As Comptroller of New York State and Trustee of the Common Retirement Fund (CRF), I am deeply concerned about the impact of climate change on the Fund’s investments, as well as its impact on the economy as whole. I understand the immense investment risks posed by climate change, but also recognize the significant investment opportunities in the transition to the emerging low carbon economy.

Ensuring strong investment returns for the CRF is fundamental to providing the benefits that our more than one million members, retirees and beneficiaries rely on for retirement security. Our government employers and New York’s taxpayers are also important stakeholders for the CRF. Identifying, assessing and addressing the investment risks and opportunities associated with climate change is integral to ensuring the long-term health of the CRF and the payment of those benefits.

For years, the CRF has used a multi-faceted approach to climate change, employing investment, active stewardship and public policy advocacy strategies. Over the last 10 years, the CRF has:

- identified and assessed its risks through scenario analysis and carbon footprinting;
- committed to investing $10 billion in sustainable strategies, including climate solutions;
- engaged with the largest emitters to reduce risks and assess transition readiness; and
- advocated at the international, national and state levels for policies to reduce climate-related investment risks and create opportunities for the CRF, and the economy as a whole.

Our efforts have been recognized, with the Asset Owners Disclosure Project (AODP) ranking the CRF as third in the world and first in the U.S. among public pension funds in addressing climate-change-related investment risks and opportunities. “Our efforts have been recognized, with the Asset Owners Disclosure Project (AODP) ranking the CRF as third in the world and first in the U.S. among public pension funds in addressing climate-change-related investment risks and opportunities.”

Notwithstanding these successes, I am always looking for new ways to improve the CRF’s efforts.
Recent studies conclude that significant impacts due to climate change are already upon us,¹ and that if the global community fails to limit temperature rise to less than 1.5 degrees Celsius, the situation could be dire. The Intergovernmental Panel on Climate Change’s (IPCC) Special Report on Global Warming of 1.5 Degrees Celsius and the United States Fourth National Climate Assessment describe these impacts as already affecting human health and safety; natural resources, agriculture and ecosystems; infrastructure, buildings and social systems; and the global economy and rate of economic growth.

Understanding that the physical impacts of climate change are already manifesting themselves and that the transitional risks are growing, it was clear the CRF needed to take additional action. In recognition of the urgency and complexity of the task, I worked with New York State Governor Cuomo to convene and appoint the Decarbonization Advisory Panel, a distinguished group of six experts, to develop recommendations for the CRF’s climate-related work over the next decade. The Panel delivered its ambitious recommendations in early April 2019, and in response, I directed staff to build on the Fund’s existing work by formulating this bold Climate Action Plan to put the CRF on the path to achieving a sustainable portfolio.

The following Climate Action Plan delineates the CRF’s next level of climate-related assessment, investment, engagement and advocacy work. Climate change presents a complex set of challenges and requires a complex, multi-faceted and phased response, which will require the CRF to invest in additional staff, consultants and managers to execute. This is a worthwhile endeavor, as the costs incurred will lead to the long-term health of the system and ensure benefits for the CRF’s members, retirees and beneficiaries.

Thomas P. DiNapoli
State Comptroller
Climate change is real. Current warming trends are caused by human actions. These changes pose significant risks and opportunities for the CRF, the markets, and the economy as a whole.
To fully understand the context and basis of the CRF’s Climate Action Plan, it is necessary to discuss the supporting beliefs – economic, scientific and legal – that are the driving forces behind it. These beliefs are based on a variety of sources including academic research, governmental studies, third-party data providers, interviews with leading experts, and the experience of the CRF’s managers, consultants, Decarbonization Advisory Panel members and investment staff. Together, these beliefs create the compelling business case for the actions in this plan.

CRF Climate Beliefs

- Climate change is real. Current warming trends are caused by human actions. These changes pose significant risks and opportunities for the CRF, the markets, and the economy as a whole.\(^2\)

- Mitigation actions towards complying with the Paris Agreement will increase, with additional nations and regions adopting carbon pricing and a ramping up of prices in existing programs over the next 10 years.\(^3\) It is likely that additional regulatory efforts to adapt to the impacts of climate change will affect a broad range of companies and industries.\(^4\)

- Statutory, regulatory and policy decisions by governments at all levels worldwide will be the key to ensuring any chance of limiting global warming to less than two degrees Celsius (the goal set by the Paris Agreement).

- Climate change mitigation is beneficial to capital markets and the economy as a whole—and therefore our portfolio—to avert the large economic losses projected to occur if no action is taken.\(^5\)

- There is a clear global trend toward a low-carbon economy, resulting in increased use of renewable energy and decreased use of fossil fuels.\(^6\)

- There is evidence that fossil fuel production and use may peak globally as soon as the next decade.\(^7\)

- The physical impacts of climate change will impact investments—not just in the long term, but also the near and medium terms.\(^8\)

- The changes brought by climate change will also bring new investment opportunities in a lower carbon economy.\(^9\)

- Addressing investment-related climate risk and seizing climate investment opportunities through a multifaceted strategy that includes prudent investment decision making, engagement, and advocacy is consistent with the Comptroller’s fiduciary duty.
Most of the CRF’s investments are at some level of risk due to climate change, but the timing and severity of those risks varies. There is still time for many of those risks to be mitigated or managed.

