

MEMORANDUM

TO: Investment Committee, CalPERS
FROM: Christy Fields, Lisa Bacon and Steve McCourt, Meketa Investment Group
CC: Dan Bienvenue
DATE: March 18, 2024
RE: Responsible Contractor Policy Revisions Relating to Real Assets—First Reading

Meketa Investment Group (“Meketa”) has been asked in its capacity as Board Consultant for the Infrastructure and Real Estate asset classes to provide an opinion on revisions proposed for the CalPERS Responsible Contractor Policy (“RCP”). The revisions were undertaken following direction from the Board to Staff to modernize the policy, last revised in 2015, to ensure CalPERS continues to use industry best practices around responsible contracting. The proposal will be presented to the Investment Committee on March 18, 2024 as Item 7e-01 (with Items 7e-02 and 7e-03 as the Proposed Responsible Contractor Policy clean view and mark up view, respectively). This memorandum is submitted as Item 7e-4.

In summary, Staff is recommending a number of modest revisions to the RCP to maintain its relevancy and efficacy and, in conjunction with CalPERS’ Labor Principles, further CalPERS’ leadership in risk management and the stewardship of human capital. Meketa has discussed these proposed policy changes with Staff, and the First Reading recommendations reflect Meketa’s feedback.

As described herein, Meketa concurs with the policy changes proposed by Staff to date as part of this first reading. We believe that the changes are appropriate in the context of CalPERS’ fiduciary duty, investment beliefs (#3 and #4 particularly), and governance framework. We note that Staff’s presentation highlights a number of potential policy revisions that they reviewed and decided to not recommend. We highlight that this is the first reading of the proposed changes to the RCP, and that Staff continues to refine CalPERS’ support of responsible contracting through this policy and the Labor Principles project.

Proposed Changes

- Explicitly links RCP to CalPERS’ Labor Principles, which effectively amplifies the impact of the policy and CalPERS’ broader work around supporting labor at its investments.
- Expands expectations for responsible contractors by explicitly supporting employer paid safety training for employees.
- Modifies the definition of a responsible contractor to not only include the payment of fair wages and fair benefits, but also to exclude bad actors (i.e., those debarred by any municipal, state or federal government).
- Bolsters the outreach responsibilities of responsible contractors to explicitly include and extend equal consideration to all firms that meet the selection criteria, including service-disabled veteran owned businesses, minority-owned firms and firms owned by women.



In addition to the above proposed revisions, Meketa suggests that Staff add language in the Voluntary Compliance section that explicitly includes commingled funds and other indirect investment structures in addition to those in which CalPERS holds less than a 50% ownership position.

Summary Opinion

The proposed revisions are consistent with CalPERS objectives, industry best practices, and stakeholder feedback. Furthermore, the proposed revisions reflect CalPERS' real-world experience in implementing the RCP through its Real Assets portfolios, incorporating lessons learned into incremental changes that should enhance adoption and execution of both the letter and spirit of the policy. Importantly, it is envisioned that the revised RCP will work synergistically with CalPERS' Labor Principles, CalPERS' managers' own RCPs, peer networks, and labor organizations to create an actionable, sustainable approach to optimal human capital management.

We look forward to further interactions with the Board on this, and other topics. If you have questions, please feel free to contact us at (760) 795-3450.

CF/LB/SPM/jls