

# Policy Changes for Responsible Contractor Policy – Third Reading

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# Overview

## Purpose

- **The Responsible Contractor Program (RCP) Policy (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 more than 50% interest**
- **Contracts greater than \$100K**
- **Managers<sup>2</sup> provide an annual RCP Policy compliance and certification report**

# 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>• Policy review and engagement process</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 Refresh Timeline

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

# RCP Refresh Timeline

Date	Activity
July – August 2024	Completed additional research and analysis on responsible contractor policies and practices and consulted with internal IT staff on centralized website solution requirements
September 2024	Held a series of manager Q&A sessions
November – December 2024	Completed fiduciary research, analysis, and review of findings in collaboration with Legal and Fiduciary Counsel
January 2025	Held an in-person stakeholder engagement and reviewed proposed changes with the Board Private Market Consultant
March 2025	<b><u>Third</u> read of proposed policy revisions to be presented to the Board for review and approval</b>

# RCP Policy Review Process

## The policy review process encompassed the following:

- Facilitated multiple engagements with stakeholders, managers, consultants, legal
- Reviewed market/industry guidance
- Compiled and reviewed peer policies and practices
- Assessed practical examples of implementation challenges/gaps
- Conducted a series of follow-up engagements with stakeholders, managers, consultants, legal
- Researched and reviewed IC directed items
- Collaborated with IT staff on website requirements
- Reviewed peer benchmarking
- Held a series of Q&A sessions with managers
- Compiled and reviewed research and studies
- Collaborated with Legal Counsel to complete fiduciary research, analysis, and review of findings
- Held an in-person engagement with stakeholders

# Proposed Policy Revisions – Changes made following the second read

Categories	Proposed Updates
<b>1. Definition of Responsible Contractor/Use of debarred Contractors</b> <i>(page # 8, 29 and 30)</i>	<ul style="list-style-type: none"> <li>Expand the definition of a responsible contractor</li> <li>Expand language in the Certification of Responsible Contractor Status to reference debarments when reporting regulatory status</li> </ul>
<b>2. Core Requirements of the Policy</b> <i>(page # 4 and 5)</i>	<ul style="list-style-type: none"> <li>Update the link to CalPERS' Investment Beliefs in Section I of the policy and include a link to the CalPERS Labor Principles</li> <li>Add CalPERS Labor Principles language and a link to the Principles</li> </ul>
<b>3. Voluntary Compliance</b> <i>(page # 4, 5, and 11)</i>	<ul style="list-style-type: none"> <li>Update the policy to include reference to CalPERS' Labor Principles</li> <li>Add reference to commingled funds and indirect investments</li> </ul>
<b>4. Neutrality/Labor Peace</b> <i>(page # 2, 7, and 12)</i>	<ul style="list-style-type: none"> <li>Update the policy to include reference to CalPERS' Labor Principles</li> <li>Add Neutrality to the definitions section of the policy</li> <li><b>Add a new section under the transition, enforcement, and monitoring, and administration of the policy with expanded language around manager expectations when employees exercise their right to Freedom of Association</b></li> </ul>
<b>5. Competitive Bidding</b>	<ul style="list-style-type: none"> <li>Explore the option of hosting a centralized site to help facilitate RCP opportunities</li> </ul>
<b>6. Skilled &amp; Trained Workforce</b> <i>(page # 5 and 27)</i>	<ul style="list-style-type: none"> <li>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</li> <li><b>Expand language in the Certification of Responsible Contractor Status to reference access and hiring of apprentices</b></li> </ul>
<b>7. Disabled/Veteran/Minority/ Women-owned businesses</b> <i>(page #16)</i>	<ul style="list-style-type: none"> <li>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</li> </ul>
<b>8. Annual Reporting Requirements</b> <i>(page # 7)</i>	<ul style="list-style-type: none"> <li>Update annual reporting guidance for managers on tenant-controlled payments</li> </ul>

# Policy Revisions Not Adopted - No changes recommended

Categories	Revisions considered
1. <b>Applicable Investments</b>	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. <b>Selection of a Responsible Contractor</b>	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. <b>Definition of Fair Wages</b>	Update the definition of Fair Wages <i>Rationale: The current definition is consistent with the market standard and peer comparison</i>
4. <b>Prevailing Wage Requirement</b>	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. <b>Standards for Construction, Rehabilitation, &amp; Maintenance projects in CA</b>	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. <b>Mandate the hiring of union workers</b>	Mandate hiring of union workers. <i>Rationale: The current practice is consistent with the market standards and peer comparisons</i>
7. <b>Mechanism for bid credits</b>	Establish a mechanism for granting bid credits for those that have their own RCP or have a proven track record of being responsible. <i>Rationale: The current practices remains consistent with peer best practice</i>



## Summary of Proposed Policy Revisions - Third Read

- **Establish a Manager’s Expectation Section<sup>5</sup> and add the following language**

*“CalPERS supports Managers cooperating and bargaining in good faith with workers who have chosen to be represented by unions. Managers, Delegates, and Sub-Delegates should not make threats, create an atmosphere of intimidation or fear, or retaliate against employees who are exercising their right to freedom of association.”*

- **Expand language in the Certification of Responsible Contractor Status around apprenticeships**

*“For workers on this job, will your firm provide access to apprenticeship programs for skilled trades and/or hire an apprentice(s) from a registered Federal or State approved Building Trades Joint Labor-Management apprenticeship program?”*

## Summary of Proposed Policy Revisions<sup>6</sup> - Second Read

- **Expand language in the Certification of Responsible Contractor Status to include debarments when a contractor certifies regulatory status**
- **Add language of the CalPERS Labor Principles**
- **Add reference to “commingled funds and indirect investments” in the voluntary compliance section**
- **Add Neutrality to the definitions sections of the policy**
- **Remove references to Addendum B, a neutrality trial program that ended in 2017**

## Summary of Proposed Policy Revisions - First Read

- **Expand the definition of a responsible contractor**
- **Update the link to CalPERS Investment Beliefs**
- **Add link to the CalPERS Labor Principles**
- **Update policy language to reference support for skills, safety, and training**
- **Update annual report guidance for managers**

## Adopt RCP Policy Revisions

**CalPERS Team recommends 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**