THE HIDDEN RISK IN STATE PENSIONS

ANALYZING STATE PENSIONS' RESPONSES TO THE CLIMATE CRISIS IN PROXY VOTING

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Lead author
Jessye Waxman, Senior Campaign Strategist, Sierra Club

Lead researcher
Allie Lindstrom, Senior Campaign Strategist, Sierra Club

Contributing authors
Alec Connon, Coalition Co-Director, Stop the Money Pipeline, and
Amy Gray, Associate Director of Climate Finance, Stand.earth

Contact
allie.lindstrom@sierraclub.org

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EXECUTIVE SUMMARY

Climate-driven heat waves, droughts, floods, hurricanes, and wildfires are already causing suffering for hundreds of millions of people worldwide. Climate-driven impacts on the economy are already significant: according to one recent peer-reviewed study, the climate crisis inflicted a global economic toll of $16 million an hour in extreme weather damages between 2000 and 2019.[1] Given that these impacts are occurring at only 1.2°C of warming, it's no wonder that economists, financial institutions, and financial regulators are increasingly worried about the risk that the climate crisis poses to our shared economic prosperity.

"The financial impacts that result from the economic effects of climate change and the transition to a lower carbon economy pose an emerging risk to the safety and soundness of financial institutions and the financial stability of the United States," concluded the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency in a recent report, making it clear that climate-related financial risks are faced by all financial institutions and the broader economy.[2]

As long-term fiduciaries, pension funds should be among the investors most alarmed about the economic risk associated with the climate crisis. Some have taken public strides forward, such as announcing net-zero pledges, investing in climate solutions, or defending the right to invest responsibly. These are critical steps forward. However, as this report shows, the institutions responsible for stewarding trillions of dollars on behalf of the American people are failing to address climate-related financial risk in their proxy voting strategies,[3] a key tool investors have to encourage responsible corporate governance and corporate behavior.

This report analyzes the nineteen state pensions in states where a state financial officer — such as the state treasurer, comptroller, or auditor — has indicated it is a priority issue to advocate for more sustainable, just, and inclusive firms and markets, and protect against climate risk. In addition to the nineteen state pensions, the report includes the five systems managed by the New York City Comptroller, who has also indicated these issues are priorities.[4] **These funds included collectively represent over $2 trillion in assets under management (AUM).**

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To assess climate leadership in corporate governance, this report analyzes pensions on three criteria:

1. **Proxy voting guidelines:** Proxy voting guidelines were evaluated for their strength on addressing climate- and environment-related financial risks. Voting guidelines signal investor priorities on corporate governance and direct how an investor votes at companies' annual meetings.
2. **Proxy voting record:** Pensions were evaluated on their voting records on a set of climate-related votes at financial institutions in 2023. These votes represent a range of climate accountability metrics at systemically important institutions.
3. **Data transparency:** Pensions were graded on how easily accessible their voting records and proxy voting guidelines are.

In the evaluation of **proxy voting guidelines**, no pensions received an A grade. Three New York City systems (NYCERS, TRS, BERS) received B grades, due to strong performance on systemic risk, climate resolutions, and climate lobbying resolutions, and moderate performance on all other categories. CalPERS, VPIC, and the remaining New York City Systems (POLICE and FIRE) received C grades. Half of the pensions analyzed received F grades, including pensions based in Oregon, Minnesota, Washington, Wisconsin, Colorado, New Mexico, Illinois, Maine, Nevada, and Delaware.

In the evaluation of **proxy voting records**, four state pension systems based in Massachusetts, Oregon, and California, and all of New York City's five pension systems received A grades. Pension systems based in Illinois (SURS), Rhode Island, Minnesota, and Wisconsin received B grades. Five pensions received F grades, including pension systems based in Colorado, New Mexico, Illinois (ISBI), Maine, and Nevada.

In the evaluation of **data transparency**, thirteen pensions received A+ grades, while four state pensions received F or D grades, as their proxy voting guidelines and/or voting records were either not publicly available, were only available via a Freedom of Information Act (FOIA) request, or were not provided even after a FOIA request was made.

Report Findings

The findings of this analysis are clear: far too few state pensions are taking adequate steps to address climate-related financial risks and protect their members' hard-earned savings, raising serious concerns about their execution of fiduciary duty — the obligation that financial institutions have to act in their clients' best interest. **All the pensions highlighted in this report could do more to shield their beneficiaries from growing climate- and environment-related financial risks.**

In order to help mitigate these risks, the pensions analyzed in this report should update and strengthen their proxy voting guidelines, and use those guidelines to direct their voting practices in 2024 and beyond. For some of the analyzed pensions, updated proxy voting guidelines are expected ahead of the proxy voting season. In those cases, pensions should use the recommendations outlined in this report to guide those updates, which can be found in the appendix.

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INTRODUCTION

Each year, many of the world's largest companies hold annual general meetings, in which their shareholders get to vote on important matters that affect the direction of companies. These votes range from who sits on the board of directors to proposed strategies for addressing environmental and social risks. Individual and institutional investors have the opportunity to weigh in on these decisions using their proxy votes. For most, voting decisions are informed by supporting strategies that seek to enhance long-term profit.

As universal owners, pension funds have investment portfolios that are representative of the market. How the market performs is, therefore, critically pertinent to pension performance, making pensions more vulnerable to risks that affect the entire economic system. Pensions are also long-term shareholders, with obligations to people who may not retire for decades to come. Long-term market performance is therefore critically important to pensions' success. In light of this, pensions must vote in corporations' annual meetings in ways that protect the interests of their beneficiaries, which includes voting in a way that addresses growing (long-term) risks, especially those that pose a systemic threat to their portfolios.

Climate change is a systemic and systematic risk* — an un-diversifiable, un-hedgeable, and escalating risk that will affect all companies in all markets, one way or another, and have a diminishing impact on investments broadly. Global financial institutions have issued projections that the reductions in global economic output by 2050 could range from 11 percent[5] to 25 percent[6] if no further action is taken on climate change. (In comparison, the COVID pandemic led to a 3.4% drop in global economic growth in 2020.[7]) If even the lowest of these projections play out, these losses will impact the ability of workers to retire and to live in the economic security they deserve.

Unfortunately, pensions may be underestimating the risk of climate change, as they are heavily relying on financial climate models like those offered by Mercer, Aon Hewitt, and Hymans Robertson, which have been shown to be significantly flawed, leading to dramatic underestimations of impacts to portfolios.[8]

Beyond reliance on flawed models, most investors today take a limited approach to risk management, focusing primarily on prioritizing individual companies' short-term profit maximization. This idiosyncratic company-by-company approach fails to account for ways in which the behavior of a company or sector may negatively influence overall market or portfolio performance. By relying on such a myopic approach to risk management, pension stewards are missing the forest for the trees.

Pensions are both universal owners and long-term owners. Given this, pension funds are some of the institutions most exposed to systemic financial risks, such as those posed by the climate crisis and biodiversity loss, and must therefore adapt their investment and stewardship strategies to meet their fiduciary obligations in light of these emerging risks.[9] **Only by taking an approach that seeks to mitigate systemic risks and risks to their overall portfolios can long-term and diversified investors, such as pensions, best preserve the value of their investments.**

The good news is that as some of the largest investors in the country, pensions have the ability to help protect both their beneficiaries' interests and the economy as a whole from climate-related financial risks. Within the suite of stewardship tools at investors' disposal, voting at the annual meetings of major companies is a critical opportunity for pensions to set and communicate clear and decisive expectations for companies.

