



welcome to brighter

99 High Street
Boston, MA 02110
T +1 617 747 9500
www.mercer.com

Peter Cashion
Managing Investment Director, Sustainable Investments
CalPERS

October 19, 2023

Subject: Review of CalPERS' 2050 Net Zero Plan

CalPERS has proposed a 2050 Net Zero Plan, which includes strategy to allocate a cumulative \$100 billion towards “Climate Solutions” investments by 2030. These Climate Solutions are modeled to contribute to a 50% emissions intensity reduction in the portfolio by 2030 as part of CalPERS’ 2030 Sustainable Investment Strategy. Mercer believes that this strategy demonstrates an appropriate level of ambition for one of the world's largest pension funds. This summary provides Mercer's assessment of the Net Zero Plan and identifies areas for further consideration.

Mercer has reviewed CalPERS' approach to establishing the 2050 Net Zero Plan, including the methodology used to model the expected reductions in portfolio financed emissions intensity as a result of the \$100 billion of Climate Solutions investments. The \$100 billion investments across climate mitigation, adaptation and “brown-to-green” assets may contribute to halving the current emissions intensity from CalPERS’ baseline. CalPERS’ Sustainable Investments team has calculated the baseline emissions and made reasonable investment and decarbonization assumptions, in alignment with accepted practices. CalPERS' taxonomy of climate solutions is aligned with leading practices, with most peers following a similar approach of investing in climate mitigation solutions and hard-to-abate sectors. The Sustainable Investments team has also partnered with asset class teams to develop a comprehensive Net Zero plan reflecting asset class teams’ input, which Mercer views as an essential step for effective implementation.

In addition, Mercer has identified three key observations and considerations for CalPERS' Net Zero Plan.

1. Ensure CalPERS' alignment with existing frameworks (i.e. Net Zero Asset Owners’ Alliance - NZAOA) is well-supported.
2. Establish and disclose an emissions baseline year to track progress over time. It is important for CalPERS to recognize how different baseline years and in-scope asset classes can affect historical emissions trajectories, and therefore, future decision-making.
3. Consider a deliberate focus on decarbonization through a geographic lens. Understanding the different paths regions can take and economic contexts to reduce carbon emissions, particularly between emerging and developed markets, may help CalPERS to support a Just Transition.

Overall, based on Mercer's observations and considerations, CalPERS has taken a prudent and thoughtful approach to developing a 2050 Net Zero Plan, in line with leading global practices.