



California Public Employees' Retirement System

Executive Office

400 Q Street, Sacramento, CA 95811 | Phone: (916) 795-3829

888 CalPERS (or 888-225-7377) | TTY: (877) 249-7442 | www.calpers.ca.gov

Ms. Sara Theiss
Fossil Free California

September 13, 2020

Via Email

Dear Ms.Theiss:

Thank you for sharing a copy of your report entitled "CalPERS Continues to Invest in Coal" with the CalPERS Board of Administration and members of our investment team. We appreciate your invitation to provide feedback.

After reviewing the report, we find both the content and conclusions misleading. This is disappointing given the amount of public information available which sets out CalPERS' strategy on climate change in detail within our fiduciary duty to achieve the 7% rate of return. These investment returns pay nearly 60 cents on the dollar for our members' retirement benefits.

Our recent report "CalPERS Investment Strategy on Climate Change: First Response to the Task Force on Climate-related Financial Disclosures (TCFD)" sets out our comprehensive strategy on climate change which focuses upon:

- **Engagement** with high carbon emitting companies to drive the transition to a low carbon economy through [Climate Action 100](#) which includes the bulk of the companies you reference in your report. CalPERS convened this initiative which is supported by investors responsible for over \$45 trillion. The goal is to achieve net zero emissions by 2050 and results to date include commitments to decarbonize at companies you cite, such as Duke, BHP, Anglo American, Xcel, Glencore, American Electric Power, Enel SpA, Ameren, and Southern, among other systemically important carbon emitters such as Shell, BP, Repsol, Equinor, HeidelbergCement and ThyssenKrupp steel.¹

¹ A number of companies cited are among the 20 US utilities we engage via Majority Action

<https://static1.squarespace.com/static/5c33155fec4eb7e2b8479aeb/t/5c7b27fe1905f410f3f05b2b/1551575039677/Utilities+NetZero+2050+Institutional+Investor+Statement+28Feb2019.pdf>

CalPERS' strategy of engagement is delivering results. One investor selling shares to another does not drive change at a company. It transfers risk. It does not mitigate risk. As a global and universal asset owner we have nowhere to hide from climate change and need to tackle global warming emissions at the source.

- **Advocacy** is the second element of CalPERS' strategy, in order to bring the regulatory and policy framework that will achieve the goal of limiting global warming to 1.5 degrees Celsius. Our regulatory work includes advocacy at the SEC and serving as a member of the climate risk commission at the [Commodities and Futures Trading Commission](#) (CFTC) which issued the first call to action by a US regulator to introduce carbon pricing and other measures such as risk reporting and fiscal measures at federal and municipal level that will drive the transition to a low carbon economy.
- **Integration** to ensure we consider risk and opportunity across all asset classes in our investment processes. This work has included completing a carbon footprint for 100% of our assets, including global equity, fixed income and real assets, with private equity being completed by the year end. We have also developed new investment tools such as the Physical Risk of Climate Change (P-ROCC) framework in partnership with the Woods Hole Meteorological Center to allow us to map "zip code risk" in the portfolio.

In addition, CalPERS was the first US asset owner to join the UN convened Net Zero Asset Owner Alliance which commits us to achieving portfolio emissions in line with the 1.5 degree C target for the real economy.

Furthermore, in January this year, CalPERS identified climate change as one of the three top risks facing the system.

Given the longstanding depth and breadth of CalPERS' work on climate change, and our leading role in many initiatives your conclusion that we "have done nothing to improve" since 2017 is frankly, baffling.

Furthermore, your report claims that CalPERS has not followed the spirit of Senate Bill 185 due to our holdings in companies in the coal supply chain. However, in the same report the authors acknowledge that these companies, "do not technically qualify as 'thermal coal companies' by SB 185 criteria."

While the report acknowledges our sale of 14 thermal coal holdings following the passage of SB 185 in 2017, it does not fully reflect the review process for the three companies (Banpu, Adaro, Exxaro) that remain in our investment index, based on discussions with the companies that they were moving away from coal to cleaner energy as set out in our public report on the matter. ²

² California Public Employees' Retirement System – Public Divestiture of Thermal Coal Companies Act Report to the California Legislature and Governor <https://www.calpers.ca.gov/docs/forms-publications/public-divestiture-coal-companies-act-2017.pdf>

As you will be aware, CalPERS' divestment review policy is public and has two cycles. We have an annual review where our Board's investment consultant Wilshire Associates provides an analysis describing the economic impact of divestment on the portfolio. The next report will be presented to our Board's Investment Committee in November 2020. The second review is on a 5-year cycle with a thorough analysis of all CalPERS' divestments, including coal. This is scheduled to occur in 2021 and the three companies identified will be part of that review.

While one can appreciate the research and effort that went into this report, it clearly lacks the information and context that would provide the reader all the facts.

We are happy to discuss the report in more detail if this is helpful. Please feel free to contact Anne Simpson, our interim Managing Investment Director for Board Governance and Sustainability at anne.simpson@calpers.ca.gov.

Sincerely,

A handwritten signature in blue ink that reads "Marcie Frost". The signature is written in a cursive style with a large, stylized "F" at the end.

Marcie Frost
Chief Executive Officer

cc: Anne Simpson
CalPERS Board of Administration