Institutional investors, such as pensions, hold a large number of corporate shares, granting them disproportionate influence over corporate behavior. This means that how pensions vote on companies' boards of directors and shareholder proposals will be influential in determining whether or not the world will rein in catastrophic climate and ecological crises. The outcomes of shareholder votes are instrumental in determining how companies act — what projects get built, whether fossil fuel expansion gets bankrolled, whether climate solutions are funded, and what kind of responsibility a company has toward Indigenous and frontline communities. Reining in climate change, in turn, dramatically reduces material financial risk to investment portfolios.

Fiduciaries have an obligation to act on climate to protect their members' savings from potential climate-related losses. In order to mitigate climate-related financial risk, public pensions must use their proxy voting power to move us toward a net-zero economy and place us on a pathway to achieving the Paris Agreement goal of limiting global warming to no more than 1.5°C from pre-industrial levels.[10]

Unfortunately, as this report reveals, far too few public pensions adequately utilize their proxy voting power to mitigate climate risks — both in how they vote their proxies and in the guidelines they set themselves for how they vote their proxies. The results are clear: **many U.S. pension funds are largely failing to protect their members' returns from climate-related financial risk, and breaching their fiduciary duty as a result.**

* Systemic risks are individual events that can lead to wider economic downturn. Systematic risks are pervasive and impact the entire market. The impacts of climate change are both systemic and systematic. This report uses "systemic risk" to refer to both systemic and systematic risks.


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EVALUATING PENSION PERFORMANCE ON KEY SYSTEMIC RISKS

This report focuses on proxy voting, one of the tools investors have at their disposal to engage with companies they hold in their portfolios. The importance of proxy voting in effective stewardship has been highlighted by a number of global investor initiatives, including the Net Zero Asset Managers Initiative,[11] the Net Zero Asset Owners Alliance,[12] and the UN Principles for Responsible Investment,[13] among others.

The 24 pensions covered in this report were graded on three criteria:

1. **Proxy voting guidelines:** Proxy voting guidelines were evaluated for their strength on climate- and environment-related risks, including systemic risks. These voting guidelines outline the criteria pension staff use to assess shareholder resolutions and management-backed proposals, including board elections. Strong guidelines are ones that enable pension staff to support measures that help mitigate climate change and related risks.
2. **Proxy voting record 2023:** Pensions were evaluated on their voting record on a set of climate-related votes at financial institutions. Financial institutions were chosen owing to the fact that they are critical to the success of the energy transition.
3. **Data transparency:** Pensions were graded on how easily accessible their voting records and proxy voting guidelines were. Transparency is important as it sets clear expectations for corporations and lets plan beneficiaries understand how their money is being put to work.

Across categories, three New York City pension systems (NYCERS, TRS, BERS) performed significantly higher than peers. CalPERS, MassPRIM, CalSTRS and the remaining New York City funds (POLICE and FIRE) followed, with lower overall grades primarily due to less robust proxy voting guidelines. Pensions based in Wisconsin, Colorado, New Mexico, Illinois (ISBI), Maine, and Nevada received overall F grades. Pensions with incomplete data were not assigned overall grades.

Grades for each category, as well as the final grade, were allocated based on the percent of points earned in each category. For the grades on proxy voting guidelines, the guidelines were graded on a scale for each sub-category evaluated (e.g. environmental justice, climate directors); each sub-category was weighted equally in determining the overall grade for guidelines.

For final grades, each category was weighted differently: transparency scores were weighted 5%, proxy voting records 20%, and proxy voting guidelines 75%. Proxy voting guidelines received a significantly higher weighting as they guide pensions' overall approach to proxy voting; conversely, the proxy voting records reviewed and graded in this report represent only a small portion of the total climate votes in 2023. Proxy voting grades, therefore, reflect a representative sample, not the pension's whole approach to climate voting at all companies in 2023. More information about the methodology and grading used can be found in Appendix #2.

OTHER STEWARDSHIP TOOLS

Proxy voting is one of several stewardship tools that investors have available to them. The evaluation of other tools, including the filing of resolutions, membership in investor initiatives, and engagement with portfolio companies on environmental and social issues, are outside the scope of this report, but we review them briefly here.

FILING RESOLUTIONS: Of the pensions analyzed in this report, at least three filed climate-related shareholder resolutions in 2023 (the New York City Comptroller, Vermont's VPIC, and CalPERS).[14]

MEMBERSHIP IN INVESTOR INITIATIVES: CalPERS, CalSTRS, the Oregon Treasurer, New York City Comptroller, Maryland SRPS, MSBI, VPIC, and WSIB are all members of Climate Action 100+,[15] an investor-led initiative focused on climate action engagements with the world's largest corporate emitters, which nominally means they were involved in climate-related engagements with high-emitting companies.

ENGAGEMENT WITH PORTFOLIO COMPANIES: Through engagement, investors are able to address a larger range of issues with companies, whereas proxy voting is limited by what matters have been filed for evaluation at the company's annual meeting. However, not all investors undertake engagement activities outside of proxy voting and, of those that do, not all disclose those activities. Furthermore, without adequate disclosure, it is difficult to assess the quality or content of these engagements or to determine whether investors are making strong asks for decarbonization. By contrast, proxy voting provides a clear record of what investors are asking of companies' boards and management.

ENGAGEMENT OF EXTERNAL MANAGERS: It is not enough for pensions to manage these risks by themselves; effective management of systemic risk requires engagement from other investors, including the asset managers that manage the pensions' funds. The New York City Comptroller's Office has led significant engagements with BlackRock, one of their asset managers, demanding improved climate stewardship and investment strategies.[16]

PENSION	Transparency Grade	Guidelines Grade	Vote Grade	Final Grade
New York City Employees' Retirement System (**NYCERS**)	A+	B-	A+	A-
Teachers' Retirement System of the City of New York (**TRS**)	A+	B-	A+	A-
New York City Board of Education Retirement System (**BERS**)	A+	B-	A+	A-
California Public Employees' Retirement System (**CalPERS**)	A+	C	A	B-
New York City Police Pension Fund (**POLICE**)	A+	C-	A-	C+
New York City Fire Pension Fund (**Fire**)	A+	C-	A-	C+
Massachusetts Pension Reserves Investment Management (**MassPRIM**)	D	D	A+	C+
California State Teachers' Retirement System (**CalSTRS**)	A+	D	A	C
Connecticut Retirement Plans and Trust Fund (**CRPTF**)	A+	D+	C	C-
Employees Retirement System of Rhode Island (**ERSRI**)	A+	D-	B+	C-
Maryland State Retirement and Pension System (**SRPS**)	A+	D-	C	D+
Oregon Public Employees Retirement Fund (**OPERF**)	F	F	A+	D
Minnesota State Board of Investment (**MSBI**)	A+	F	B-	D-
Washington State Investment Board (**WSIB**)	A+	F	D+	D-
State of Wisconsin Investment Board (**SWIB**)	A+	F	B-	F
Colorado Public Employees' Retirement Association (**CoPERA**)	A+	F	F	F
New Mexico Public Employees Retirement Association (**NMPERA**)	B+	F	F	F
Illinois State Board of Investment (**ISBI**)	A+	F	F	F
Maine Public Employees Retirement System (**MainePERS**)	A+	F	F	F
Nevada Public Employees Retirement System (**NVPERS**)	D	F	F	F
Vermont Pension Investment Commission (**VPIC**)	A+	C-	Unavailable	Incomplete
State Universities Retirement System (**SURS**)	N/A	F	B-	Incomplete
Illinois Teachers Retirement System (**TRS**)	N/A	F	Unavailable	Incomplete
Delaware Public Employees Retirement System (**DPERS**)	F	F	Unavailable	Incomplete

PROXY VOTING GUIDELINES

Proxy voting is one of a pension's strongest tools for corporate governance. The votes that pensions (and other fund managers) take during a company's annual meeting are informed by their voting guidelines. Pensions may design their own guidelines, or rely on proxy advisors[17] or their asset managers, to guide how they vote their proxies.

