



# NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE  
November 10, 2004

CONTACT: Mitchel Benson  
(916) 653-4052

## TREASURER ANGELIDES PROPOSES NEW ENERGY EFFICIENCY INITIATIVE FOR CALPERS' AND CALSTRS' REAL ESTATE HOLDINGS, TAKING LATEST STEP IN 'GREEN WAVE' ENVIRONMENTAL INVESTMENT PLAN

*Initiative's 20 Percent Cut in Energy Usage at Pension Funds' Buildings  
Would Save \$40 Million Annually in Energy Costs, Create 4,300 Jobs,  
Save Enough Energy to Light 50,000 Homes*

SACRAMENTO, CA – State Treasurer Phil Angelides today proposed the next big step in his *Green Wave* environmental investment initiative, urging the State's two large pension funds to cut energy usage in their \$16 billion, 200 million-square-foot core real estate holdings by 20 percent within five years.

Like the rest of the Treasurer's *Green Wave* initiative, the energy efficiency proposal is aimed at achieving stronger returns for the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) – in this instance by lowering their costs to operate their buildings. The pension funds' financial gains would come with the added benefits of lower energy consumption, a cleaner environment, and more jobs. This initiative would put CalPERS and CalSTRS – the nation's largest and third-largest public pension funds – in the national forefront of energy conservation, with the potential to set a new standard for the real estate marketplace.

Angelides estimated that it would cost CalPERS and CalSTRS a combined \$200 million to retrofit the pension funds' core real estate portfolios to meet the new 20 percent reduction goal. By doing so, the pension funds together would save an estimated \$40 million annually in energy costs, achieving a five-year payback of the pension funds' investment and an internal rate of return of approximately 14 percent on that investment over ten years. The \$200 million retrofit investment also would create approximately 4,300 jobs and reduce energy demand by 72 megawatts, enough power to supply more than 50,000 homes.

“With energy prices rising, there has never been a better opportunity, or greater incentive, for the pension funds to catch the *Green Wave* and make these valuable investments in the energy efficiency of their real estate holdings,” Angelides said at a press conference here to unveil the proposal. The press conference was held across the street from the downtown construction site of the new CalPERS building, which when complete is expected to achieve the U.S. Green Building Council's Silver LEED certification for

“green buildings.” The LEED (Leadership in Energy and Environmental Design) Green Building Rating System is a voluntary, consensus-based national standard for developing high-performance, sustainable buildings.

Joining the Treasurer today to support the *Green Wave* energy conservation proposal were: Charles P. Valdes, a fellow CalPERS Board Member and Chair of the Board’s R Street Subcommittee; Carla Din, Western Policy Director for the Apollo Alliance; Matt Petersen, President and CEO of Global Green USA; Carl Zichella, Regional Staff Director of the Sierra Club; and Bill Camp, Executive Secretary of the Sacramento Central Labor Council.

The Treasurer first launched his *Green Wave* environmental investment initiative for CalPERS and CalSTRS in February. The initiative, which is designed to bolster financial returns, create jobs and clean up the environment, has four prongs:

- Committing private equity investments to firms that are developing the “clean” environmental and energy technologies of the future.
- Investing a portion of the pension funds’ stock portfolios in environmentally screened funds.
- Using the pension funds’ clout in the marketplace to prod companies to provide robust reporting to shareholders of their environmental practices, risks, and potential liabilities.
- Boosting the systems’ real estate returns by improving the energy efficiency of the buildings in their portfolios.

CalPERS and CalSTRS have already moved forward on the *Green Wave* initiative. The two funds have committed a combined \$450 million to private equity investment in cutting-edge environmental technology and renewable energy. In addition, CalPERS also has approved investing \$500 million in environmentally screened stock funds that have a track record of meeting or exceeding returns of the fund’s existing stock managers.

Under the Treasurer’s new energy efficiency proposal unveiled today, the two pension funds would embark on a focused program to achieve the 20 percent energy reduction (see attachment). CalPERS’ and CalSTRS’ real estate staff, either directly or by hiring an experienced energy efficiency firm, would work with the system’s real estate partners to assess the current energy use at their properties, identify buildings where investments in energy efficiency can yield positive returns, and design retrofit programs to capture those energy and cost savings. The Treasurer’s proposal also calls for the pension funds to measure and report over time on the returns and actual energy efficiencies achieved.

Looking ahead, CalPERS on November 17 has scheduled a workshop on implementing all four prongs of the *Green Wave* initiative. In addition, CalSTRS has scheduled discussions for its December 1 meeting on the *Green Wave* real estate proposal and on the *Green Wave* corporate environmental reporting and responsibility proposal.

Visit the State Treasurer’s Office website ([www.treasurer.ca.gov](http://www.treasurer.ca.gov)) to learn more about the Treasurer’s *Green Wave* initiative.

