

MEMORANDUM

TO: Members of the Investment Committee, CalPERS
FROM: Meketa Investment Group
DATE: March 17, 2025
RE: Responsible Contractor Policy Revisions Relating to Real Assets – Third Reading

Meketa Investment Group (“Meketa”) has been asked in its role as Board Consultant for the Infrastructure and Real Estate asset classes to provide an opinion on further revisions proposed for the CalPERS Responsible Contractor Policy (“RCP”). A first reading of the revised policy occurred at the March 18, 2024 Investment Committee meeting, and a second reading of the revised policy occurred at the June 10, 2024 Investment Committee meeting. This third reading is presented as Agenda Item 5a of the March 17, 2025 Investment Committee meeting.

This third reading of the RCP policy comes one year after the first reading of the revised policy and nine months after the second reading of the revised policy. The further enhancements and revisions to the RCP contained in the document reflect staff’s ongoing efforts to incorporate the Investment Committee’s feedback along with input from CalPERS’ stakeholders, consultants, legal staff, and industry participants. The third reading seeks to balance CalPERS’ aspirations around fair labor practices with practical implementation and monitoring considerations.

The lengthy process and fulsome engagement efforts have resulted in a revised RCP that is more closely aligned with the organization’s Labor Principles and investment beliefs, and more thoughtfully integrated into the CalPERS governance ecosystem, while seeking to avoid unintended consequences and/or negative investment outcomes.

Meketa delivered memos communicating our opinions of the policy revisions at both the first and second readings. In general, we supported the modest revisions to the RCP proposed by staff to maintain the policy’s relevancy and efficacy, and, in conjunction with CalPERS’ Labor Principles, further CalPERS’ leadership in risk management and the stewardship of human capital.

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 made since the first reading appear both responsive and thoughtful.

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



Proposed Changes in First Reading

- Explicitly link RCP to CalPERS' Labor Principles, which effectively amplifies the impact of the policy and CalPERS' broader work around Human Capital risks in its investments.
- Expand expectations for responsible contractors by explicitly supporting employer paid safety training for employees.
- Modify 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).
- Bolster 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.

Proposed Changes in Second Reading

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

Additional Proposed Changes in Third Reading

- Create more explicit manager expectations with language around employees' rights to exercise their right to freedom of association.
- Include language around providing access to apprenticeship programs and hiring of apprentices in responsible contractor certifications.

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. CalPERS' RCP efforts have always relied to some extent on good faith efforts and an adherence to the spirit of the policy, consistent with the Fiduciary Duty Requirement. The revised RCP similarly assumes that CalPERS' Labor Principles will be critical to controlling labor risks in all investments. 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 Investment Committee on this and other topics. If you have questions, please feel free to contact us at (760) 795-3450.

CF/LB/SPM/jls