Having pre-established guidelines is key for several reasons: it ensures consistency in voting across different portfolios and fund managers; it establishes the same standards and expectations for companies (or a set of companies), making it easier to communicate corporate governance expectations to portfolio companies; and it helps inform pension beneficiaries how their investments are being managed.

Pensions were evaluated on the scope and depth of their guidelines on a set of critical environmental and social issues. The pensions were graded against a benchmark of how strong voting policies could be on key climate- and environment-related issues. In addition to votes on direct climate and environmental issues, such as biodiversity and deforestation, proxy voting guidelines were also assessed based on whether they contained guidance on votes on environmental justice and Indigenous rights, as these issues, in addition to being important in their own right, are also critical to achieving global climate goals. Performance in each sub-category (e.g. environmental justice, climate directors) was weighted equally in the overall grade.

While different pensions take notable leadership on several of these issues, no pension consistently exhibited strong policies across the areas examined. Even investors that have indicated they are serious about tackling climate risk have significant work to do before they can claim they are taking a comprehensive approach to managing and mitigating climate-related risks across their entire portfolios.

Three of the New York City pensions (NYCERS, TRS, BERS) performed well above the rest of the pensions analyzed. CalPERS, and Vermont (VPIC). Pensions that lagged, with particularly sparse proxy voting guidelines, include DPERS, NVPERS, SWIB, and Illinois STRS. The methodology used to assess guidelines can be found in the appendix of this report.

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SCORES

PENSION	Systemic Risk Statements (/5)	Climate-Related Resolutions (/12)	Climate-Related Votes on Directors (/11)	Climate Lobbying & Political Contributions (/8)	Nature and Biodiversity (/7)	Indigenous Rights (/6)	Environmental Justice (/7)	Guidelines Grade
New York City Employees' Retirement System (**NYCERS**)	5	10	7	3	3	3	3	B-
Teachers' Retirement System of the City of New York (**TRS**)	5	10	7	3	3	3	3	B-
New York City Board of Education Retirement System (**BERS**)	5	10	7	3	3	3	3	B-
California Public Employees' Retirement System (**CalPERS**)	3	7	10	2	0	5	1	C
Vermont Pension Investment Commission (**VPIC**)	5	9	5	2	2	1	0	C-
New York City Police Pension Fund (**POLICE**)	3	7	7	3	2	3	0	C-
New York City Fire Pension Fund (**Fire**)	3	7	7	3	2	3	0	C-
Connecticut Retirement Plans and Trust Fund (**CRPTF**)	0	10	0	3	2	6	1	D+
California State Teachers' Retirement System (**CalSTRS**)	5	11	0	2	1	1	0	D
Massachusetts Pension Reserves Investment Management (**MassPRIM**)	0	11	11	1	2	1	0	D
Employees Retirement System of Rhode Island (**ERSRI**)	0	6	1	1	4	4	0	D-
Maryland State Retirement and Pension System (**SRPS**)	3	4	0	4	2	1	0	D-

SCORES, CONTINUED

PENSION	Systemic Risk Statements (/5)	Climate-Related Resolutions (/12)	Climate-Related Votes on Directors (/11)	Climate Lobbying & Political Contributions (/8)	Nature and Biodiversity (/7)	Indigenous Rights (/6)	Environmental Justice (/7)	Guidelines Grade
Washington State Investment Board (**WSIB**)	0	6	5	2	0	1	0	F
Oregon Public Employees Retirement System (**OPERF**)	0	3	9	1	0	1	0	F
New Mexico Public Employees Retirement Association (**NMPERA**)	0	4	1	2	0	0	0	F
Minnesota State Board of Investment (**MSBI**)	0	9	0	0	0	0	0	F
State Universities Retirement System (**SURS**)	3	1	3	0	0	1	0	F
Illinois State Board of Investment (**ISBI**)	3	1	3	0	0	1	0	F
Illinois Teachers Retirement System (**TRS**)	3	1	0	0	0	0	0	F
Colorado Public Employees' Retirement Association (**CoPERA**)	0	3	0	1	0	0	0	F
Maine Public Employees Retirement System (**MainePERS**)	0	2	0	0	0	0	0	F
State of Wisconsin Investment Board (**SWIB**)	0	0	0	0	0	0	0	F
Nevada Public Employees Retirement System (**NVPERS**)	0	0	0	0	0	0	0	F
Delaware Public Employees Retirement System (**DPERS**)	0	0	0	0	0	0	0	F

Overview

The three New York City systems received the highest overall scores, due to strong performance on systemic risk, climate resolutions, and climate lobbying resolutions, and moderate performance on all other categories. CalPERS, CalSTRS, MassPRIM, VPIC, and the remaining New York City Systems (POLICE and FIRE) received C and D grades.

However, this does not mean that these pensions led among their peers in all categories on which they were assessed. CalPERS, for example, scored highly on well-established issues like climate resolutions, director accountability on climate, and Free, Prior, and Informed Consent (FPIC)[18], but performed more poorly on nature/biodiversity and climate lobbying metrics when compared to some of its peers. VPIC showed leadership in framing its proxy voting from a systemic risk lens, but lagged peers on its stated approach to climate- and FPIC-related voting. CalSTRS led peers with an innovative approach to addressing systemic risks and climate-related votes, but had weak policies on other issues. MassPRIM scored well on climate-related resolutions and director votes, but not elsewhere.

It is worth noting that while the New York City Systems, CalPERS, CalSTRS, VPIC, and MassPRIM scored better than their peers, all pensions reviewed still have considerable room for improvement on key issues of risk evaluation and management.

Common Failures

Analyzing the proxy voting guidelines, several common failures rose to the surface.

Common Failure #1

Failing to take systemic risk into account

Despite the broadly diversified portfolios and the long-term obligations of pension funds, few of the pensions analyzed have guidelines that explicitly recognize the wide-reaching economic impacts, harms, and risks of climate change. The vast majority of pensions profiled in this report fail to acknowledge and account for the systemic risks of climate change. Most are still voting from the narrow and short-sighted perspective of idiosyncratic risk (i.e. how the physical or transition-related impacts of climate change might impact the performance of a particular company) rather than considering and voting to mitigate systemic risk (i.e. voting to mitigate negative externalities from one company or sector given the impact of those externalities on other portfolio companies or the portfolio as a whole).

