



GOVERNANCE & ACCOUNTABILITY INSTITUTE'S

TO THE POINT™



Timely News, Insights & Perspectives on Corporate Sustainability, Responsibility & Citizenship

September 2018

Governance & Accountability Institute shares timely news, insights and perspectives with corporate managers in key topic areas:

- Corporate Citizenship,
- Corporate Responsibility,
- Corporate Sustainability,
- Community Affairs, and
- Sustainable Investing.

To the Point! is a fee-based educational resource for corporate executives and managers distributed each month with periodic brief updates for critical items.

Published by
Governance &
Accountability Institute, Inc.
New York, New York

Researchers, Consultants & Strategists

Tel 646.430.8230

Email info@ga-institute.com

Web www.ga-institute.com

Educational Materials -
Contents Copyright © 2017-2018
by Governance &
Accountability Institute, Inc.
ALL RIGHTS RESERVED

Please contact us for
reprint or academic use:
info@ga-institute.com

California Leads the Way (Again) – State's Giant Pension Funds Must Now Consider Portfolio Climate Risks & Report on Results – It's the Law

There are two large pension funds in the **State of California** whose names and abbreviations are well known to other investors and to the boards and senior managements of the companies the funds invest in. These are the **California Public Employees' Retirement System** ("CalPERS") and the **California State Teachers' Retirement System** ("CalSTRS").



- CalPERS manages more than US\$350 billion in assets, including hefty investments in corporate equities. (Corporate managers: look in your top shareholder list – is CalPERS there?)
- CalSTRS manages more than \$220 billion; the portfolio is diversified into seven asset classes.

With a new law passed in California by the legislature and awaiting the governor's signature, both funds will be mandated to identify climate risk in their portfolios and disclose the risks to the public and the legislature (formal report every three years).

Not only that, but the funds themselves will have to report *their own* carbon footprints and the progress (or lack of) moving toward the 2-Degrees C goals of the **COP 21** (2015) Paris Agreement and their own climate change policy goals.

The funds will also disclose the engagements with companies concerning climate-related financial risks.



Fossil Free California

campaign to get the legislation (SB 560/Allen) passed, partnering with **Environment California**. (This is "the Climate Risk of Pension Investments" statute.)



Both CalPERS and CalSTRS are participants in the Investor Network on Climate Risk (**INCR**) that is managed by the NGO **Ceres**.



Of course, there is the expected criticism: In December 2017 a pro-business group (the **American Council for Capital Formation**) released a report that criticized CalPERS' focus on "ESG investments" and said the approach was dragging down returns.

Reality: The system's ROI for FY 2018 was beyond 8% — exceeding CalPERS own target of 7% return. (The gain included 16% return on P/E investments and 8% on real estate.)

California has a "Global Climate Action Summit" scheduled for mid-September in San Francisco, presided over by **Governor Jerry Brown**.

G&A Institute Perspective

The companies whose shares are in the portfolios of these two funds are already hearing from fund managers about climate change risk and the expectation (demand, really) that the public company management and board will focus on climate risk, develop strategies, take action and report on the results to the two California funds.

The California legislation requiring the funds to consider portfolio climate risk and disclose the information will further develop the public ESG profiles of the public companies that CalPERS and CalSTRS invest in, something other investors are tuned in to.

And peer fiduciaries — especially public employee and labor funds — will be watching the effects of this first in the nation legislation requiring all of this examination, engagement and disclosure.

The California action is not in isolation; U.S. and other nations' fiduciaries and public company managements would do well to follow similar developments in Europe.

In Europe, the **EU Commission** is moving toward mandatory financial sector climate risk disclosure as part of the planned transition to a lower-carbon economy. Measures are expected to be in place over the next year for standards for disclosure for investors.

This is part of the "Action Plan – Financing Sustainable Growth" that could establish a framework for the entire financial system as part of the forward movement of the Paris Agreement.

The **European Union** has a "High Level Expert Group on Sustainable Finance" (created December 2016) that made recommendations to the EU leadership. There are 10 recommendations; one is for legislation to be introduced to mandate that ESG factors are considered by the financial sector.



References

- Fossil Free California information: <https://fossilfreeca.org/legislation/>
- The European Union's High Level group recommendations:
https://ec.europa.eu/info/publications/180131-sustainable-finance-report_en
- The related EU Action Plan: http://427mt.com/wp-content/uploads/2018/03/180308-action-plan-sustainable-growth_en.pdf