



# Investment Committee

## Agenda Item 5d

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**November 18, 2024**

**Item Name:** Sustainable Investments Annual Program Review

**Program:** Sustainable Investments

**Item Type:** Information

### **Executive Summary**

The purpose of this item is to present the CalPERS' Sustainable Investments Annual Program Review including objectives, key performance indicators, and targets.

### **Strategic Plan**

This agenda item supports the CalPERS Strategic Plan goals to strengthen the long-term 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

CalPERS previously had a Sustainable Investments 5-Year Strategic Plan that concluded in 2021. In July 2023, staff introduced CalPERS Board to a draft of the Sustainable Investments 2030 Strategy. Staff received feedback from the Board, made edits, and presented the final Sustainable Investments 2030 Strategy to the Board in November 2023. This November 2024 item provides a progress update. The Sustainable Investments 2030 Strategy recognizes the evolution of sustainable investments and net zero practices across financial markets and demonstrates CalPERS' commitment to continue to provide leadership and incorporation of best practices.

## Analysis

Staff will focus CalPERS' Sustainable Investments efforts into the following five objectives of the Sustainable Investments 2030 Strategy and will report to the board annually on the progress of achieving such objectives:

1. Generate **outperformance** by investing in the transition to a low-carbon economy, including climate solutions, and by investing in opportunities through our Emerging and Diverse Manager Program
2. Increase **portfolio resilience** by accelerating the integration of Environmental, Social & Governance (ESG) analysis, including climate risk analysis, into the investment diligence process and portfolio management
3. **Generate outperformance and have a meaningful impact on the trajectory of global emissions** by (i) putting our **own portfolio on a pathway to Net Zero** by 2050 through investments in climate solutions; (ii) taking **shareowner action** to improve the largest emitting companies' net zero strategies; and (iii) **engaging** the investment industry and **government regulators** to support the transition of the broader economy to net zero
4. Promote greater **inclusion and representation** in the financial industry and the global economy by promoting Diversity, Equity and Inclusion (DEI) through advocacy and shareowner action
5. Build and promote **efficient and equitable** financial markets through advocacy and regulatory action, including the promotion of responsible business practices for workers

## **Budget and Fiscal Impacts**

Costs associated with the delivery of the Sustainable investments 2030 Strategy are included in current budget allocations.

## **Benefits and Risks**

CalPERS' Sustainable Investments 2030 Strategy 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 pursuing and achieving the Sustainable Investments 2030 Strategy 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

## **Attachments**

Attachment 1 – Sustainable Investments Annual Program Review-PPT

Attachment 2 – Mercer's Review of CalPERS' Net Zero Plan

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Sustainable Investments

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Michael Cohen  
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