



Investment Committee

Agenda Item 6c

June 10, 2024

Item Name: Policy Changes for Responsible Contractor Policy – Second Reading

Program: Sustainable Investments

Item Type: Action

Executive Summary

This agenda item is seeking approval from the Investment Committee (Committee) regarding the proposed revisions to the CalPERS' Responsible Contractor Program (RCP) Policy (Policy).

Strategic Plan

The agenda item supports the CalPERS Strategic Plan goal to strengthen the long-term sustainability of the pension fund and cultivate risk-intelligent decisions.

Investment Beliefs

This agenda item supports the following Investments Beliefs:

- Investment Belief 3 – Investment decision may reflect wider stakeholder views, provided they are consistent with CalPERS' fiduciary duty to members and beneficiaries
- Investment Belief 4 – Long-term value creation requires effective management of three forms of capital: financial, physical, and human

Background

CalPERS has had an RCP Policy since the 1990s. We have a deep interest in the condition of workers employed by CalPERS and our managers and delegates. The RCP Policy supports fair wages and benefits based on small business development, local market conditions, subject to fiduciary principles and control of operating costs. The RCP Policy exists to ensure prudent and careful action to domestic Real Estate and Infrastructure investment managers where:

- CalPERS has greater than 50% ownership interest
- The Policy requirements are met
- Contract amount is \$100,000 or more

Analysis

As of July 2015, Real Estate and Infrastructure managers began operating under the Policy as revised in March 2015. At the direction of the Investment Committee, Investment Staff undertook policy review and engagement process to assess potential areas for updates.

Proposed policy updates will strengthen manager responsibilities, clarify reporting guidance, strengthen the risk management function of the policy, and help streamline implementation of the policy, and facilitate communication between stakeholders and managers.

Proposed changes include:

1. Expands the definition of a Responsible Contractor
2. Expands language in the Certification of Responsible Contractor Status to include reporting debarments when a contractor certifies regulatory status
3. Integrates CalPERS' Labor Principles language and link
4. Adds reference to "commingled funds and indirect investments" in the voluntary compliance section
5. Adds Neutrality to the definitions section of the policy
6. Expands language around using a skilled and trained workforce
7. Adds language encouraging participation by service-disabled veteran owned businesses (SDVOB), minority owned and controlled firms, and firms owned and controlled by women
8. Updates annual reporting guidance for managers on tenant-controlled payments
9. Makes additional technical changes to reflect clean-up and formatting changes

Budget and Fiscal Impacts

Existing budgetary resources fund the ongoing costs for implementation, administration, and management of the RCP Policy for the CalPERS Investment Office.

Benefits and Risks

The design of this Policy is intended to require investment managers, and their delegates, to take prudent and careful action when selecting and employing contractors on domestic RCP assets. The Policy helps CalPERS manage both human capital and reputational risk by supporting the use of responsible contractors. This Policy also helps manage costs through competitive bidding, which benefits CalPERS' long-term investment returns.

Attachments

Attachment 1 – Policy Changes for Responsible Contractor Policy – Second Reading -PPT

Attachment 2 – CalPERS Responsible Contractor Policy (Redline version)

Attachment 3 – CalPERS Responsible Contractor Policy (Clean version)

Attachment 4 – Meketa Opinion Letter

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