

MEMORANDUM

TO: Investment Committee, CalPERS
FROM: Christy Fields, Lisa Bacon and Steve McCourt, Meketa Investment Group
CC: Dan Bienvenue
DATE: June 10, 2024
RE: Responsible Contractor Policy Revisions Relating to Real Assets—Second 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 first reading was presented to the Investment Committee on March 18, 2024. This second reading is presented as Agenda Item 7e of the June 10 Investment Committee meeting.

In March, the Investment Team recommended 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. The Investment Committee provided the Team with feedback on the first reading, and the Team during March, April, and May engaged with stakeholders, peer pension plans, and with Meketa to address the feedback. The second reading of the proposed policy reflects the Team’s changes since the March proposal.

As described herein, Meketa concurs with the policy changes proposed to date. 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 the revisions from the first reading appear both responsive and thoughtful.

We highlight below the significant changes to RCP proposed at the first reading, and additional changes recommended for the second reading.

Proposed Changes in First Reading

- Explicitly links RCP to CalPERS’ Labor Principles, which effectively amplifies the impact of the policy and CalPERS’ broader work around Human Capital risks in 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.

Additional Proposed Changes in Second Reading

- Expanded the language in the Certification of Responsible Contractor Status to reference debarments when reporting regulatory status.
- Added CalPERS Labor Principles language and hyperlink to the Principles.
- Added language clarifying that commingled funds and indirect investments are encouraged to voluntarily comply with the RCP.
- Elevated Neutrality language within the policy.

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