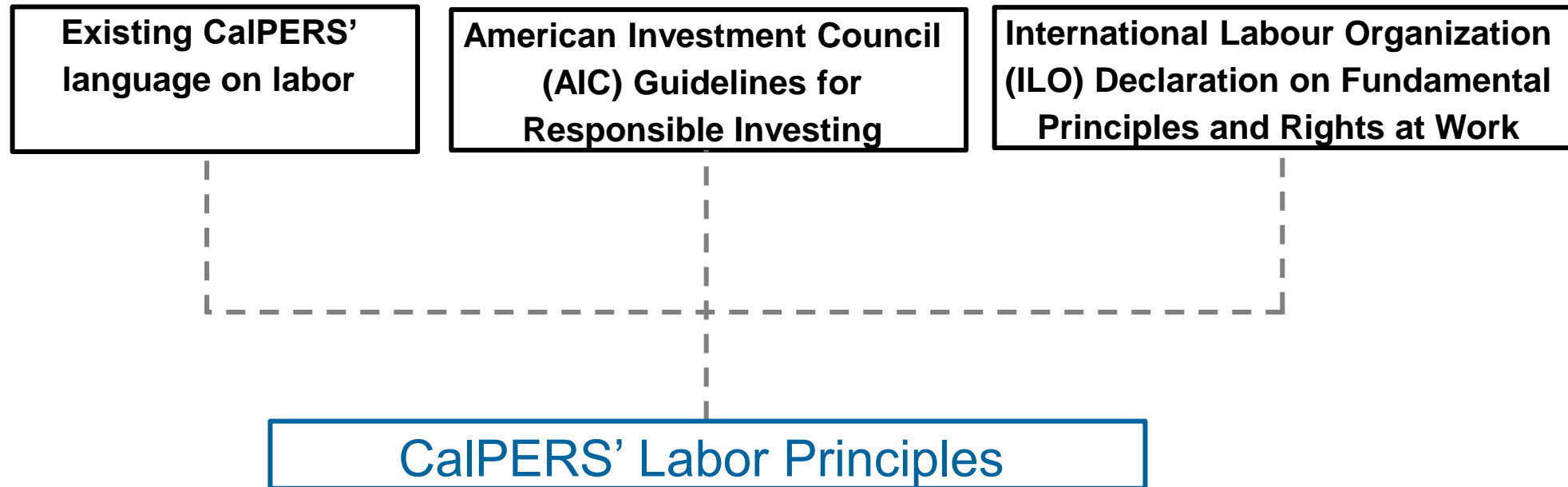
- Investment Beliefs
- CalPERS' Governance & Sustainability Principles
- Asset class Sustainable Investments Guidelines

Following further assessment, there are potential updates and enhancements:

- Some documents or references were more focused on public markets, rather than tailored to private markets
- Language will be refined to provide a clear and standardized message of CalPERS' core labor views

# Process to Refine CalPERS' Language on Labor into Labor Principles

- We first assessed how CalPERS was already addressing labor in its existing standards and documents
- Next, we reviewed labor frameworks by industry leaders and found that our current coverage of Labor Principles largely aligns with what is reflected as industry standards
- We then refined CalPERS' language on labor to provide a clear and standardized message of CalPERS' core labor views that will be called CalPERS' Labor Principles



# International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work

## **ILO Principles**

Freedom of association and the effective recognition of the right to collective bargaining

The elimination of all forms of forced or compulsory labor

The effective abolition of child labor

The elimination of discrimination in respect of employment and occupation

A safe and healthy working environment

# American Investment Council (AIC) Guidelines for Responsible Investing

## **AIC Guidelines Specifically Related to Labor**

Consider ESG issues associated with investments throughout the investment process, including pre-acquisition, ownership, and at exit

Seek to be accessible to, and engage with, relevant stakeholders either directly or through representatives of portfolio companies, as appropriate

