Fossil Free California
P.O. Box 21022
Oakland, CA 94610
http://fossilfreeca.org
Email: contact@fossilfreeca.org

7 March 2016

To: Rob Feckner, President, CalPERS Board of Administration
Cc: Henry Jones, Chair, Investment Committee
Ted Eliopoulos
Anne Simpson
Sen. Kevin de León (Kip Lipper)

From: Janet Cox, for the Fossil Free California Steering Committee
janet@jwcox.com; 415 902 1795

Re: Coal divestment and shareholder engagement with oil and gas companies

Members of Fossil Free California, like CalPERS board members and staff, are inspired and energized by the agreement reached at COP21. We all recognize that the final agreement's inclusion of the 1.5-degree Celsius aspirational target is both a game changer for the worlds' economies and a source of hope for individuals, communities, and nations threatened by the catastrophic weather effects of a 2-degree rise.

We're sure you agree that limiting warming to 1.5 degrees will require all of us to rethink our strategies, redouble our efforts, and move up our deadlines for the shift to a decarbonized economy. CalPERS must use all of its considerable influence and leverage to hasten this transition.

To this end we respectfully ask that CalPERS consider the following at your March Investment Committee climate change review, in regard to coal investments/divestment, shareholder engagement, and ExxonMobil.

1. Coal Investments/divestment. We ask that CalPERS

- Follow CalSTRS' example by beginning the process of divesting from U.S. coal companies immediately
- Working in concert with CalSTRS and in alignment with many European funds, exceed SB185's targets for coal divestment by considering divestment from international companies that derive *30 percent* of revenues from extraction of thermal coal

2. Shareholder engagement

We acknowledge CalPERS' commitment to shareholder engagement, and strong preference for engagement over divestment from companies CalPERS owns. As we learned in Paris, many fund managers see divestment as a tool and a motivator that makes engagement more effective.

As fund members and beneficiaries, we want CalPERS to engage with fossil fuel companies with specific, measurable goals on the table. Companies must understand that if goals are not met – if changes are not implemented – *on a defined timetable*, that divestment will be the consequence.

We ask CalPERS to develop and make public criteria and goals for the fossil fuel companies we own, including (for example)

- Implementation and passage of a 1.5-degree climate stress test
- Publication of the company's carbon footprint based on the World Resources Institute's Greenhouse Gas Protocol, including Scope 3
- Full disclosure of the company's climate risk and exposure to stranded assets

- The company's stated intention to end plans to exploit and utilize proven reserves
- Verifiable demonstration that the company is not supporting climate denialism, through lobbying, charitable contributions, or contributions to political office holders who reject climate science

We continue to believe that oil, gas, and coal companies are substantially different from other companies with whom CalPERS engages, because the ultimate engagement "ask" goes to these companies' core business operations. Therefore, in 2016 and going forward, we would like to see a detailed report of all of CalPERS' engagement efforts with fossil fuel companies, and results of that engagement.

Because we want CalPERS' engagement to be as effective as possible in the shortest practical timeframe, we suggest that the Board adopt a statement that it will initiate divestment from companies that do not change their business models or practices (to align with criteria you set) by date certain. Such a statement will put fossil fuel companies on notice, and send a clear and strong signal to the investment community that CalPERS will continue to lead global efforts to decarbonize the world's economies.

3. ExxonMobil

CalPERS' 2014-15 Comprehensive Annual Financial Report names ExxonMobil as the fund's second largest stock holding as of June 30, 2015.

While we understand that Exxon's high dividends make the stock attractive to CalPERS, we observe that keeping dividends up while revenues are down costs the company dearly in the short term and imperils both flexibility and solvency in the long run.

As you know, the attorneys general of California, Maryland, and New York, and other governmental entitities are investigating ExxonMobil for failing to accurately report known climate risk to investors. Any lawsuit alleging securities fraud and/or consumer fraud will create negative publicity immediately upon filing; as cases wend their way through the courts, the financial impact on the company of both negative publicity and damage claims by investors will be severe. We believe the very real prospect of legal action is a substantial risk to our investment, and we urge CalPERS to reduce its holdings in Exxon now.

In February, the New York State Common Retirement Fund, the Regents of the University of California, the Vermont Pension Investment Committee, the Church Commissioners for England, the Brainerd Foundation, and others petitioned the Securities and Exchange Commission to force Exxon to accept for its proxy ballot a shareholder resolution requiring climate change impact analysis and assessment of associated financial risks. (See http://www.osc.state.ny.us/press/releases/feb16/ExxonMobilNYSCRF_2016.pdf). Fund members and beneficiaries are disappointed that CalPERS did not sign on to the SEC petition.

We urge CalPERS to pay close attention to both the company's financial machinations and the legal developments, and to carefully consider reducing our exposure to a company at risk of extreme instability.

Please know that members of Fossil Free California, and fund members and beneficiaries around California, feel fortunate to be associated with a fund of the breadth and influence of CalPERS. Because we believe that climate change is the most important issue we face as a state, a nation, and a species, we want CalPERS to lead in both strategy and action on the issues touched on in this letter. We ask you to keep the public fully informed about your activities on our behalf.

We look forward to the discussion at the March Investment Committee meeting.