**OFFICE OF THE TREASURER**

P. O. BOX 942809  
SACRAMENTO, CA 94209-0001



## **The Green Wave: Stronger Returns, A Cleaner Environment, And More Jobs Through Energy Efficiency**

- The California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) have nearly \$16 billion invested as of March 31, 2004 in real estate and property in California, the nation and 22 countries throughout the world.
- In the CalPERS and CalSTRS real estate Core Portfolios, CalPERS and CalSTRS hold a total of 201.30 million square feet of combined office, industrial, apartment and retail space for a total value of \$12.20 billion as of March 31, 2004.
- This proposal would set a goal of achieving 20 percent energy usage reduction in the aggregate core real estate portfolio of each pension system within five years. The purpose for setting a 20 percent reduction goal is to:
  - Enhance financial returns (by lowering energy costs and thereby increasing cash flow and asset values).
  - Protect the environment by conserving energy.
  - Create jobs.
- Each pension system would design, oversee and measure a program to achieve the 20 percent reduction goal within five years. Each system would manage the program internally, or through an RFP/RFQ process, and hire an experienced energy efficiency firm to assist the real estate staff in managing the program.
- The real estate staff of each system, either directly or with the assistance of a selected energy efficiency firm, would:
  - Work with the existing CalPERS Core Portfolio Partners and the CalSTRS Core Portfolio Advisors (the "Advisors") to collect relevant data on each property in the portfolio: energy use history, utility information, equipment lists and lease information.
  - Assess the information and propose targets that are achievable for each Advisor (given that Advisor's particular portfolio of properties and given the existing energy efficiency status of each property), while maintaining an aggregate goal of 20 percent for the Advisors' portfolios as a whole.

- Identify and rank the projects to be carried out by each Advisor according to the magnitude of energy savings and the estimated return on investment.
  - Prepare a financial analysis for each project that identifies estimated cost and projected returns, as well as any projected increase in the asset value of the property. Only projects that yield a projected positive return on investment would be undertaken.
  - Design a retrofit program with each Advisor for specific properties. Each Advisor would be responsible for budgeting, planning and implementing the retrofit program according to existing policies of each system, including, for example, the CalPERS and CalSTRS Responsible Contractor Policies.
  - Complete a measurement and verification process for every project and provide periodic reports on energy savings and return on investment.
- The investment in the retrofit projects needed to achieve the 20 percent energy savings goal is estimated to be \$200 million. The pension systems would collectively save an estimated \$40 million dollars annually, with payback in five years and an internal rate of return of approximately 14 percent over ten years. A \$200 million investment in energy efficiency measures would create approximately 4,300 jobs, based on statistics from a January 2004 report released by the Apollo Alliance, “The Apollo Jobs Report: Good Jobs and Energy Independence.” The combined energy demand reduction from both portfolios is estimated to be 72 megawatts, enough power generation to supply over 50,000 homes.



PHILIP ANGELIDES  
Treasurer  
State of California

November 10, 2004

Mr. Sean Harrigan, President  
Board of Administration  
California Public Employees' Retirement System  
Lincoln Plaza  
400 P Street  
Sacramento, CA 95814

Mr. Rob Feckner, Chair  
Investment Committee  
California Public Employees' Retirement System  
Lincoln Plaza  
400 P Street  
Sacramento, CA 95814

Dear Messrs. Harrigan and Feckner:

I am writing to urge the California Public Employees' Retirement System (CalPERS) to take the next important step in the Green Wave environmental investment initiative, by turning its real estate portfolio into a model for how buildings can be managed for both higher returns and energy efficiency. Specifically, I propose that CalPERS set a goal of reducing energy usage by 20 percent in its core real estate holdings within five years.

Like the rest of the Green Wave initiative, this energy efficiency proposal is aimed at achieving stronger returns for CalPERS, in this instance by lowering the costs of operating buildings. CalPERS' financial gain would come with the added benefits of lower energy consumption, a cleaner environment, and more jobs. By moving down this path, CalPERS could make its own direct contribution to the nation's energy independence and security.

As you may recall, the Green Wave initiative I proposed last February to California's pension systems, CalPERS and the California State Teachers' Retirement System (CalSTRS), had four prongs: 1) committing private equity investments to firms that are developing the "clean" technologies of the future; 2) investing a portion of the systems' stock portfolios in environmentally screened funds; 3) using the systems' clout in the marketplace to prod companies to provide robust reporting to shareholders of their environmental practices, risks, and potential liability; and 4) boosting the systems' real estate returns by improving the energy efficiency of the buildings in their portfolios. CalPERS has already moved forward on the Green

Wave initiative by committing an initial \$200 million to private equity investment in cutting-edge environmental technologies. It has also approved investing \$500 million in environmentally screened stock funds that have a track record of meeting or exceeding returns in our existing investments, and will soon be holding a workshop to discuss environmental corporate governance strategy.

