

**CalPERS
Global Real Estate
Responsible Property Investing**

Real Estate | Principles for Responsible Investment

- In 2006, CalPERS became one of the original signatories to the U.N. Environmental Programme Finance Initiative Principles for Responsible Investment:
 - *Environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time).*
 - *Applying these Principles may better align investors with broader objectives of society.*

Real Estate | Integrating ESG

- In 2010, CalPERS commenced a cross asset-class project, including Real Estate, geared toward integrating ESG factors into investment decision-making and ownership, taking a full portfolio approach. There are three overall objectives of the project:
 - Identify best practices and challenges among a global peer group to integrate ESG into investment-decision-making and ownership;
 - Develop a channel for ongoing dialogue among peers on areas for cooperation including policy issues and ESG integration
 - Draw from the above discussions to shape the groundwork for a plan for total fund integration of ESG with investment decisions.

Real Estate | Integrating ESG

- Cross asset class project , while still in formative stage, may focus on the following ESG themes into Investment Decision Making:
 - “E” - Climate Change - Low-Carbon, Energy Efficiency, Clean Technology
 - “S” - Human Rights - Labor Standards, Diversity, Responsible Contracting
 - “G” - Governance - Alignment of Interest, Accountability, Transparency
- The following provides examples of how CalPERS Global Real Estate is incorporating Responsible Property Investment, or ESG, consistent with its fiduciary duty:
 - **Environmental** – Energy Efficiency Goal (pg. 5)
 - **Social** – The California Urban Real Estate Program (pg. 8); Responsible Contractor Program Policy (pg. 11)
 - **Governance** – Rent Regulated Housing (pg. 14)

Environmental | Energy Efficiency Goal

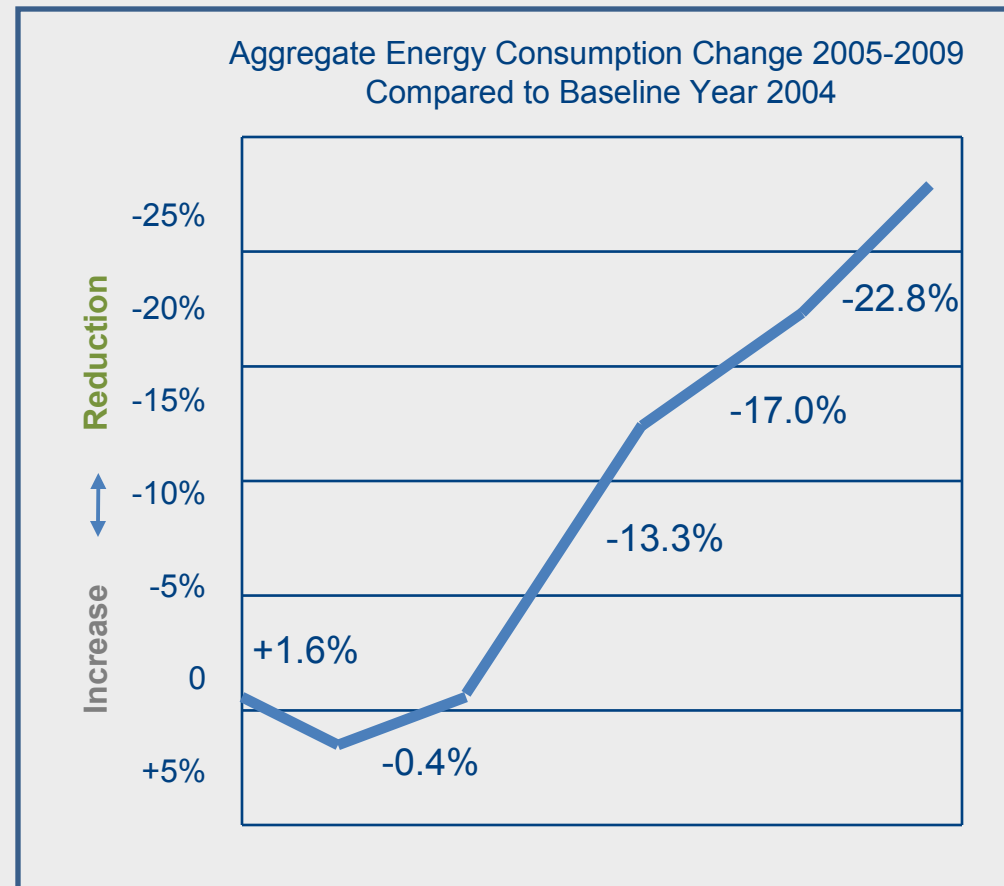
- CaIPERS Investment Committee adopted the Real Estate Environmental Initiative in December 2004
 - The Energy Efficiency Goal
 - 20 percent energy reduction over a five year period
 - Focus on Core portfolio
 - Voluntary program, 100% participation
- Staff retained a consultant in 2007 to assist reporting on annual progress
- The aggregate energy consumption reduction should be considered a representative, rather than an absolute, measure of partners' energy efficiency improvements



