

# Responsible Contractor Policy Annual Review

Sustainable Investments

November 13, 2023

# 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 principles<sup>1</sup>
- 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
- Managers<sup>2</sup> provide an annual RCP compliance and certification report

# RCP Policy | History

Year	Event
1998	<ul style="list-style-type: none"><li>Investment Committee approves establishment of the Policy</li></ul>
2010	<ul style="list-style-type: none"><li>Five-year policy review and engagement process begins<sup>3</sup></li></ul>
2012	<ul style="list-style-type: none"><li>RCP Policy enhanced and revised</li></ul>
2015	<ul style="list-style-type: none"><li>Extensive 18-month policy review and engagement process</li><li>RCP Policy enhanced and revised<sup>4</sup></li></ul>
2023	<ul style="list-style-type: none"><li>3<sup>rd</sup> RCP Policy review and engagement process underway</li></ul>



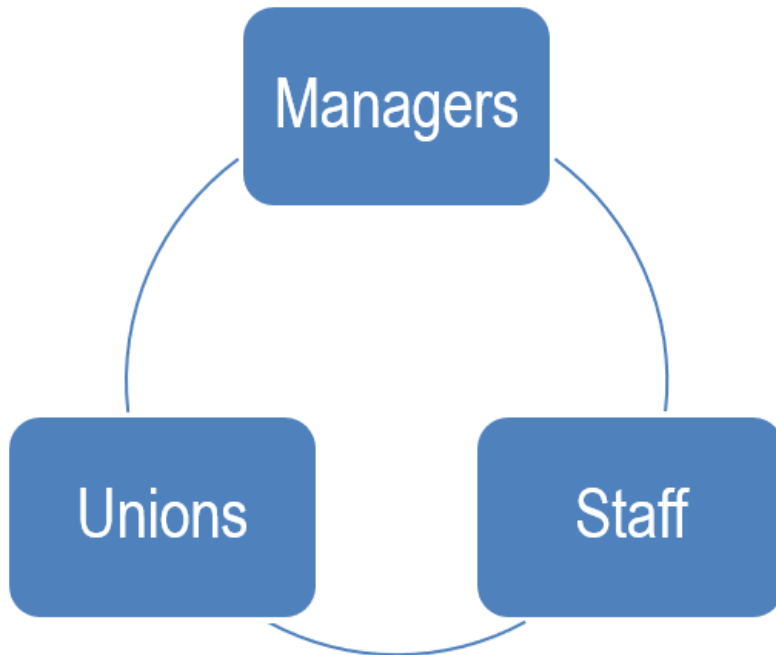
<sup>3</sup> Established the Neutrality Trial for Core managers on service contracts; Core investments are those that produce a predictable current net income yield after debt service; See slide 12 for Neutrality information

<sup>4</sup> 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 Policy | FY 2022-23 Summary Results

- All 16 managers reported in aggregate 100% compliance<sup>5</sup>
- Over \$816 million paid to certifying responsible contractors
- All managers certified they and their contractors / sub-contractors complied with the RCP Policy to the best of their knowledge
- For the 2022-23 Fiscal Year (FY), the total amount paid to certifying responsible contractors was attributed to several factors including: capital projects were the largest driver of the fluctuation; delays in obtaining necessary permits impacting project timelines; and the purchase of new assets that required capital work
- All managers reported the RCP Policy had no adverse material impact on CalPERS' investment returns
- No formal complaints were filed during the reporting period