Some companies that are at greatest climate change risk are also capable of providing the greatest investment opportunities because, in the face of significant uncertainty, they have the ability to adapt to provide climate solutions. For example, innovation and change among energy producers and utilities will be critical to the electrified, low-carbon future—during which they may see significant increase in demand.¹⁰

Not all companies within a high risk sector or industry pose the same investment risks; thus engagement is a key component of any effort to assess and address identified risks.

Using the CRF’s voice and vote to encourage and support efforts in risk management, strategic planning, and reporting by portfolio companies to achieve a successful transition to the low carbon economy is integral to long-term value creation for shareholders.

The fossil fuel divestment movement has played an important role in highlighting the urgency of the climate crisis. But divestment is a last resort and should be reserved for specific investments (and not the fossil fuel industry generally) where there is an articulable, serious, and sustained financial risk to continuing the investment and where an economic analysis demonstrates that divesting would not have a negative economic impact on the CRF. At this time, broad-based fossil fuel divestment by the CRF is not consistent with the Comptroller’s fiduciary duty, and would not be effectual for either risk reduction or broader climate change mitigation.¹¹

In all asset classes, the CRF should actively seek to expand its investments in climate solutions that meet the CRF’s requirements for risk, return and scale, to the extent consistent with its investment strategies.
The actions in this Plan fall into three categories:

- Identification & Assessment;
- Investment & Divestment; and
- Engagement & Advocacy

Many of these actions build on the prior work of the CRF, but some are bold new ambitions that will take time, research and resources to realize. Given the scope of the risks and opportunities, and the scope of the challenges in addressing them, it should not be surprising that this Plan lays out a multi-faceted, comprehensive and systematic set of actions to achieve our ambitious goals.
Identification & Assessment

- Regularly assess the CRF’s exposure to high impact sectors as defined by the Task Force on Climate-related Financial Disclosures (TCFD) recommendations (energy & utilities, transportation, materials & buildings, agriculture, food & forest products, and financials) across asset classes.

- Issue Requests for Information (RFIs) for advanced climate assessments to inform investment strategies in the high impact sectors, potentially including scenario analysis, asset-class-specific physical risk analyses, and alternative criteria for measurement of investment and climate performance.

- Work with managers, data providers, index providers and consultants to identify, define and prioritize asset-class-specific metrics and minimum standards to evaluate transition readiness and resiliency for companies in each high-impact sector beginning with thermal coal companies.

- Track the CRF’s exposure to investments in sustainable strategies and climate solutions by asset class.

- Refine manager Environmental, Social and Governance (ESG) evaluation processes by developing asset-class-specific evaluation tools to assess the climate-related strategies of the CRF’s managers. Using these tools, score manager performance in addressing climate risks and opportunities.

- Hire staff dedicated to evaluating manager ESG implementation, including climate risk and opportunity assessment.

- Identify consultants or data providers to measure the carbon footprint of all public equity and fixed income asset classes annually.
Investment & Divestment

- Create a formal, multi-asset-class Sustainable Investment-Climate Solutions Program (SICP), similar to the Emerging Manager Program, with dedicated funding for sustainable investment strategies including climate solutions. Hire investment staff, including a Senior Sustainable Investment Officer, dedicated to identifying investment opportunities and deploying capital to sustainable investment strategies including climate solutions. Build on the CRF’s current $10 billion commitment to SICP and set a goal of doubling that commitment to $20 billion over the next decade.

- Work with managers, asset class consultants and index providers across asset classes to identify sustainable investment strategies, including strategies that evaluate transition-readiness and resiliency metrics to address climate risk and opportunities.

- Formally integrate climate risk assessment and engagement into investment processes, including the development of an enhanced, phased, risk assessment process, to evaluate companies in high impact sectors on climate transition readiness. Those companies with poor performance would be placed on a watch list for prioritized engagement. In the event that the poor performers fail to demonstrate improvement in transition readiness, additional actions such as underweighting, restricting new investments, or divestment may be considered consistent with the CRF’s investment policies, processes and fiduciary duty. This process would begin with thermal coal companies and then move to other high impact sectors.

- Conduct regular information sessions on climate risks and opportunities for the CRF’s staff by inviting guest speakers and providing up-to-date data and reports.

- Explore partnerships with other asset owners, entities or the New York Green Bank to identify investment opportunities.
Engagement & Advocacy

- Develop a prioritized shareholder engagement program to address climate change risk using the identified transition-readiness and resiliency metrics to define goals, measure progress against these goals, prioritize companies for engagement and set timeframes.
- Continue to collaborate with peers on engagement.
- Communicate the CRF’s Climate Beliefs to portfolio companies and develop strategies to support transition ready companies.
- Communicate the CRF’s Climate Action Plan to the CRF’s managers and consultants, and ask the managers to explain how they are aligned or plan to align with the Plan.
- Create a prioritized watch list of managers with low scores with whom to engage.
- Engage with index providers on integrating climate risks and opportunities into their index construction processes.
- Continue to provide public policy advocacy at the international, federal and state levels on climate change issues that may impact the CRF’s returns including carbon pricing and GHG emissions regulation.
- Communicate the CRF’s climate initiatives to the Retirement System’s members and the public.
Endnotes

1  https://www.ipcc.ch/sr15/


3  46 national and 28 subnational jurisdictions are putting a price on carbon as of April 2018. https://www.carbonpricingleadership.org/who/


10  Goldman Sachs estimated $6 trillion investment opportunities in EV charging network and power infrastructure. Goldman Sachs, From Pump to Plug, 2017
