California Pensions Fail to Engage

A review of CalPERS' and CalSTRS' votes against shareholder climate resolutions

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FOSSIL FREE CALIFORNIA

SUMMARY

As the impacts of climate change begin to wreak havoc on our bisophere, the fossil fuel divestment movement has gained remarkable momentum. Globally, 1,500 institutions representing over $40 trillion in assets have already committed to some level of divestment from the fossil fuel industry.[1]

Despite over a decade of pressure from their members, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) continue to invest billions in the fossil fuel industry on behalf of their beneficiaries. Studies have shown that if CalPERS and CalSTRS had divested from fossil fuels in 2010, they would have generated an estimated additional **$11.9 billion** in returns by 2019.[2,3] So why do California's public pension funds remain invested in the fossil fuel industry?

CalPERS and CalSTRS claim they are engaging with the fossil fuel industry as stakeholders to mitigate climate change by affecting the conduct of oil, gas, and coal companies. However, a review of their 2022 proxy votes reveals that **their shareholder engagement efforts are not only ineffective—they're undermining climate action**.

We have identified three indefensible failures of the funds' engagement efforts:

1. **This year, CalPERS voted against climate resolutions at major fossil fuel corporations including BP, Equinor, and Shell.**
2. **CalPERS and CalSTRS voted against all climate resolutions at American and Canadian banks in 2022.**
3. **CalPERS' and CalSTRS' proudest achievement—helping to elect three "climate-friendly" Exxon Board members—has not resulted in any meaningful progress to address climate change.**

Despite years of unsuccessful attempts to influence the fossil fuel industry, CalPERS and CalSTRS have failed to get these companies to reduce greenhouse gas emissions, increase their renewable energy production, or reduce fossil fuel financing by big banks.

INTRODUCTION

As public and legislative pressure has pushed for CalPERS and CalSTRS to acknowledge climate-related financial risks and reevaluate investing in fossil fuel companies, the public sector pensions continue to promote shareholder engagement as their preferred method for addressing the climate crisis. The funds have rejected divestment from fossil fuel companies as a desirable or necessary adjunct to supporting climate-related shareholder resolutions and proxy voting.

CalPERS and CalSTRS claim to use their shareholder power to pressure corporations, including banks and fossil fuel companies, to embrace the transition to renewable energy. But environmental advocates have argued that shareholder engagement has never gotten a company to change its core business model.[9]

According to former Security and Exchange Commissioner Bevis Longstreth, "**Engagement is likely to assist Big Oil and Big Coal in postponing the day when governments limit the burning of fossil fuels.** The International Energy Agency reckons that, if governments act to compel adherence to the carbon budget, necessary to have a chance of holding the planet to only a 3.6 F rise in temperature from pre-industrial levels, it will cause Big Oil and Big Coal to lose about $1 trillion a year. Engagement with institutional investors like Harvard gives the fossil fuel giants the protective cover they need to stretch out the transition process to renewables for as long as they can. **It legitimizes talk over action.**"[10]

This report takes that critique a step further: while CalPERS and CalSTRS claim to remain invested in the fossil fuel industry to "have a seat at the table," they have in fact been consistently voting against climate action.

SHORTCOMINGS OF SHAREHOLDER ENGAGEMENT

CalPERS' and CalSTRS' engagement strategy primarily involves proxy voting. Their Proxy Voting Guidelines outline the funds' support for proposals to increase climate-related disclosures at fossil fuel corporations, but do not provide a position on actions to reduce greenhouse gas emissions nor hold companies accountable for failing to meet their emission reduction targets. This approach is reinforced by the pensions' engagement through the Climate Action 100+, an investor-led initiative to engage fossil fuel companies, which has yet to incorporate accountability into their engagement framework.

Despite these inadequate guidelines, CalPERS and CalSTRS have not successfully achieved the bare minimum required by their own engagement strategy. Both public sector pensions voted against climate resolutions at fossil fuel companies and banks during the 2022 Annual General Meeting season.