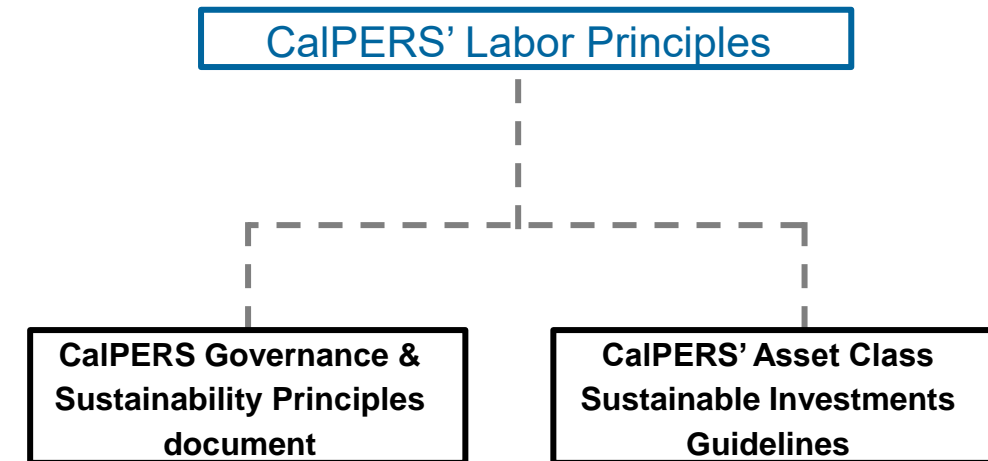
Seek to support and improve the well-being of employees as part of human capital management strategy and in compliance with applicable laws. This includes supporting the payment of competitive wages and benefits to employees; providing a safe and healthy workplace; and respecting rights of employees to decide whether or not to join a union and engage in collective bargaining

Seek to improve diversity, equity, and inclusion in the private equity industry and in portfolio investments, as appropriate. This includes efforts to address and resolve racial and gender disparities in recruitment, retention, and compensation

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 or forced labor or maintain discriminatory policies

## Next Steps and Implementation

- Gather feedback from CalPERS' Board in September board meeting (first read of policy update)
- Seek CalPERS' Board approval of technical edits to CalPERS' Governance & Sustainability Principles at November board meeting (second read and action item for policy update)
  - Give greater prominence to the existing language on labor in the CalPERS' Governance & Sustainability Principles document
- Integrate CalPERS' Labor Principles in Asset Class Sustainable Investments Guidelines
  - Additional guidance to be shared in closed session