According to the voting guidelines reviewed, only CalSTRS, and VPIC, and three New York City pensions (NYCERS, TRS, and BERS) clearly acknowledge the role that systemic climate risk plays in capital markets. Each has incorporated language into their proxy voting guidelines or supplemental policies that recognizes the system-wide risks from the climate crisis, and allude to how that impacts their voting decisions:

> *"Social injury may also be said to exist when … the practices of a corporation result in undesirable side effects for others, and that the side effects are grave in nature. A company may be held responsible for the infliction of social injury. … Side effects that may be deemed grave in nature shall include, but not be limited to: 1. Environmental Practices that are known to endanger the environment … including failure to properly account for, disclose, and reduce direct or indirect greenhouse gas emissions [and] … Failure to adequately reduce carbon emissions. … The system should vote its shares in favor of resolutions which, if implemented, would prevent, reduce, or eliminate social injury as defined above. The system should oppose resolutions that cause or facilitate social injury."*
>
> **– CalSTRS, Corporate Governance Principles, 2021**

> *"The VPIC recognizes the significance of the global climate crisis. The transition to a low-carbon economy will present opportunities and risks across all market sectors and geographies. The Commission employs a multidimensional approach to climate change considerations within the portfolio."*
>
> **– VPIC Carbon Reduction and Mitigation Policy, Adopted April 26, 2022**

> *"New York City pension funds have recognized a fiduciary duty to mitigate the systemic and company-specific risks that climate change poses to our portfolio." Their net zero goals were "designed to mitigate the systemic risks of climate change to our investments and the real economy… As a pension fund with long-term obligations to our beneficiaries extending for decades, we are obligated to pay attention to long-term risks and opportunities. We have a fiduciary duty, therefore, to protect against downside and systemic risks and foster stable financial markets and long-term economic growth essential to the performance of the System's investments."*
>
> **– New York City Comptroller's Climate Transition Dashboard and NYCERS/TRS/BERS Net Zero Implementation Plans, Adopted 2023**

However, even these attempts at integrating a universal ownership approach could be strengthened by explicitly enumerating alignment of voting intentions with these goals to preserve global biodiversity and to limit global warming, and by explicitly adopting voting policies that would enable them vote in alignment with those measures of accountability. Suggestions of how to do this can be found in the Model Proxy Voting Guidelines that accompanies this report.

Common Failure #2

Failing to meet escalating climate risks with escalating voting policies

As climate science has evolved and illustrated the scale and scope of climate-induced devastation, so, too, has the financial sector's understanding of the economic risks of climate change. But growing recognition of the escalating financial risks have not been matched by escalating voting policies from investors, despite guidance from various investor initiatives.

Responsible climate-risk management must evolve as climate-related risks become more pronounced. For more than two decades, investors have been asking public companies for more information on climate and environmental impacts through frameworks like CDP and the Task Force on Climate-Related Financial Disclosures (TCFD). However, disclosure is not the same as risk management. And while more corporate disclosure on climate- and environment-related risks is needed, responsible fiduciaries must also support measures designed to align business strategy with efforts that mitigate those risks — both to the business and to the economy as a whole.

Some pensions analyzed in this report have started to reflect these changes in their guidelines, including NYCERS, BERS, TRS, CalSTRS, MassPRIM, and Connecticut's CRPTF. The strongest set of guidelines comes from CalSTRS (see quote in previous section), and CRPTF and MassPRIM also stand out:

> *"Will vote FOR shareholder resolutions that request companies to conduct and disclose planning and policies for transitioning the company business model to align with a low carbon economy including, specifically, alignment with the Paris Agreement's goal of limiting global warming to well below 2°C, including addressing the company's (Scope 1-3) greenhouse gas emissions."*
>
> **– Proxy Voting Policies for the Connecticut Retirement Plans and Trust Funds (CRPTF), 2022**

> *"Will vote FOR shareholder proposals calling for the reduction of GHG emissions."*
>
> **– MassPRIM, PRIM Board, Custom Proxy Voting Guidelines, 2022**

> *"Corporate engagement is central to our ability to achieve the goal of net zero by 2040. NYCERS will seek to achieve our emissions reduction targets by supporting real economy emissions reductions and increasing the alignment of our investments with science-based pathways to limit global warming to 1.5°C...To focus resources efficiently toward engagement, NYCERS will focus on portfolio companies in the highest emitting sectors in developed markets as well as the largest emerging markets portfolio companies in those sectors by market capitalization."*
>
> **– NYCERS Net Zero Implementation Plan**

However, most pensions' guidelines fell well short. MainePERS's guidelines, for example, only allude to a "responsibility to the environment" as a measure of "good stewardship", but don't detail how that informs its voting choices, while the State of Wisconsin Investment Board (SWIB) doesn't even mention climate or environmental, social, and corporate governance (ESG) considerations in its proxy voting guidelines.

Common Failure #3

Failing to hold directors accountable for decisions made under their tenure

A board of directors is responsible for steering the vision and strategy of a company. When companies fail to reduce their greenhouse gas emissions in line with global climate goals, it is a reflection of the board's inability or unwillingness to guide the company through the energy transition. This has implications for corporate performance and governance. More importantly, since many of the world's biggest polluters are far from adopting and aligning with science-based emissions reduction targets, the board members at those companies bear significant responsibility for the world's collective failure to meet global climate goals and rein in climate-related financial risks.

As a result, voting against board members at laggard companies has become an accountability measure increasingly used by investors over the last couple of years. Investors have flagged votes against board members as part of the Climate Action 100+ initiative[19] and companies within the initiative are evaluated for board oversight of climate risk.[20] Institutional Shareholder Services (ISS), the largest global proxy advisor, has amended its Benchmark Policy guidelines to recommend votes against directors of companies on the Climate Action 100+ target list for lack of TCFD-aligned disclosures and mid- and long-term targets. In 2023, members of the Institutional Investors Group on Climate Change (IIGCC) wrote to push ISS to go further on director accountability, including holding directors accountable for failure to publish short-term climate targets.[21]

Nine pension funds analyzed in this report lack policies on director accountability, while nine others have director voting policies that ranged from loosely defined language regarding oversight failures to holding boards accountable for failing to produce TCFD-aligned disclosures (Illinois State Board of Investment), to holding boards accountable for the *management* of climate-related risks (MassPRIM). The latter of these constitutes the strongest set of commitments:

> *"Vote AGAINST directors at companies targeted by the Climate Action 100+, and vote CASE-BY-CASE on directors at companies not included on the Climate Action 100+ action list, that have failed to align their business plans with the goals of limiting global warming to 1.5 degrees Celsius, as set forth in the Paris Climate Agreement, and/or that have failed to establish a plan to achieve net zero emissions by 2050."*
>
> **– MassPRIM, PRIM Board, Custom Proxy Voting Guidelines, 2022**

It is worth noting that while there has been an uptick in investors' interest in holding boards accountable on climate-related matters, the overwhelming majority of investors have yet to hold boards accountable for the management of other issues. For example, none of the pensions surveyed have guidelines that hold directors accountable on social issues, such as Indigenous rights, even when the pension indicated explicit support for FPIC in its principles (CalPERS). Likewise, none of the pensions had direct accountability guidelines related to systemic financial threats beyond climate change, such as biodiversity loss.

Common Failure #4

Inconsistency in climate accountability within proxy voting guidelines

The fact that pensions are addressing climate risk in piecemeal measures is of notable concern. Some take strong stances on board accountability but lack policies on measures to promote adoption of climate targets or even climate disclosures (OPERF), while others have policies on shareholder resolutions, but not on board elections (CalSTRS, COPERA, CRPTF, MD SRPS, MSBI, and ERSRI).