According to proxy vote registries such as the Glass Lewis ViewPoint and ProxyInsight, CalPERS and CalSTRS voted against financing consistent with the International Energy Agency's Net Zero Scenario[11] at major financial institutions Goldman Sachs, Bank of America, J. P. Morgan Chase, Morgan Stanley, Citigroup, TD Bank, SMBC, and Wells Fargo in the United States; RBC, Scotiabank, CIBC, and Bank of Montreal in Canada; and Credit Suisse, Danske Bank, and Standard Chartered in Europe.[12][13] These banks are responsible for providing the majority of financing needed for the expansion of fossil fuel infrastructure, including new projects such as pipelines.

What's more—**CalPERS and CalSTRS voted against climate resolutions at major fossil fuel corporations BP, Occidental Petroleum, Equinor, Woodside Petroleum, and Shell.**[14][15]

By voting against proposals to mitigate climate change at the very companies they claim to influence, CalPERS' and CalSTRS' shareholder activism is not only ineffective—it's undermining climate action.

I. CALPERS & CALSTRS OPPOSE BIG OIL CLIMATE RESOLUTIONS

An analysis of CalPERS' and CalSTRS' global proxy voting decisions from 2022 reveals the pensions' opposition to fossil fuel companies reducing greenhouse gas emissions, reporting on human rights, ceasing exploration activity, decommissioning oil and gas infrastructure, and transitioning from fossil fuels to renewable energy.

Company	Shareholder Proposals	CalPERS	CalSTRS
BP	Reporting and reducing greenhouse gas emissions	AGAINST	AGAINST
Equinor	Greenhouse gas reduction targets	AGAINST	*
	Climate strategy	AGAINST	*
	Establishing a fund for employees that work in the oil sector	AGAINST	*
	Cessation of all exploration activity	AGAINST	*
	Move from fossil fuels to renewable energy	AGAINST	*
	Gradually divesting from all international operations	AGAINST	*
	Report on human rights	AGAINST	*
Occidental	Report on greenhouse gas targets and alignment with Paris Agreement	AGAINST	AGAINST
Royal Dutch Shell	Approval of energy transition strategy	AGAINST	FOR
	Greenhouse gas reduction targets	AGAINST	AGAINST
Woodside Petroleum	Approval of climate report	ABSTAIN	AGAINST
	Disclosure of capital allocation alignment with a Net Zero by 2050 Scenario	AGAINST	FOR
	Lobbying activity alignment with 1.5 Degree Scenario	AGAINST	FOR
	Decommissioning oil and gas infrastructure	AGAINST	AGAINST

* No data available.

II: CALPERS & CALSTRS OPPOSE BANKING CLIMATE RESOLUTIONS

An analysis of CalPERS' and CalSTRS' global proxy voting decisions from 2022 reveals the pensions' opposition to phasing out fossil fuel exposure and expansion, financing consistent with the IEA's Net Zero by 2050 roadmap, aligning financial strategy with international goals set by the Paris Agreement, and respecting Indigenous rights:

Bank	Resolution	CalPERS	CalSTRS
Bank of America	Financing consistent with IEA Net Zero 2050 scenario[16]	AGAINST	AGAINST
	Audited report on impact of IEA net-zero emissions by 2050 scenario[17]	AGAINST	AGAINST
Bank of Montreal	Financing consistent with IEA Net Zero 2050 scenario	AGAINST	AGAINST
CIBC	Report on financing consistent with IEA Net Zero 2050 scenario	AGAINST	AGAINST
Citigroup	Financing consistent with IEA Net Zero 2050 scenario[18]	AGAINST	AGAINST
	Audited report on impact of IEA Net Zero 2050 scenario[19]	AGAINST	AGAINST
Credit Suisse	Align with the 1.5C goal of the Paris Agreement, specifically with respect to bank's short, medium, and long-term strategy[20]	AGAINST	AGAINST
Danske Bank	Financing consistent with IEA Net Zero 2050 scenario[21]	AGAINST	AGAINST
Goldman Sachs	Financing consistent with IEA Net Zero 2050 scenario[22]	AGAINST	AGAINST
J. P. Morgan Chase	Financing consistent with IEA Net Zero 2050 scenario[23]	AGAINST	AGAINST
	Set short, medium, and long-term absolute emissions targets; stop financing fossil fuel expansion[24]	AGAINST	AGAINST

