State Pension Plans Green Firms Through Shareholder Initiatives

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States are influencing environmental practices not only through their regulatory programs and policies but through their pension plans. Large state pension plans, including the California Public Employees Retirement System and the New York State Common Retirement Fund, are regularly using their substantial size and powers as shareholders to influence corporate sustainability practices.

While divestment campaigns have received significant attention in the press, there are a variety of shareholder engagement strategies that pension plans are using to effect change, including voting proxies on corporate and shareholder proposals, filing or co-filing proposals, and issuing general policy positions. The topics addressed using these strategies vary greatly, but in 2015 environmentally focused issues included climate change, fracking, and palm oil sourcing.

Shareholder proposals, which are included in proxy statements and subject to a vote of all owners, are not only being developed by state pension funds. The Sustainable Investment Institute (Si2) projected a record number of 468 shareholder proposals on social and environmental issues in 2015, with 129 of those on environmental topics.

"Given the size of pension funds, their support of environmentally focused shareholder proposals is incredibly important," says Andy Mims, a partner at the Sustainability Group of Loring, Wolcott & Coolidge. "While shareholder rules are generally regarded as being very democratic, there is no question that these large pools of invested assets have very powerful voices."

The chief investment officer for CalPERS, Ted Eliopoulous, said in a recent press release that CalPERS is "pleased that many companies' policies are evolving thanks to the outcomes of our votes" and that "important changes in . . . environmental strategies will help strengthen these corporations and, in turn, CalPERS investments."

But a successful vote is not the only way that corporate practices are influenced. The New York state comptroller, who manages the Common Retirement Fund, told the *Wall Street Journal* that he uses shareholder proposals as a way to garner companies' attention, and that he will withdraw a resolution prior to a vote if the firm addresses it. He used this approach, for example, to convince Safeway to begin addressing the environmental and social consequences of palm oil.

Billions of dollars in funds can influence companies to improve practices

For 2015, Si2 anticipated 34 successful withdrawals on climate-related proposals as compared to 47 in 2014, and 16 withdrawals on proposals to require sustainability reporting versus 34 in 2014. Si2 theorizes that "engagements outside the proxy season arena are producing results that satisfy proponents, leaving more resolutions at companies where accords are more elusive." For example, "Key wins occurred off the proxy ballot on deforestation: now more than 20 companies have pledged to take action in their global palm oil supply chains."

In addition to spearheading shareholder resolutions, state and local pension plans are joining other investors' initiatives. For example, in April, CalPERS, the State of Vermont Pension Investment Committee, and the Washington State Investment Board, among others, joined a coalition organized by Ceres, a non-governmental organization, to request that the Securities and Exchange Commission examine the reporting of climate change-related risks by oil and gas companies. CalPERS's Bill McGrew told *E&E News*: "Long-term investors need assurance through adequate disclosure that current business strategies of oil and gas companies reflect the changing nature of demand, emerging technologies, and policy interventions, which have and will continue to impact the sector." A CalPERS press release further explains that "proposals at two of the largest companies, BP and Shell, gained full support leading to voluntary agreements on additional climate risk reporting."

In addition, some pension funds have joined to express support for federal environmental policies, such as the White House's 2015 proposal to reduce methane emissions from the oil and gas industry. Four of the largest pension plans, recognizing that "company-by-company engagement cannot fully address the issue," stated their support. They noted that their "investment time horizons extend well beyond the tenure of any individual executive management team" and that methane regulation "reduces reputational and legal risks, and in many cases generates positive economic returns" over the long run.

These state pension plans' efforts to forward sustainability are a welcome complement to other state measures that are increasingly filling the gap left by congressional inaction on key issues such as climate change.