This variability suggests that pensions are too often failing to address climate risk comprehensively by failing to use all the measures available to them to manage and mitigate risk. As climate risks accelerate, responsible investors should be executing their proxy votes on all climate-related matters, not just a select few.

Common Failure #5

Underperformance on Indigenous rights, environmental justice, lobbying and political spending, and biodiversity

Indigenous rights, environmental justice, lobbying and political spending, and biodiversity are critical issues in their own right. They are also inseparable from efforts to rein in runaway climate change:

- **Indigenous rights and environmental justice:** New oil and gas development, which is incompatible with achieving global climate goals,[22] is often fast-tracked through Indigenous territories without consent from impacted communities.[23] Likewise, new polluting infrastructure is disproportionately placed in Black, brown and low-income communities, which already face high levels of air and water pollution in their communities.[24]
- **Lobbying and political spending:** It is vital that public corporations align their lobbying and political spending activities with global climate goals, such as the Paris Agreement goal of limiting global warming to 1.5°C. Where companies have failed to do this, they have contributed to irreparably delaying key legislation on climate solutions. According to InfluenceMap, the five largest publicly-traded oil and gas companies spend approximately $200 million a year to delay, block, or control policies related to climate change.[25] To provide just two examples, in 2018, oil companies spent $31.2 million to defeat a modest carbon tax proposal in Washington State, and $41 million to defeat a Colorado ballot initiative calling for fracking operations to be kept a minimum distance from certain public areas, such as schools.[26]
- **Biodiversity and deforestation:** Biodiversity loss and ecosystem destruction are, on their own, ecological crises that threaten societal and economic stability. They are also intrinsically linked with the climate crisis, with ecosystem destruction as a key driver of global greenhouse gas emissions[27] and biodiversity loss as one of the most dramatic impacts. A comprehensive approach to systemic risk management requires tackling more than just greenhouse gas emissions; it requires addressing these affiliated ecologic crises.

The vast majority of pension funds analyzed failed to adequately account for risk management in these critical areas. This is all the more concerning given that some of these issues, such as climate lobbying, deforestation, and Indigenous rights, have been a part of the investor narrative on climate accountability for years.[28]

Pensions' failures to hold companies accountable on lobbying and political spending is an example of the ways in which investors continue to conflate disclosure with risk management. The majority of pensions analyzed support disclosures on climate lobbying, but fall short of supporting resolutions that call on corporations to align their lobbying and political spending either with their own stated climate goals or with the goals of the Paris Agreement. Given the hundreds of millions of dollars spent annually by corporations to block or delay public policy to mitigate climate change, this constitutes a major failure to help reduce climate risks.

Meanwhile, investors' failures on environmental justice and Indigenous rights, such as Free, Prior, and Informed Consent (FPIC), are indicative of weak commitments to a just transition. It is one thing to support a company audit of its community impacts, but it is another to call on the company to not actively harm Indigenous nations and communities of color by, for example, building or financing polluting infrastructure in those communities. Similarly, poor performance on nature and biodiversity metrics indicates pensions still have a considerable way to go to address specific components of climate- and environment-related risks.

PHOTO: ISTOCK/ZHENGZAISHURU

PHOTO: ISTOCK/JJGOUIN

PROXY VOTING RECORDS IN 2023

Proxy voting is one of the most effective ways shareholders can help shape the direction of a company, including the speed and seriousness with which a company tackles its responsibility for reducing greenhouse gas emissions, negative community impacts, and other climate risks. Evaluating pensions' voting records allows for an analysis of whether pensions are putting their proxy guidelines into practice and whether they're taking the necessary steps to reduce the climate risks posed to both companies in their portfolios and their portfolios as a whole.

The full slate of climate- and environment-related shareholder resolutions at U.S. corporations in 2023 was beyond the scope of this report. Instead, this report focuses on votes at the six largest U.S. banks.* Votes taken at the largest U.S. banks were chosen as these banks are companies that will play a critical role in the transition to a low-carbon economy and, therefore, are a key indicator of pensions' commitments to reducing climate risk.[29] In addition, voting opportunities at the six largest U.S. banks in 2023 represented an almost complete spread of the types of votes that investors can take on climate, including shareholder resolutions asking for escalating accountability (disclosure, target setting, adoption of specific climate policies), resolutions on FPIC and climate lobbying, and votes on directors. The only type of shareholder proposal referenced in this report that did not feature at banks' annual meetings in 2023 were proposals related to biodiversity. In light of this, the range and total number of votes taken by pensions at the largest U.S. banks in 2023 provide valuable insight into pensions' approach to climate risk and their application of their proxy voting guidelines.

Pensions were scored depending on how often they supported climate-related resolutions and how often they opposed directors failing to mitigate climate risk. Different point values were assigned to the different types of climate resolutions, with higher points corresponding to resolutions calling for banks to take steps to reduce emissions, and lower points for resolutions that called only for greater disclosure or data transparency. For this report, we assessed votes to reelect the chairs of committees responsible for climate risk oversight at the included financial institutions.

* The six banks covered in this report are Bank of America, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo

PHOTO: ISTOCK/MIKEMAREEN

SCORES

PENSION	Director Votes (/6)	Votes on Climate Disclosure Resolutions (/3)	Votes on Climate/ GHG Emissions Targets (/4)	Votes on Climate Action (/6)	Votes on FPIC (/3)	Votes on Lobbying Disclosure (/3)	Vote Grade
Massachusetts Pension Reserves Investment Management (**MassPRIM**)	6	3	4	6	3	3	A+
New York City Employees' Retirement System (**NYCERS**)	5	3	4	6	3	3	A+
Teachers' Retirement System of the City of New York (**TRS**)	5	3	4	6	3	3	A+
New York City Board of Education Retirement System (**BERS**)	5	3	4	6	3	3	A+
Oregon Public Employees Retirement Fund (**OPERF**)	2	3	4	6	3	3	A+
California Public Employees' Retirement System (**CalPERS**)	2	3	4	0	3	3	A
California State Teachers' Retirement System (**CalSTRS**)	5	1	0	6	3	2	A
New York City Fire Pension Fund (**Fire**)	5	1	0	0	3	3	A-
New York City Police Pension Fund (**POLICE**)	5	1	0	0	3	3	A-
Employees Retirement System of Rhode Island (**ERSRI**)	-2	3	4	6	3	3	B+
State Universities Retirement System (**SURS**)	2	3	0	0	3	2	B-
Minnesota State Board of Investment (**MSBI**)	-2	3	4	0	3	3	B-

SCORES, continued

PENSION	Director Votes (/6)	Votes on Climate Disclosure Resolutions (/3)	Votes on Climate/ GHG Emissions Targets (/4)	Votes on Climate Action (/6)	Votes on FPIC (/3)	Votes on Lobbying Disclosure (/3)	Vote Grade
State of Wisconsin Investment Board (**SWIB**)	-2	3	0	4	3	3	B-
Connecticut Retirement Plans and Trust Fund (**CRPTF**)	-2	3	4	0	3	2	C
Maryland State Retirement and Pension System (**SRPS**)	-2	3	0	0	3	3	C
Washington State Investment Board (**WSIB**)	-2	-2	0	0	3	3	D+
Colorado Public Employees' Retirement Association (**CoPERA**)	2	-2	0	0	-2	2	F
New Mexico Public Employees Retirement Association (**NMPERA**)	-2	3	0	0	-2	1	F
Illinois State Board of Investment (**ISBI**)	-2	-2	0	0	-2	1	F
Maine Public Employees Retirement System (**MainePERS**)	-2	-2	0	0	-2	1	F
Nevada Public Employees Retirement System (**NVPERS**)	-2	-2	0	0	-2	-2	F
Delaware Public Employees Retirement System (**DPERS**)							Unavailable
Vermont Pension Investment Commission (**VPIC**)							Unavailable
Illinois Teachers Retirement System (**TRS**)							Unavailable

Overview

Four Pensions Lead the Way

Only four pensions had perfect proxy voting records: the three pension funds managed by the New York City Comptroller, which have committed to a net-zero implementation plan, and MassPRIM, which supported all of the resolutions and director votes evaluated.