Cottonwood Corporate Center
Salt Lake City, UT
ENERGY STAR 2006-2009
BOMA TOBY Award 2009
Pursuing LEED Certification

Energy Efficiency Goal | Success

- Year Five: Compared to the 2004 energy consumption baseline, the weighted total reduction in overall energy consumption was 22.8 percent.
- Methods for energy savings include, but are not limited to:
 - No- and low-cost operational strategies such as adjusting thermostats and educating tenants about energy use
 - Energy and environmental audits and benchmarking
 - ENERGY STAR appliances
 - Efficient HVAC and lighting systems



Energy Efficiency Goal | Additional Green Activities

- Waste Management
 - Using recycled content and sustainable building materials
 - Recycling construction and demolition waste
- Water Conservation
 - No- and low-cost operational strategies such as reducing landscape watering times and enhancing tenant awareness of water use
 - Retrofitting with low-flow fixtures
- Further Efforts
 - Mitigating stormwater runoff
 - Low-VOC paints for indoor air quality control
 - LEED certifications
- Results
 - Enhanced sustainability across portfolios
 - Acknowledgment that environmental sustainability is good business practice
 - Increased environmental consciousness among managers and building occupants



Hines
560 Mission
San Francisco, CA
ENERGY STAR Labeled

Social | California Urban Real Estate Program

- California Urban Real Estate (CURE) investments include, but are not limited to, low to moderate-income housing, multifamily housing, commercial or residential or both, urban infill, community redevelopment, and rehabilitation of core properties.
- Risk can be mitigated by public private partnerships, entitlement process support, and/or advantageous financing available through public agencies.
- Risk is also mitigated by creating below market rental assets that have low or no vacancy rates.
- Highlighted investments within the Program are:
 - Low-income Housing
 - Economic Development or Redevelopment
 - Urban Infill and “Smart Growth”

Urban Program | Overview

- CalPERS made its first Urban investment in 1992
- Target asset allocation to Urban program is 10%
- GAV is \$5.1 billion, NAV is \$1.8 billion
- Total CalPERS commitment to Urban program since inception has been \$5.5 billion
- Investment staff of 4 dedicated to national portfolio
- Active program investments total approximately 300
- 50% of portfolio NAV in California markets, 50% in national market
- Urban program includes all property types: multifamily, home ownership, retail, office, industrial, hospitality, gaming, parking garage

Urban Program | Ancillary Benefits

- 1,600 affordable housing rental units
- 9,600 moderate income workforce homes
- 13,000 estimated construction related jobs
- 3,800 estimated long term jobs
- 211 projects located in redevelopment areas
- \$2.5 billion invested in redevelopment areas
- 23 mixed use projects - \$1.6 billion GAV. \$620 million NAV

Information above is as of 12/31/08 and provided by investment managers

Social | Responsible Contractor Program Policy

- The Responsible Contractor Program Policy (“Policy”) was adopted by the CalPERS Board in June 1994
- The Policy approved by the Board included input from representatives of the building trades and investment partners
- Key elements addressed in the policy included:
 - Prerequisite requirements including duty of loyalty, prudence and competitive return
 - Definition of a Responsible Contractor
 - Program enforcement, monitoring and administration
 - Local market factors to be taken into consideration

Responsible Contractor Program Policy | Overview

- The Policy has been updated over time with input from labor and investment managers to include enhanced notice and better reporting
- For fiscal year 2009-2010, CalPERS Real Estate program achieved 97.9 percent compliance with Policy goals and requirements
- Recent enhancements include the addition of:
 - A Neutrality Trial Program Policy
 - A responsible contractor worksheet to assist in the certification of responsible contractor status and,
 - Investment partners websites to give notice to contractors about new projects and job opportunities

Responsible Contractor Neutrality Trial Program | Overview

- The NTP is a two-year trial program targeted to existing Core Real Estate Program investment managers that voluntarily agree to be bound by it and to new managers retained while the NTP is in effect.
- Similarly, it would apply to existing service contractors who agree to be bound by it and new contractors retained while the NTP is in effect.
- A manager and its contractors will be required to remain neutral when employees providing services pursuant to NTP-covered contracts organize, or when unions try to organize them.
- "To remain 'neutral' means not to take any action or make any statement that will directly or indirectly state or imply any support for or opposition to the selection by employees of a collective bargaining agent, or preference or opposition to any particular union as a bargaining agent."

Governance | Rent Regulated Housing

- Over the two past years, issues were raised regarding the business strategies of several of CalPERS multi-family investments, including financial losses and tenant impacts.
- In April 2010 CalPERS Investment Committee approved the addition of new language in the Real Estate investment policy that promotes responsible property investment by prohibiting investment strategies that rely on or result in:
 - Eliminating rent-regulated multi-family housing units;
 - Converting such units to market rate units;
 - Raising rents above regulated levels as determined by appropriate governing authority.
- CalPERS new policy encourages investment in low income housing tax credit and bond financed assets.

Next Steps

- Continue to work with cross asset class team on ESG integration. This work will set out core themes in ESG across the portfolio with recommendations for future work