

Policy Changes for Responsible Contractor Policy Second Reading

Sustainable Investments

June 10, 2024

Responsible Contractor Program (RCP) Policy | Overview

Purpose

- The RCP Policy supports fair market wages and benefits based on local conditions for workers employed by contractors and subcontractors, subject to fiduciary principles¹
- Applies when the Real Assets program makes investments in the service, maintenance, development, and improvement of CalPERS' domestic Real Estate and Infrastructure assets

Scope

- U.S. Real Estate and Infrastructure assets where CalPERS holds > 50% interest
- Contracts of \geq \$100k
- Managers² provide an annual RCP compliance and certification report

RCP Policy | History

Year	Event
1998	<ul style="list-style-type: none"> Investment Committee approves establishment of the Policy
2010	<ul style="list-style-type: none"> Five-year policy review and engagement process begins³
2012	<ul style="list-style-type: none"> RCP Policy enhanced and revised
2015	<ul style="list-style-type: none"> Extensive 18-month policy review and engagement process RCP Policy enhanced and revised⁴
2023	<ul style="list-style-type: none"> Investment Committee directed a policy review and engagement process



³ Established the Neutrality Trial for Core managers on service contracts; Core investments are those that produce a predictable current net income yield after debt service; See slide 12 for Neutrality information

⁴ Neutrality Trial for Core managers becomes permanent policy; New Neutrality Trial established for select Non-Core managers; Investments not considered Core; 'select' are certain identified non-core investments

RCP Refresh Timeline

Date	Activity
August 2023	Held an internal RCP Policy Refresh Kick-off Meeting with all relevant teams
September 2023	Email invitation sent to RCP Stakeholders asking for their feedback on RCP updates and offering an opportunity for dialogue with CalPERS staff
September 2023 – November 2023	Compile comments and conduct meetings with stakeholders and the Board Private Market Consultant
December 2023 – February 2024	Review and assess proposed updates and draft policy revisions for the Board’s consideration and approval
March 2024	First read of proposed policy updates to be presented to the Board
March – May 2024	Board feedback and stakeholder follow-up engagements
June 2024	Second read of proposed policy revisions to be presented to the Board

RCP Policy Review Process

The policy review process encompassed following:

- Engagements with stakeholders, managers, consultants, legal
- Review of market/industry guidance
- Peer review and benchmarking
- Assessment of practical examples of implementation challenges/gaps
- Conducted a series of follow-up engagements with stakeholders, managers, consultants, legal
- Researched and reviewed additional considerations raised by the CalPERS Investment Committee, stakeholders, and external managers
- Checked in on peer progress
- Made additional edits to the policy

Proposed Policy Revisions – Changes made since the first read

Categories	Proposed Updates
1. Definition of Responsible Contractor/Use of debarred Contractors (page # 8, 27 and 28)	Expand on the definition of a responsible contractor <i>(Expanded language in the Certification of Responsible Contractor Status to reference debarments when reporting regulatory status)</i>
2. Core Requirements of the Policy (page # 4 and 5)	Update the link to CalPERS' investment beliefs in Section I of the policy and include a link to the CalPERS Labor Principles <i>(Added CalPERS Labor Principles language and link)</i>
3. Voluntary Compliance (page # 11)	Update the policy to include reference to CalPERS' Labor Principles <i>(Added reference to commingled funds and indirect investments)</i>
4. Neutrality/Labor Peace (page # 2 and 7)	Update the policy to include reference to CalPERS' Labor Principles <i>(Added Neutrality to the definitions section of the policy)</i>
5. Competitive Bidding	Explore the option of hosting a centralized site to help facilitate RCP opportunities
6. Skilled & Trained Workforce (page # 5)	Update the policy language to reflect support and encouragement of safety training by contractors to ensure that all employees have the skills necessary to perform assigned work safely
7. Disabled/Veteran/Minority/ Women-owned businesses (page #15)	Update policy language to encourage participation by service-disabled veteran owned businesses (SDVOB) and minority owned and controlled firms, firms owned and controlled by women
8. Annual Reporting Requirements (page # 7)	Update annual reporting guidance for managers on tenant-controlled payments

Policy Revisions Not Adopted - No changes recommended

Categories	Revisions considered
1. Applicable Investments	Expand application of the policy to Real estate and infrastructure investments less than 50% owned by CalPERS <i>Rationale: CalPERS' Labor Principles will drive labor issues for all investments</i>
2. Selection of a Responsible Contractor	Give formal hiring preferences to contractors that are compliant with the requirements of the RCP or managers who have already adopted an internal responsible contractor policy <i>Rationale: The current language remains consistent with best practice and policy application.</i>
3. Definition of Fair Wages	Update the definition of Fair Wages <i>Rationale: The current definition is consistent with the market standard and peer comparison</i>
4. Prevailing Wage Requirement	Mandate a prevailing wage requirement on construction, rehabilitation and construction maintenance projects in California and in excess of \$50,000 <i>Rationale: The current definition of Fair Wages includes prevailing wage as a consideration and this practice remains consistent with the best practice and policy application</i>
5. Standards for Construction, Rehabilitation, & Maintenance projects in CA	Adopt separate labor standards for construction, rehabilitation, and construction maintenance projects located in California <i>Rationale: CalPERS' Labor Principles will drive labor issues for all investments</i>
6. Mandate the hiring of union workers	Mandate hiring of union workers. <i>Rationale: The current practice is consistent with the market standards and peer comparisons</i>
7. Mechanism for bid credits	<i>Assessed market and peer practice around granting bid credits for those that have their own RCP or have a proven track record of being responsible.</i> <i>Rationale: The current practices remains consistent with peer best practice</i>

Summary of Proposed Policy Revisions - Second round of edits

- Expanded language in the Certification of Responsible Contractor Status to include debarments when a contractor certifies regulatory status (*page #27*)
- Added CalPERS Labor Principles language and link (*page #4 and 5*)
- Added Neutrality to the definitions section of the Policy (*page # 2 and 7*)
- Added reference to “commingled funds and indirect investments” in the voluntary compliance section (*page #11*)
- Removed references to Addendum B a neutrality trial program that ended in 2017 (*page # 3, 19, 35 - 44*)

Adopt RCP Policy Revisions

CalPERS Team recommend the Investment Committee adopt the proposed policy revisions as presented in order to:

- Strengthen and enhance the Policy's vital risk management function of mitigating labor, financial, and reputational risk
- Encourage positive relationships and dialogue with labor organizations and managers
- Continue CalPERS' role as a leader in responsible investment and our ability to secure appropriate risk adjusted investment returns

Appendix

CalPERS Investment Beliefs

Investment Belief 4

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

Investment Belief 3

CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries

RCP Policy | Neutrality

- CalPERS remains neutral in the event a labor organization attempts to organize workers on RCP Investments
- On assets where CalPERS holds greater than 50% interest, Core investment managers and their contractors / subcontractors are required to remain neutral should workers who provide maintenance, operation, or other property related services at an RCP managed asset organize
- Select Non-Core Real Estate and Infrastructure funds and their contractors /subcontractors agree to the above on a voluntary basis