All other pensions failed to support several climate and director measures, or failed to consistently execute votes at all six of the U.S. banks analyzed. Consistency in applying corporate accountability standards is key for responsible and comprehensive management of climate and related risks. While this does not mean investors should ignore idiosyncrasies at each company, it does mean they should often support similar efforts at similarly positioned institutions. In this case, while each bank has a unique profile and portfolio, similar climate resolutions were filed at the banks, owing to similar climate failures in target setting and transition strategy. If the company (and the Securities and Exchange Commission) felt there had been substantial implementation already undertaken by the companies on any of these issues, the resolutions would have been thrown out. The inclusion of these votes on the proxy and the corresponding public "vote no" campaigns against directors responsible for climate risk oversight indicate that these risks have not been adequately addressed by each bank's leadership.

Eight pensions supported the resolutions calling for banks to phase out support for companies engaged in fossil fuel expansion at some or all of the banks where they were filed (MassPRIM, NYCERS, TRS, BERS, OPERF, CalSTRS, ERSI, SWIB) This support indicates a growing willingness of pensions to exercise votes on more granular points of climate accountability, and the need for their peers to also support such resolutions. These are necessary steps to align institutions with their own net-zero targets, achieve the goals of the Paris Agreement, and reduce systemic climate risk.

Common Failures

Analyzing the pensions' proxy voting records at U.S. banks during the 2023 shareholder season, several common failures rose to the surface.

Common Failure #1

Too many pensions fail to support climate resolutions

Only six pensions supported the disclosure, target setting, and fossil fuel financing resolutions at all six U.S. banks (MassPRIM, OPERF, ERSRI, and the three New York City pensions that have committed to a net-zero implementation plan).

Three pensions (NVPERS, MainePERS and ISBI) didn't support any of the resolutions in question, and neither COPERA nor WSIB supported any of the climate resolutions. All other pensions demonstrated inconsistent levels of support, suggesting that far too many pensions are still taking a piecemeal approach to climate risk management.

Common Failure #2

Six pensions fall well behind their peers in using proxy voting as effective risk management

The pensions of Washington, Colorado, Maine, New Mexico, Nevada, and the Illinois State Board of Investment fell well behind their peers in how they executed votes at the U.S. banks in 2023. Their voting records show limited support for climate- and environment-related resolutions, highlighting them as lagging on climate accountability at the companies they invest in.

These six pensions stand out for falling well short of their peers in using proxy voting as an effective risk management tool. Looking at this list, it is especially surprising to see that states with reputations as being climate leaders, such as Washington and Maine, are performing so poorly when it comes to reducing climate risk. Unfortunately, these commitments are not being practiced by their state pension funds, which are being entrusted to responsibly manage the retirement savings of their residents.

Common Failure #3

Pensions still shying away from board accountability

Over half of the investors did not find it warranted to execute votes against the reelection of directors responsible for climate risk oversight, despite misalignment with best practice.[30] While this is a select number of votes, these results are indicative of a hesitancy by investors to hold boards accountable for their strategic decisions, even where climate risk management is inadequate.

Just under half of the pensions voted against directors at some or all of the institutions. However, as few institutions provided rationales for their votes, it is difficult to ascertain the reason for their votes. However, points were awarded for votes against directors responsible for climate risk oversight and where there were active campaigns against their reelection for climate-based reasons.[31] Only MassPRIM voted against every director responsible for (climate) risk oversight at each of the six U.S. banks.

Common Failure #4
Votes didn't always reflect proxy voting guidelines

A pension's proxy voting guidelines and its voting record should match one another. When they don't, it sends mixed signals to the marketplace for inconsistent preferences, and creates uncertainty for pension fund members over how their money will actually be used to advance matters of corporate governance. Where proxy votes move beyond what guidelines dictate, guidelines should, at the very least, be amended to reflect the voting pattern. Where proxy votes do not live up to the expectations set in the guidelines, better votes must be taken.

Proxy guidelines cannot always anticipate emerging issues, and maintain flexibility to vote in accordance with bedrock investment beliefs. However, climate resolutions are only increasing in number, and updating proxy voting guidelines is a critical way to ensure pensions and their proxy advisors are consistently implementing investment beliefs.

PHOTO: ISTOCK/JGILLISPIE

PHOTO: ISTOCK/BILANOL

TRANSPARENCY AND DISCLOSURE

Pension fund members deserve to know how their money is being managed, not just in terms of where their money is being invested, but in regard to how their influence is being leveraged at the companies in which they hold shares.

In a 2003 ruling, the Securities and Exchange Commission (SEC) affirmed the "fundamental right" of investors to have access to the proxy voting records of their mutual funds. The ruling cited how such decisions can have "an enormous impact on the financial livelihood of millions of Americans."[32] The SEC is now looking to expand those requirements to ensure that funds that use proxy voting as part of their ESG strategy disclose that information to their beneficiaries.[33]

However, while financial regulators understand the importance of transparency in stewardship efforts, public pension funds are not regulated by the SEC and are therefore exempt from these disclosure rules. The consequence is an uneven landscape of proxy voting disclosures from public pension funds.

In spite of this uneven regulatory landscape, members of public pension funds — and the broader public — should have a right to know how their money is being used in corporate governance efforts. As the money in these funds comes from the deferred wages of public employees and from state taxpayers, it stands that this information should be readily available to the public, too.

In light of this, pensions were graded on their proxy voting disclosures, both in terms of how easily accessible their proxy voting guidelines and voting records were, and how timely their disclosures were. The assessments were made on two metrics:

- **Accessibility of data:** Examined whether guidelines and voting records were publicly available or only accessible via email request or FOIA requests (and whether those FOIA requests were met).
- **Timeliness of data:** Evaluated whether guidelines were recent (within the last 2 years), and whether pensions made their most recent voting record available by August 31 of each year (the date by which funds regulated by the SEC are required to disclose their voting information).

Transparency on Proxy Records

The pensions analyzed in this report were generally strong on disclosures. More than half of the pensions provided their guidelines and most recent voting record to the public online and in a timely manner, with another five providing the information publicly, but not in a timely manner. Some, including the Delaware PERS, MassPRIM, and Nevada PERS required the filing of FOIAs in order to access the information. Some still did not return information in a timely manner, even once FOIAs had been filed. The Illinois Teachers Retirement System (TRS) and the State Universities Retirement System (SURS) were added late to the report and no requests for additional information were made, so they were not assigned overall transparency grades.