Morgan Stanley	Financing consistent with IEA Net Zero 2050 scenario[25]	**AGAINST**	**AGAINST**
Royal Bank of Canada	Financing consistent with IEA Net Zero 2050 scenario	**AGAINST**	**AGAINST**
	Avoiding bank participation in pollution-intensive asset privatizations[26]	**AGAINST**	**AGAINST**
	Update criteria for “sustainable finance” to preclude fossil fuels and respect Indigenous rights[27]	**AGAINST**	**AGAINST**
Scotiabank	Financing consistent with IEA Net Zero 2050 scenario	**AGAINST**	**AGAINST**
SMBC	Paris-aligned short and medium term targets	**AGAINST**	**AGAINST**
Standard Chartered	Match “net zero by 2050” rhetoric with action and end bank’s misaligned financing of fossil fuels	**AGAINST**	**AGAINST**
TD Bank	Financing consistent with IEA Net Zero 2050 scenario	**AGAINST**	**AGAINST**
	Update criteria for “sustainable finance” to preclude fossil fuels and respect Indigenous rights	**AGAINST**	**AGAINST**
Wells Fargo	Financing consistent with IEA Net Zero 2050 scenario[28]	**AGAINST**	**AGAINST**

III: CALPERS & CALSTRS FAIL TO CHANGE EXXONMOBIL

Even when CalPERS and CalSTRS vote in support of climate resolutions, the outcome may be disappointing.

CalPERS serves as the Climate Action 100+ engagement lead for ExxonMobil, one of the largest of the world's Big Oil companies.[29] A proxy vote that elected three new directors to the ExxonMobil board is often presented as proof that engaging with fossil fuel companies works.

However, the latest Climate Action 100+ report shows that Exxon fails to meet the bare minimum criteria for "Net Zero by 2050 ambition" or "capital alignment towards this goal."[30] The Coalition for a Responsible Exxon (CURE) confirms that changes to ExxonMobil's board have not resulted in any meaningful progress to address climate change.[31]

Despite leading the proxy vote, activist investment firm Engine No. 1 failed to support key climate initiatives at ExxonMobil only a year later, including proposals to report on Exxon's low-carbon business strategy and set targets for Scope 3 greenhouse gas emissions.[32] According to a recent ImpactAlpha article, "A year ago, the tiny fund manager Engine No. 1 was The Little Engine That Could. This year, it's more like the dog that didn't bark."[33]

CalSTRS CIO Chris Ailman himself admitted that ExxonMobil hasn't "embraced them holistically," adding, "If [fossil fuel] companies want to survive and not be Eastman Kodak or Blockbuster Video, darn it, they better get their act together and become energy companies, not just oil and gas firms."[34]

Despite warnings from the IEA (and the pensions' best attempts at shareholder engagement),[35] ExxonMobil has unapologetically announced expansion plans and new fossil fuel projects[36] that would drive the climate past internationally agreed temperature limits with catastrophic global impacts.[37]