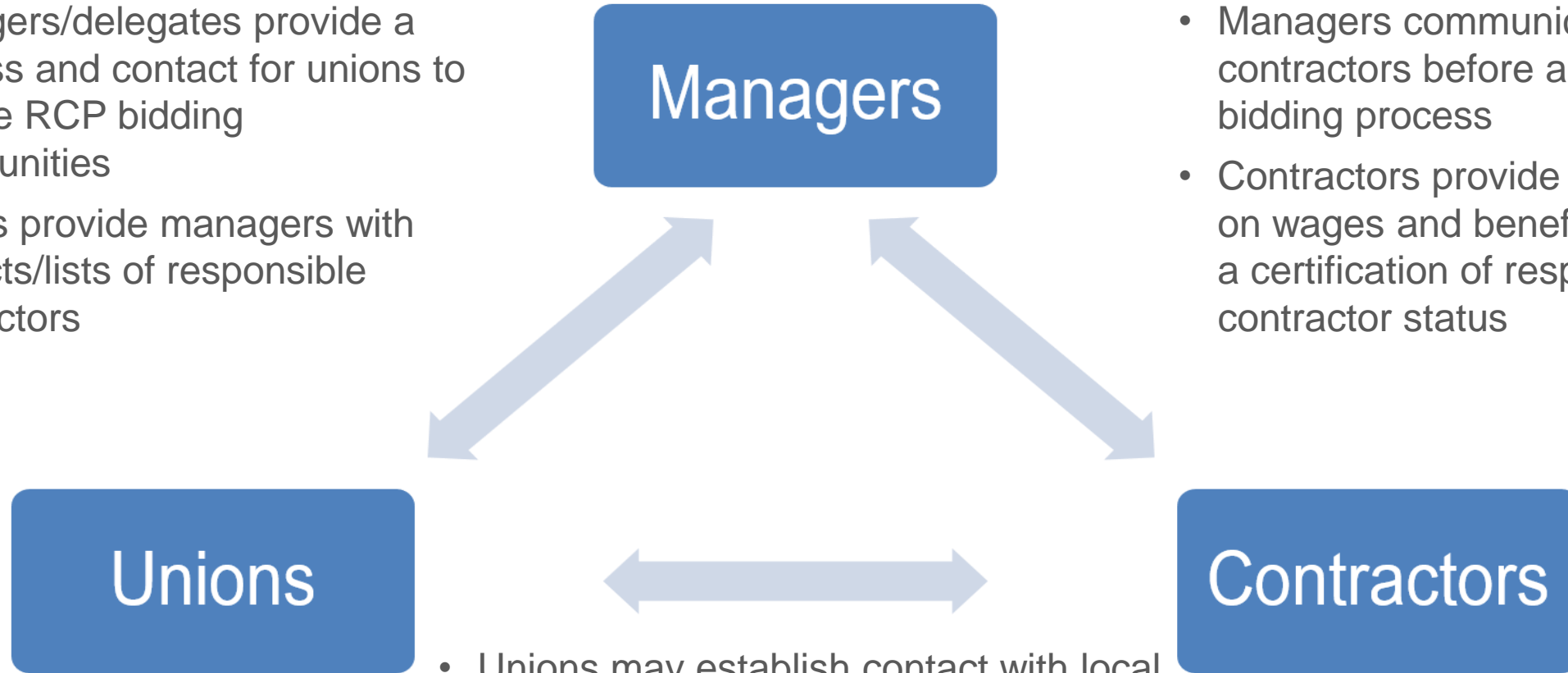
# RCP Policy | Communication & Engagement



- INVO staff communicates regularly with key labor leaders and Real Assets managers regarding implementation of the RCP Policy
- The RCP Policy, information on its implementation, annual reports and links to contact Real Assets managers to request information on RCP bidding opportunities are available on the CalPERS website
- Staff continues to address labor issues as they occur, in accordance with the RCP Policy. Some RCP concerns fall outside of the RCP scope such as:
  - CalPERS has no ownership interest in the asset
  - Contract is < \$100,000

# RCP Policy | Bidding and Notification Process

- Managers/delegates provide a process and contact for unions to receive RCP bidding opportunities
- Unions provide managers with contacts/lists of responsible contractors



- Managers communicate with contractors before and during bidding process
- Contractors provide information on wages and benefits and sign a certification of responsible contractor status

- Unions may establish contact with local signatories and identify interested and qualified responsible contractors

# RCP Policy | Compliance and Total Contracting

Fiscal Year	RCP Compliance (%)	Total Paid to Responsible Contractors (\$Billions)	Real Assets Ending Market Value <sup>6</sup> (\$Billions)
2015-16	99.73	1.22	29.89
2016-17	99.97	1.18	34.32
2017-18	100.00	0.86	36.12
2018-19	99.98	0.84	39.20
2019-20	100.00	0.84	42.80
2020-21	100.00	0.46	44.42
2021-22	100.00	0.98	68.80
2022-23	100.00	<b>0.81</b>	70.1
<b>Total</b>		<b>\$7.19 bn</b>	

## 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 – November	Compile comments and conduct stakeholder meetings.
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 recommended edits to be presented to the Board.



# Appendix

# CalPERS Investment Beliefs

## Investment Belief 4

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

## Investment Belief 3

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

# RCP Policy | Manager Responsibilities Report <sup>7</sup>

Investment managers that reported costs to administer the RCP estimated between \$2,000 and \$250,000 per year

- Estimates vary according to the number of qualifying contracts and unique staffing and implementation practices of each investment manager

All investment managers (or their delegates <sup>8</sup>) reported that they:

- Maintained written policies and procedures for implementing and complying with the RCP; provided training on administering the RCP
- Communicated the RCP Policy, and their own written policies or procedures relating to the RCP, to their employees and contractors
- Monitored and enforced their own and delegates' compliance with the RCP, including the investigation of potential violations
- Used a 30-day pre-bid notification procedure when appropriate

## RCP Policy | Neutrality

- CalPERS remains neutral in the event a labor organization attempts to organize workers on RCP Investments
- All 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