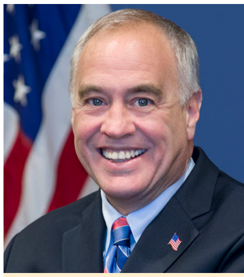

NYS Comptroller
THOMAS P. DiNAPOLI
Office of the New York State Comptroller

ECO News

Spring 2019

A MESSAGE FROM THE COMPTROLLER

The New York State Common Retirement Fund continues to build on its efforts to integrate sustainability concepts into its investment strategy. I am particularly pleased to present to you our roadmap for the Fund's transition to the low-carbon future, our Climate Action Plan. Developed from the recommendations of the Fund's Decarbonization Advisory Panel, the Plan identifies the steps the Fund is taking to help ensure that the companies in which it invests are climate-resilient and prepared for the transition to a low-carbon economy.

Inside this issue of EcoNews, you'll learn about the work undertaken by the Decarbonization Advisory Panel, as well as the details of our Climate Action Plan. You'll also read about our extensive investor engagement activities through the Climate Action 100+ initiative.

While the magnitude of efforts needed to address climate change may sometimes seem formidable, I am convinced that by working with our partners in government, business, and the public we can make real progress. The challenges we face, and the high stakes involved, require nothing less.

Thomas P. DiNapoli
State Comptroller

Comptroller DiNapoli joined the Manhasset Bay Protection Committee to celebrate its 20th anniversary.

Comptroller DiNapoli at the U.N. Climate Change Conference—COP24—in Poland where he discussed the State Pension Fund's efforts to address climate change.

Comptroller Dinapoli joined elected officials and community leaders for an agricultural roundtable discussion at the SUNY Fredonia Technology Incubator.

Office of the NEW YORK STATE
COMPTROLLER

110 State Street, Albany, NY 12236
518-474-4044 osc.state.ny.us

Keep up on the latest happenings.
Like THOMAS P. DiNAPOLI on Facebook at
Facebook.com/nyscomptroller

IN THIS ISSUE

DECARBONIZATION ADVISORY PANEL ISSUES FINAL REPORT

In March 2018, Comptroller DiNapoli and Governor Cuomo convened the Decarbonization Advisory Panel, a group of investment, financial, environmental, energy and legal experts, to develop recommendations for the Fund's climate-related work. The Panel met over the course of a year and issued its final report in April 2019.

The Panel's primary recommendation is for the Fund to align its entire portfolio with a 2 degree or lower future as called for in the Paris Agreement. The Panel suggests that this would be accomplished by ramping up investment in sustainable assets and climate solutions, and establishing minimum standards to prioritize engagement with companies and assess investments.

Specific recommendations from the Panel include:

- Establish a new climate solutions investment program and increase the Fund's commitment to sustainable investments with a proactive approach to climate risk and opportunity; and
- Establish minimum standards to measure the readiness of its investments for climate change impacts and the transition to a low-carbon economy. These standards may vary by asset class, sector of the economy, or geography, and could be used to construct indices, evaluate managers, direct engagement and define investment restrictions, if warranted.

The Panel did not recommend the Fund divest specific stocks, but said that setting minimum standards could guide investment decisions and help identify investment managers whose operations and strategies are not sustainable.

The Panel also recognized that the actions it proposed would require time and additional resources; it encouraged the Fund to start working urgently on a plan. At the conclusion of the Panel's work, Comptroller DiNapoli directed his staff to incorporate its key findings into a Climate Action Plan for the Fund. The major components of this Plan are highlighted on the next page.

This report is available at osc.state.ny.us/reports/decarbonization-advisory-panel-report.pdf.

COMPTROLLER DiNAPOLI RELEASES CLIMATE ACTION PLAN

Comptroller DiNapoli, building on his globally recognized efforts to reduce climate change-related investment risk to the New York State Common Retirement Fund, has released a Climate Action Plan to comprehensively assess and mitigate investment risks posed by climate change. The Plan lays out the Fund's climate change beliefs and identifies actions that the Fund will take to:

- assess the risks climate change poses to portfolio companies;
- further integrate assessment of climate risks and opportunities into its investment process;
- engage with companies on climate risk and opportunity; and
- advocate for climate change mitigation policy.

The Plan sets forth a proactive strategy to assess the readiness of companies to transition to a low-carbon economy and their resilience to climate change, among other factors. The Fund will also develop engagement and investment strategies to reduce risks that ill-prepared companies pose to the Fund—potentially including divestment.