Guidelines Unavailable Online	Voting Record Unavailable Online
Delaware Public Employees Retirement System (DPERS)	Delaware Public Employees Retirement System (DPERS)
Oregon Public Employees Retirement System (OPERF)	MassPRIM
	Nevada Public Employees Retirement System
	Illinois Teachers Retirement System (TRS)

PHOTO: ISTOCK/NYCSTOCKPHOTOS

RECOMMENDATIONS

Pensions have a fiduciary duty to protect their members' hard-earned savings. Unfortunately, far too many are failing in that duty, as they fail to utilize their proxy voting practices to mitigate systemic climate risks.

In order to protect members' savings, maximize returns, and mitigate climate- and environment-related financial risks, the pensions analyzed in this report must update and strengthen their proxy voting guidelines, and use those guidelines to direct their voting practices in 2024 and beyond.

Update and Strengthen Proxy Voting Guidelines

Before the start of the 2024 proxy season, the pensions featured in this report must update their proxy voting guidelines to address risks related to climate change, biodiversity loss, forest and ecosystem degradation, Indigenous rights, and environmental justice. In order to do that, pensions should:

- **Adopt a universal owner and/or systemic risk framework** for guiding proxy voting, and encompass in the guidelines an explicit mandate to reduce systemic risks.
- **Amend guidelines to ensure support for resolutions** that call for disclosures, target setting or strengthening, or alignment of operational strategy and political activities with internationally-recognized climate, biodiversity, nature, and human rights goals, such as those in the Paris Agreement, the Global Biodiversity Framework, and the UN Declaration on the Rights of Indigenous Peoples.
- **Amend guidelines to enable votes against board members** at companies that have failed to disclose or adopt climate- and biodiversity-related targets, and companies that have failed to adopt strategies to align with global climate and biodiversity goals and mitigate negative impacts on the above issues.
- **Pair proxy voting guidelines with portfolio management policies** to address company non-responsiveness to escalating risks. Shareholders should delineate a time-bound escalation horizon, after which they should phase out holdings if engagement efforts fail to bring the company or project into alignment. For example, the Science-Based Targets Initiative recommends a two-year time horizon for escalating from engagement to phase-out on fossil fuel stocks[34].

To ensure transparency and ongoing engagement on these issues, pensions should:

- **Update their guidelines to reflect emerging best practices** at least biennially, and publicly disclose the updates once they are finalized by the pension boards.
- **Publish their proxy votes for the most recent voting season** by August 31 of each year, and maintain a historic record that is publicly available.

For more information on these recommendations, please see the model proxy voting guideline.

Engage Asset Managers and Proxy Advisors on Climate- and Environment-Related Risks

It is not enough for pensions to manage these risks by themselves; effective management of systemic risk requires engagement from other investors, too. By no later that fall 2024, the pensions featured in this report should:

- **Urge their asset managers and proxy advisors to adopt a systemic risk framework** as a default proxy voting strategy.
- **Begin the search for new proxy advisors where existing providers fail** to meaningfully provide analysis of climate-related risks.
- **Implement policies that require new and current asset managers** to have a public plan for achieving net-zero emissions across their entire portfolios, including specified near-term steps to reach science-based targets and regularly report on Scope 3 emissions (i.e. financed emissions).
- **Adopt climate-risk management criteria and expectations** for hiring new asset managers, which should include an analysis of their proxy voting records.
- **Review the voting records of current asset managers** to understand whether they are taking appropriate climate-risk management steps, including in their proxy voting.
- **Seek alternative asset managers if current ones fail** to meet their portfolio's climate risk management principles.
- **Join ongoing initiatives** (e.g. Ceres Investor Network, IIGCC, Climate Action 100+) and conduct 1:1 engagements to push proxy advisors to update and strengthen their climate- and environment-risk research and recommendations in benchmark and specialty policies.

Support Policy Efforts to Reign in Climate- and Environment-Related Risk

State financial officers, such as state treasurers, comptrollers and state auditors, should support policy and regulatory efforts to rein in climate- and environment-related financial risk.

Join the Net Zero Asset Owner Alliance

In order to maximize their effectiveness and learn best practices from other pensions and large asset owners, the pensions analyzed in this report should join the Net Zero Asset Owner Alliance, a global investor initiative committed to net-zero portfolios by 2050. CalPERS is already a member.

APPENDICES

Appendix #1: Updating Proxy Voting Guidelines

This guide includes model proxy voting guidelines that cover the issues assessed in this report. These are not intended to be comprehensive guidelines, as many other issue areas are not addressed here. These are the proxy voting guidelines that pensions — and their fund managers — should implement in order to comprehensively manage climate-related and other critical environmental and social risks.

Pensions, asset managers, and other fund fiduciaries should amend their proxy voting guidelines in alignment with this guide.

Appendix #2: Report Methodology

For more detail on how points were awarded, review this methodology document.

How were participants chosen?

This report chose to focus on public pension funds. As diversified and long-term shareholders, pensions are the fiduciaries perhaps most exposed to climate-related and other systemic risks, suggesting they would be the first to incorporate such considerations into their stewardship practices. The report narrowed in on members of For the Long Term, a group helping state and municipal Treasurers, Comptrollers, Controllers, and Auditors navigate the long-term financial consequences of climate change, racial inequity, and other similar risks. While state financial officers have varying levels of governance responsibilities within state pension systems (including none at all), the FTLT network was chosen as it is a network of financial officers that have committed to using their leverage to advocate for "more sustainable, just, and inclusive firms and markets." The membership of a state financial officer in FTLT could, therefore, reasonably be viewed as a proxy for which state pensions are interested in considering the systemic risks of climate change. This report, therefore, aimed to evaluate the progress made by these first movers.

Why did this report focus on the voting records at U.S. banks?

Votes taken at financial institutions were chosen as they are a key indicator of pensions' commitments to reducing climate risk. In addition to the critical role that banks play in facilitating a transition to a low-carbon economy,[35] voting opportunities at these banks in 2023 represented an almost complete spread of the types of votes that investors could take on climate: shareholder resolutions asking for escalating accountability (disclosure, target setting, adoption of specific climate policies), resolutions on FPIC and climate lobbying, as well as efforts to vote against directors. Not every voting opportunity presented itself at each bank in 2023, but the range and the total number of votes provide good insight into the pensions' approach to climate risk and their application of their proxy voting guidelines.

How did this report collect the information used in this report?

Information was collected from the public websites of the pensions analyzed. Where proxy voting records or guidelines were not available, the respective pension fund was contacted to request the information. In some instances, it was necessary to file FOIA requests to access the records. A copy of the full report and pension-specific data were sent to each pension fund, and pension fund managers were provided with the opportunity to review their scores and provide feedback or challenge the findings. Seven pension funds provided feedback that was incorporated into the report; two provided feedback that was not incorporated. Information was collected between August 31, 2023 and December 8, 2023. Illinois Teachers Retirement System (TRS) and the State Universities Retirement System (SURS) were added to the report late in the process and were not given the chance to review their scores or provide additional information.

How did this report rate participants?

Participants were given three scores — one on the quality of their proxy voting guidelines, one on their 2023 proxy voting record, and one on their transparency.

Proxy voting guidelines scoring

Methodology was created with input from organizations across the climate finance, Indigenous rights, and forest finance movements. A methodology was created that evaluated each proxy voting guideline category along escalating levels of accountability. Higher points were granted for policies that took a more comprehensive approach to risk management and, in some instances, negative points were granted for either explicitly restrictive guidelines or for failing to address the assessed issues in its voting guidelines.