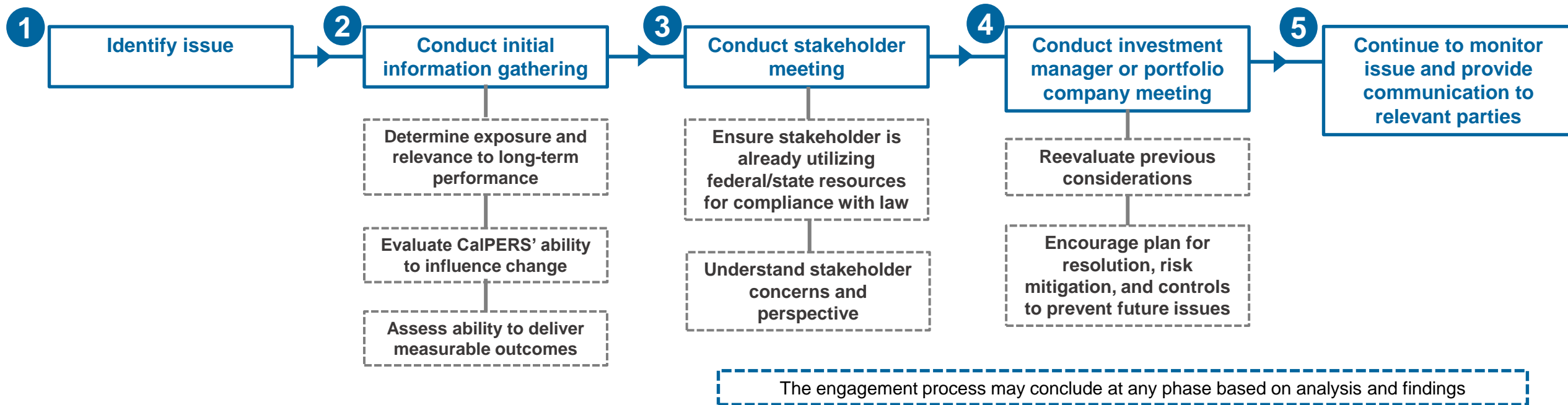


## Stakeholder Engagement Process

# Stakeholder Engagement Process

**We promote collaboration, support, and transparency through our stakeholder engagement and investor relations initiatives**

In doing so, we strive to identify and mitigate risks to our portfolio companies that can negatively affect CalPERS' investment returns, reputation, and trust.



## CalPERS Existing Coverage of Labor Principles

## CalPERS Current Labor Considerations (Slide 1 of 3)

### Where Labor Considerations are Currently Reflected in CalPERS Documents

**Investment Belief #4 - sub-belief:** CalPERS may engage investee companies and external managers on their governance and sustainability issues, including: Human capital practices, including but not limited to fair labor practices, health and safety, responsible contracting and diversity

**Investment Belief #10 - sub-belief:** Diversity of talent (including a broad range of education, experience, perspectives and skills) at all levels (Board, staff, external managers, corporate boards) is important

**CalPERS' Governance & Sustainability Principles:** Productive Labor Practices: No harmful labor practices or use of child labor. In compliance, or moving toward compliance, with the International Labor Organization (ILO) Declaration on the Fundamental Principles and Rights at Work.

## CalPERS Current Labor Considerations (Slide 2 of 3)

Where Labor Considerations are Currently Reflected- [CalPERS' Governance & Sustainability Principles page 22](#)

### CalPERS' Governance & Sustainability Principles

**Human Capital Management Practices:** Corporations should adopt maximum progressive practices toward the elimination of human rights violations in all countries or environments in which the company operates. Additionally, these practices should emphasize and focus on preventing discrimination, harassment of any kind including sexual harassment, and/or violence based on race, color, religion, national origin, age, disability, sexual orientation, gender identity, marital status, or any other status protected by laws or regulations in areas of a company's operation. Boards should be accountable for companies to develop and implement company policies, procedures, integrated financial reporting, training and internal reporting structures to ensure commitment to the following:

- a. **Universal Human Rights:** Express our support for universal human rights and, particularly, those of our employees, the communities within which we operate, and parties with whom we do business. This includes free, prior, and informed consent as a standard in relation to Indigenous Peoples' rights.
- b. **Equal Employment Opportunity:** Promote equal opportunity for our employees at all levels of the company with respect to issues such as color, race, gender, age, disability, ethnicity or religious beliefs, and operate without unacceptable worker treatment such as the exploitation of children, physical punishment, female abuse, involuntary servitude, or other forms of abuse.

## CalPERS Current Labor Considerations (Slide 3 of 3)

Where Labor Considerations are Currently Reflected- [CalPERS' Governance & Sustainability Principles page 22](#)

### CalPERS' Governance & Sustainability Principles

#### **Human Capital Management Practices:**

- c. Freedom of Association:** Respect our employees' voluntary freedom of association
- d. Eliminate all Forms of Forced and Compulsory Labor:** Compensate our employees to enable them to meet at least their basic needs and provide the opportunity to improve their skill and capability in order to raise their social and economic opportunities.
- e. Provide a safe and healthy workplace:** Protect human health and the environment; and promote sustainable development.
- f. Promote fair competition:** This includes respect for intellectual and other property rights, and not offer, pay or accept bribes.
- g. Strategic Social Investment:** Work with governments and communities in which we do business to improve the quality of life in those communities – including their educational, cultural, economic and social well-being – and seek to provide training and opportunities for workers from disadvantaged backgrounds.
- h. Application to Supply Chain:** Promote the application of these principles by those with whom we do business