The Fund's climate beliefs comprise the economic, scientific and legal understandings that underlie its Climate Action Plan. Among these beliefs is the understanding that climatic changes constitute a substantial risk to individual companies held by the Fund, financial markets, and the economy as a whole. Another is that rapid physical changes in the climate are already producing economic losses in certain businesses and that such losses could grow dramatically if not addressed. Other key beliefs are that a global transition to low- and zero-emission sources of energy is occurring and that the combination of risks associated with climate change will affect most, if not all, companies.

The Plan also lays out the Fund's strategy to assess the transition readiness and climate resilience of its investments and the strategies of its investment managers to determine which companies are best prepared to thrive in the face of climate change, the low carbon transition and climate regulation. Since the Fund is invested in thousands of companies, the Fund will start its assessment with the sectors that are most at risk, such as energy and transportation.

The Fund will develop asset class-specific measures and minimum standards to evaluate the transition readiness and climate resiliency of companies, starting with thermal coal mining companies. Companies identified as poor performers would be prioritized for engagement. If the Fund determines after analysis and engagement that a company fails to demonstrate improvement, it may, based on a fiduciary analysis, take additional actions such as underweighting, restricting new investments or perhaps divesting from the company.

In addition, the Fund will build on its sustainable investment program by hiring a dedicated Senior Sustainable Investment Officer, creating a new Sustainable Investment—Climate Solutions Program, and doubling its sustainable investments commitment to $20 billion over the next decade. Comptroller DiNapoli expects that by increasing sustainable investments and restricting investments in companies that are poorly prepared to transition to a low carbon economy, the Fund will be positioned for long-term success.

Additional information on the Climate Action Plan and other initiatives outlined in this report is available at osc.state.ny.us/pension/climate-action-plan-2019.pdf.

A SUCCESSFUL PARTNERSHIP WITH CLIMATE ACTION 100+

Founded in 2017, Climate Action 100+ is focused on bringing concerted investor engagement to 161 companies worldwide whose emissions, activities and products contribute significantly to climate change. Together, 289 investors from 29 countries managing approximately $30 trillion in assets are coordinating corporate engagement efforts to improve governance on climate change, reduce greenhouse gas (GHG) emissions in line with the goal of the Paris Agreement, and strengthen climate-related financial disclosures. The initiative also addresses companies' efforts to undermine government climate policies through direct lobbying, or through corporate associations and membership organizations. The New York State Common Retirement Fund has taken a role in leading investor engagements with ExxonMobil Corporation, American Electric Power Company, Inc. (AEP), Martin Marietta Materials, Inc., Duke Energy Corporation and Ford Motor Company.

In its first 18 months, the initiative has been successful in securing commitments from oil and gas companies, utilities and others:

- AEP agreed to set long-term GHG reduction targets, subsequently setting reduction targets as measured against a 2000 baseline of 60 percent by 2030 and 80 percent by 2050.
- British Petroleum management recently committed to creating a Paris Agreement-compliant business plan and report to investors on its strategy.
- Shell announced its goal to, by 2020, reduce the carbon footprint for its operations, products and services by between two and three percent measured against a 2016 baseline, and to continue to set increasingly ambitious reduction goals from 2020 onwards.
- Equinor, formerly known as Statoil, agreed to evaluate and report on the consistency of its capital investments with the Paris Agreement; to link executive compensation to achieving the company's climate goals; to update its emissions reduction targets for 2030; and to report on the carbon footprint of its products by 2020.

Not all companies have been equally willing to constructively engage with investors. For example, after ExxonMobil agreed in 2018 to undertake and report on climate scenario analysis, the Securities and Exchange Commission granted the company's request to exclude a 2019 shareholder resolution calling for GHG reduction targets. In response, as co-lead filers of that resolution, the Fund and the Church Commissioners for England called on investors to support a resolution that would separate the positions of Board Chair and Chief Executive Officer, believing this would help ensure effective board oversight of climate change issues. That resolution received its highest level of support, with just over 40 percent of investor votes. Recently, the company has agreed for the first time to include independent board members in engagement meetings with investors.

Like us on Facebook at facebook.com/nyscomptroller
Follow us on Twitter @nyscomptroller

THOMAS P. DiNAPOLI, STATE COMPTROLLER
Office of the New York State Comptroller
110 State Street, Albany, NY 12236
Email: jstouffer@osc.ny.gov Phone: 518-473-8533

ARE YOU ON OUR EMAIL LIST?
You could be receiving this same material in your email.
Send your name and address to contactus@osc.state.ny.us
and we'll add you to our digital subscribers.