My office preliminarily estimates that the investment required to retrofit both the CalPERS and CalSTRS core real estate portfolios to achieve the 20 percent energy reduction goal would be around \$200 million. (The CalPERS component is \$142 million.) By reducing energy consumption by 20 percent, the systems would together save an estimated \$40 million annually in energy costs, achieving a five-year payback of the systems' investment and an internal rate of return of approximately 14 percent on that investment over ten years. This investment would also create approximately 4,300 jobs and reduce energy demand in the portfolios by 72 megawatts, enough power to supply over 50,000 homes.

To realize the 20 percent energy reduction goal, CalPERS would embark on a focused energy efficiency program (see attachment). CalPERS' real estate staff, either directly or by hiring an experienced energy efficiency firm, would work with the system's real estate partners to assess the current energy use at their properties, identify buildings where investments in energy efficiency can yield positive returns, and design retrofit programs to capture those energy and cost savings.

With energy prices rising, there has never been a better opportunity, or greater incentive, for the pension funds to make investments in the energy efficiency of their real estate holdings. I look forward to discussing this issue at the Investment Committee's November 17 workshop.

Sincerely,



Phil Angelides  
State Treasurer

Attachment

cc: Honorable Members  
CalPERS Investment Committee

Fred Buenrostro  
CalPERS, Chief Executive Officer

Mark Anson  
CalPERS, Chief Investment Officer

Mike McCook  
CalPERS, Senior Investment Officer

Winston Hickox  
CalPERS, Portfolio Manager



PHILIP ANGELIDES  
Treasurer  
State of California

November 10, 2004

Mr. Gary Lynes, Chair  
California State Teachers' Retirement System  
7667 Folsom Blvd.  
Sacramento, CA 95826

Dear Mr. Lynes:

I am writing to urge the California State Teachers' Retirement System (CalSTRS) to take the next important step in the Green Wave environmental investment initiative, by turning its real estate portfolio into a model for how buildings can be managed for both higher returns and energy efficiency. Specifically, I propose that CalSTRS set a goal of reducing energy usage by 20 percent in its core real estate holdings within five years.

Like the rest of the Green Wave initiative, this energy efficiency proposal is aimed at achieving stronger returns for CalSTRS, in this instance by lowering the costs of operating buildings. CalSTRS' financial gain would come with the added benefits of lower energy consumption, a cleaner environment, and more jobs. By moving down this path, CalSTRS could make its own direct contribution to the nation's energy independence and security.

As you may recall, the Green Wave initiative I proposed last February to California's pension systems, CalSTRS and the California Public Employees' Retirement System (CalPERS), had four prongs: 1) committing private equity investments to firms that are developing the "clean" technologies of the future; 2) investing a portion of the systems' stock portfolios in environmentally screened funds; 3) using the systems' clout in the marketplace to prod companies to provide robust reporting to shareholders of their environmental practices, risks, and potential liability; and 4) boosting the systems' real estate returns by improving the energy efficiency of the buildings in their portfolios. CalSTRS has already moved forward on the Green Wave initiative by committing an initial \$250 million to private equity investment in cutting-edge environmental technologies and renewable energy and by placing the issue of improved corporate governance for environmental stewardship on the CalSTRS work plan for the coming year.

My office preliminarily estimates that the investment required to retrofit both the CalSTRS and CalPERS core real estate portfolios to achieve the 20 percent energy reduction goal would be around \$200 million. (The CalSTRS component is \$58 million.) By reducing energy consumption by 20 percent, the systems would together save an estimated \$40 million annually

in energy costs, achieving a five-year payback of the systems' investment and an internal rate of return of approximately 14 percent on that investment over ten years. This investment would also create approximately 4,300 jobs and reduce energy demand in the portfolios by 72 megawatts, enough power to supply over 50,000 homes.

To realize the 20 percent energy reduction goal, CalSTRS would embark on a focused energy efficiency program (see attachment). CalSTRS' real estate staff, either directly or by hiring an experienced energy efficiency firm, would work with the system's real estate partners to assess the current energy use at their properties, identify buildings where investments in energy efficiency can yield positive returns, and design retrofit programs to capture those energy and cost savings.

With energy prices rising, there has never been a better opportunity, or greater incentive, for the pension funds to make investments in the energy efficiency of their real estate holdings. I look forward to discussing this issue at the Investment Committee when it is considered on our December 1 agenda.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Phil Angelides', is written over a light blue rectangular background.

Phil Angelides  
State Treasurer

Attachment

cc: Honorable Members  
California State Teachers' Retirement Investment Committee

Jack Ehnes  
CalSTRS, Chief Executive Officer

Chris Ailman  
CalSTRS, Chief Investment Officer

Mike Dire  
CalSTRS, Investment Director – Real Estate