Two hierarchies were used throughout this methodology: one on escalating accountability metrics on resolutions (from disclosure to target setting to action) and one on an indication of consistency of voting (from case-by-case assessments to "generally" supportive to blanket support). Scores were awarded based on the highest level achieved by the guideline.

A note on FPIC-related scoring: 1 point was awarded to pensions who had a standard human rights policy but did not mention indigenous rights, as some institutions that disclosed their rationale for supporting FPIC-disclosure resolutions cited their human rights policy.

Points for each category were accumulated and awarded a grade.

Proxy voting record scoring

Pensions were evaluated on their support of climate, FPIC, and lobbying-related resolutions filed at the six largest U.S. banks in 2023. To maintain consistency with the expectations outlined in proxy voting guideline recommendations, climate resolutions were mapped onto disclosure-related resolutions, target-setting resolutions, and climate action resolutions. In 2023, U.S. banks were asked to disclose Paris-Aligned transition plans (disclosure), set absolute greenhouse gas emissions targets (target setting), and adopt a policy to limit the financing of fossil fuel expansion (action.) Support for climate action resolutions earned more points than target setting, which earned more than disclosure. Within those three categories, pensions were awarded full points for 100% support of the resolutions across institutions, and partial credit for supporting the same resolution at only some institutions. For failure to support any disclosure resolution, negative points were awarded.

Points for each category were accumulated and awarded a grade. Methodology available here.

Transparency scoring

Pensions were evaluated on how timely and how easily available their proxy voting guidelines and proxy voting records were. Final grades were awarded based on a cumulative score. The most points were awarded for those that already publicly disclosed up-to-date information; points were deducted if it was necessary to engage in a FOIA process and if the fund either refused to share the information or did not share the information in a timely manner.

PHOTO: ISTOCK/RUDENKOI

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4 For the Long Term is a network of state, city and county financial officers. The network's mission is to support their members in "leveraging the power of their offices to deliver long-term economic growth and prosperity for their beneficiaries, their constituents, and our country by advocating for more sustainable, just, and inclusive firms and markets."

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17 Firms such as ISS and Glass Lewis that provide institutional investors with research, data, and voting recommendations

18 Free, Prior, and Informed Consent (FPIC) is a right of self-determination for Indigenous Peoples, as established in the UN Declaration on the Rights of Indigenous Peoples. It enables Indigenous communities to provide, withhold, or withdraw consent on projects that would impact their territories and traditionally owned and cultivated lands.

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30 In a draft Fossil Fuel Finance Position Paper, the Science Based Targets Initiative (SBTi) outlined best practice for financial institutions regarding the fossil fuel sector: that financial institutions should adopt a policy to "immediately cease new financial support to companies and projects that add to the unabated capacity of fossil fuel assets" and to set clear goals to "phase out financial support to any projects and/or companies that are unable or unwilling to follow a 1.5°C transition within a predefined timeframe." SBTi (2023), The SBTi Fossil Fuel Finance Position Paper.

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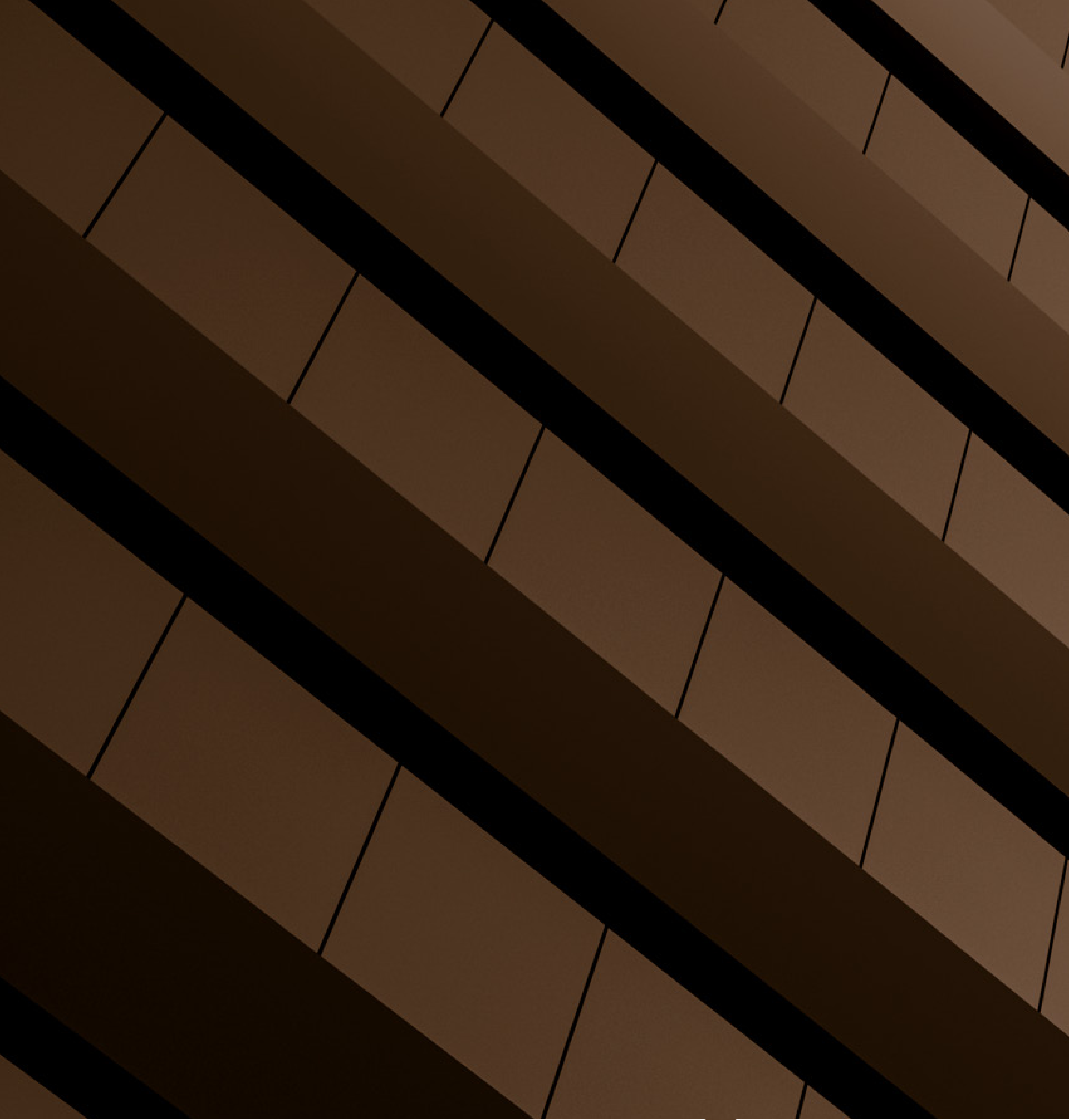
35 Low-cost financing for the expansion of renewable energy will be critical to achieve climate goals. Likewise, the International Energy Agency and others have stated that to have a fighting chance of achieving the Paris goals, the world does not need to invest a single dollar more in new upstream oil and gas development. Yet, last year the six largest U.S. banks provided more than $35 billion to the 100 companies most aggressively investing in new upstream oil and gas development.#



Sierra Club National
2101 Webster Street, Suite 1300
Oakland, CA 94612
(415) 977-5500

Sierra Club Legislative
50 F Street, NW, Eighth Floor
Washington, DC 20001
(202) 547-1141

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