Don't let ESG become 'the next 3-letter bad word' – CalPERS CEO

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ESG is about managing risks and spotting investment opportunities, and should not be allowed to become "the next three-letter bad word," CalPERS CEO Marcie Frost said at the pension fund's stakeholder forum on Wednesday.

"When you break down ESG … it's around managing risks related to climate, managing risks related to poor human capital practices. It is about managing risks related to poor governance," Ms. Frost said.

The $456.6 billion California Public Employees' Retirement System, Sacramento, has been consistent in its approach to ESG since 2016, she said. CalPERS is advocating for better transparency on how the companies in which the pension fund invests manage their own ESG-related risks, Ms. Frost said.

CalPERS owns a very small percentage of global public companies "but we have a very loud voice and we are careful about where we use it," she said.

CalPERS is also integrating ESG into its investment decisions, Nicole Musicco, CIO, said at the stakeholder forum.

"On the public side we will continue to engage because we see the traction and we think it's the right way to work," Ms. Musicco said. Indeed, if CalPERS sold off all of its energy-related assets, it would amount to a $160 billion divestment, she said.

"I wouldn't feel great delivering to my members the message that for the purpose of feeling good about not engaging but divesting, that we would be willing to forgo $160 billion of assets," Ms. Musicco said.

On the private asset side of its portfolio, CalPERS officials are focusing most on investing in renewable energy, Ms. Musicco said. CalPERS has target allocations of 13.4% real assets, 9% private equity and 1% private debt.

While she said she didn't want to give away CalPERS' "secret sauce," to produce its 6.8% assumed rate of return, officials would have to find ways "to be a little more creative" than making plain vanilla investments. An example would be investing in emerging disruptive technology, she said.

Indeed, CalPERS' move into private asset classes is a key piece of its strategic asset allocation because even accounting for the fees, they yield the better returns on average vs. all of the pension fund's other asset classes, said Michael Cohen, CalPERS' interim chief operating investment officer, also speaking at the stakeholders forum.

For years, CalPERS didn't invest consistently every year in private assets which cost the pension plan "billions of dollars," Mr. Cohen said. "We need to rebuild our expertise and … deploy billions of dollars into a variety of private assets," he said.

And CalPERS will have to be more nimble, he said. With board approval, CalPERS will be regularly reviewing its strategic asset allocation "to make sure we are kicking the tires more frequently," Mr. Cohen said.

Back to top