



## Regular Meeting

### Item Number 7 – Open Session

**Subject:** Update on Integrating Sustainability Across the Enterprise

**Presenter(s):** Lisa Blatnick, Scott Chan and Brian Noveck, ISOS Group

**Item Type:** Information

**Date & Time:** September 1, 2022 – 20 minutes

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**Attachment(s):** None

**PowerPoint(s):** Enterprise Sustainability Update

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#### **Item Purpose**

At the April meeting, the board requested regular updates on how we integrate sustainability considerations across the enterprise. This is the first regular update focused on enterprise sustainability activities in fiscal year 2021–22, including developing a Sustainability Roadmap and inventorying our enterprise greenhouse gas emissions (excluding the investment portfolio).

#### **Executive Summary**

Staff developed a three-year Sustainability Roadmap to advance enterprise sustainability in alignment with the 2022–25 *Strategic Plan*. The roadmap's Year 1 activities include:

- Creating an enterprise-level value chain map.
- Updating topics and measures for the annual Sustainability Report.
- Reporting on CalSTRS' enterprise greenhouse gas emissions to seek reduction opportunities. This is in alignment with our pledge to achieve net zero emissions for the investment portfolio by 2050 or sooner.

#### **Background**

##### **Value chain map**

According to GRI, the Global Reporting Initiative, a value chain is the range of activities carried out by the enterprise, and by entities upstream and downstream from the enterprise, to bring products or services from their conception to their end-use.

The value chain, which includes the enterprise's supply chain, provides an overview of where an organization maintains operational control. The value chain map helps us evaluate strategic decisions, including innovation and creating additional services for our members and employees.

We created a value chain and identified the following primary activities for CalSTRS:

- Collect contributions from stakeholders
- Administer the fund and the enterprise
- Manage investments
- Pay benefits to members and their beneficiaries

### **Identifying sustainability-related topics**

In the annual sustainability report, we detail material topics that reflect the enterprise's significant economic, environmental and social impacts. We updated our topics to align with the 2022–25 strategic plan cycle. Our enterprise sustainability consultant, ISOS Group, facilitated the process by:

- Benchmarking CalSTRS' sustainability-related topics and reporting against pension peers and best practice organizations.
- Conducting subject matter expert interviews for each business unit representing members, employers and employee stakeholders.
- Validating the highest priority topics with our executive sustainability team.

We determined that previous topics remain a priority:

- Member retirement education
- CalSTRS Funding Plan progress
- Transition to net zero
- Diversity, equity and inclusion

We also identified new topics for reporting:

- Privacy and information security
- Sustainable operations
- Employees and human capital management

The sustainability landscape is maturing. In the past, we have used the Ceres Roadmap and GRI Standards for guidance on sustainability-related topics and measures. We are broadening our scope to consider additional frameworks and standards. ISOS Group is assisting with this effort and will make recommendations for relevant enterprise environmental, social and governance measures.

## **Enterprise greenhouse gas reporting**

State agencies are required to annually report scope 1 (direct emissions from gas and fuel) and scope 2 greenhouse gas emissions (indirect emissions from electricity) in the Climate Registry Information System, which CalSTRS has done since 2005.

Scope 3 (indirect emissions) come from upstream supply chain and downstream end-use activities. Organizations have control over direct emissions and influence over indirect emissions. According to the [CDP Global Supply Chain Report 2020](#), suppliers in 2020 reported their upstream emissions were, on average, 11.4 times greater than those produced through direct operations. Previously, CalSTRS has reported on scope 3 emissions from one upstream category, business travel, in the Climate Registry Information System and the annual sustainability report.

We want to be a leader among pension funds by creating a comprehensive inventory of enterprise greenhouse gas emissions, including scope 3 emissions. Once complete, this exercise will help us refine and expand our greenhouse gas emissions reporting, as well as set enterprise emissions reduction targets.

Staff engaged ISOS Group to inventory our enterprise emissions, excluding the investment portfolio. The preliminary inventory includes:

- Calculating scope 1 and 2 emissions using standard models for fuel consumption and utility billing.
- Estimating relevant scope 3 categories based on models from the EPA and World Resource Institute's Greenhouse Gas Protocols.

The inventory found procurement for services, an upstream scope 3 category, was the greatest contributor to the enterprise's estimated greenhouse gas emissions. Staff recognizes that an estimated inventory is a starting point. We will refine our reporting using available data models while expecting emissions calculation methodologies to improve over time.

### **Next steps**

Staff will work with ISOS Group to:

- Identify and report on relevant enterprise environmental, social and governance measures for the 2022–25 cycle.
- Refine enterprise scope 3 greenhouse gas emission data and reporting focusing on procurement of services.
- Develop a management plan to operationalize greenhouse gas data tracking and seek reduction opportunities.

Strategic Plan Linkage:

Goal 3: Sustainable organization

One of the four objectives of the 2022–25 *Strategic Plan* is to integrate and align environmental, social and governance principles across the organization.

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