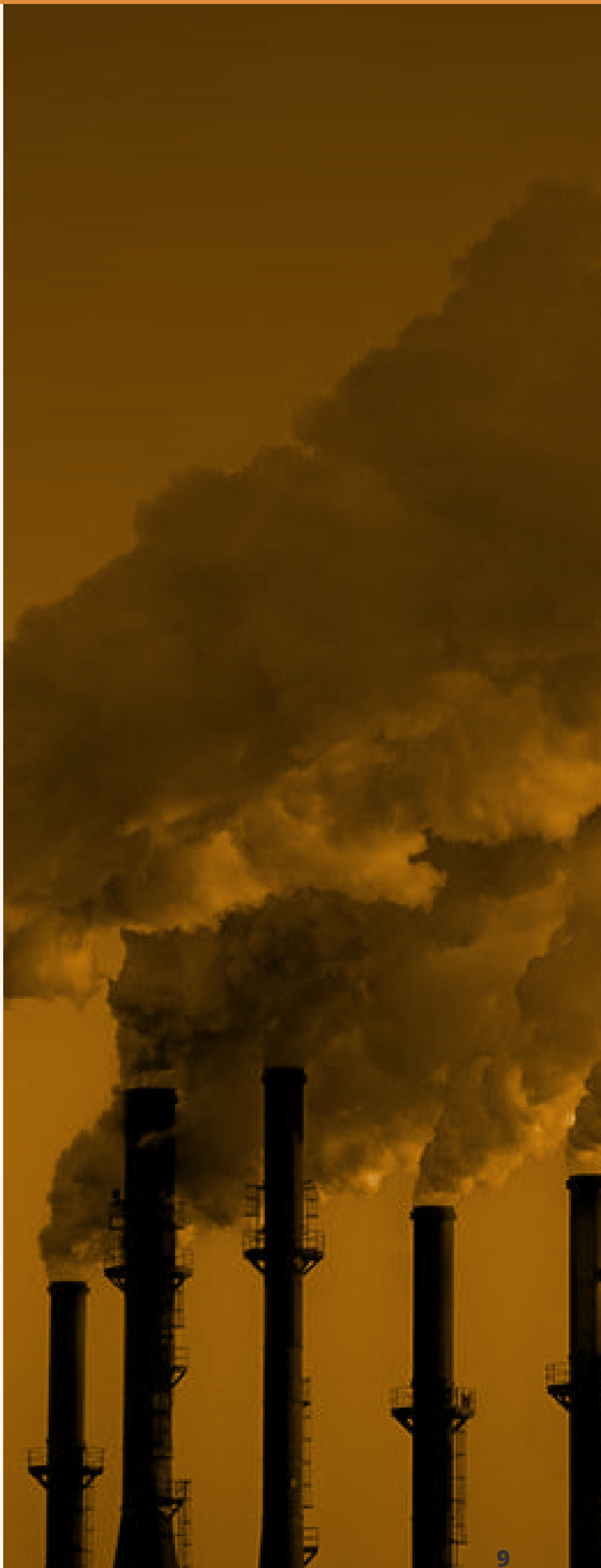
CONCLUSION

Despite their best efforts, CalPERS and CalSTRS have failed to persuade fossil fuel companies to reduce their greenhouse gas emissions, increase their renewable energy production, or transition from fossil fuels to renewable energy. By opposing climate proposals at the very companies they claim to influence, the funds' shareholder activism is not only ineffective—it's undermining climate action.

The public sector pensions claim that their fiduciary obligations prohibit them from "sacrificing investment performance for the purpose of achieving goals that do not directly relate to our operations or providing promised retirement benefits"—**yet studies have shown that if CalPERS and CalSTRS had divested from fossil fuels in 2010, they would have generated an estimated $11.9 billion in returns by 2019.**[38][39]

CalPERS and CalSTRS continue to neglect their fiduciary duty in favor of greenwashing on behalf of oil, gas, and coal companies. It is not investors but teachers, firefighters, and other public employees who will be forced to bear the burden of their pensions' lofty engagement goals.

SB 1173, the Fossil Fuel Divestment Bill, would put an end to CalPERS' and CalSTRS' failed shareholder engagement efforts by requiring the funds to divest from fossil fuels.[40] It is time for the state legislature to pass SB 1173 to protect California's public pensions and the beneficiaries they serve.



SOURCE MATERIAL

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