Factsheet for SF 2085

Relating to the State Board of Investment (SBI) and mandating a report on the impact of climate change on the fossil fuel investments currently held by the SBI

STATE BOARD OF INVESTMENT; REPORT ON THE RISKS OF INVESTMENTS IN FOSSIL FUEL COMPANIES CURRENTLY IN THE PORTFOLIO

On June 30, 2017, assets under management by the SBI totaled $89.5 billion. This total is the aggregate of pension funds, trust funds, and cash accounts, each with different investment objectives.

Analyzing the June 30, 2017 Asset Listing published by the SBI for the amount of money invested in the top 200 fossil fuel companies, those companies with carbon reserves that will contribute the most carbon dioxide to the atmosphere, documented that the SBI has a total investment of almost $2.1 billion in those companies on the top 200 list. Investment in those companies amounts to 2.3 per cent of the overall investment.

Given the rapid paradigm shift in thinking regarding the use of fossil fuels by corporations and countries all over the world and in U.S. state and local governments, market conditions for these SBI fossil fuel investments need to be assessed for their impact on the overall profitability to state pensions, trust funds, and cash accounts. SF 2085 outlines the elements of such an assessment.

Present occurrences in coal markets provide an example of the need for such an assessment. Financial analysts agree that coal markets are no longer profitable. Coal India, the largest coal company in the world, will rid itself of 37 coalmines by March 2018, because they are so unprofitable the company cannot pay its workers' salaries. The government of India has announced it will not build any more coal plants after 2022 and predicts renewables will generate 57 per cent of its power by 2027 – a pledge far outstripping its commitment in the Paris climate change agreement. [1]

SBI investments in Coal India total $1 million and overall investment in coal is $311 million. Divesting from coal over the next five years or sooner and beginning to transition those investments to more profitable renewable energy companies makes perfect sense to many pension holders. An assessment would show the financial risks to staying invested in coal.

A February 2017 Bloomberg News article announced that Exxon Mobil Corp. had disclosed the deepest reserves cut in its modern history as prolonged routs in oil and natural gas markets erased the value of a $16 billion oil-sands investment and other North American

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[1] http://www.independent.co.uk/news/world/asia/coal-india-closes-37-mines-solar-power-sustainable-energy-market-influence-pollution-a7800631.html

assets. The equivalent of about 3.3 billion barrels of untapped crude was removed from the so-called proved reserves category in Exxon's books.[2]
Six SBI investment accounts have a total of over $375 million invested in Exxon Mobil. The value reduction might not harm the company in the long run, but this may indicate a downward trend. A critical assessment such as that required by SF 2085 would benefit SBI managers as they manage the funds on behalf of pension holders and others.

An April 2017 article details a new legal opinion that pension trustees who ignore climate change may face legal challenges.[3] The opinion concludes that where climate risks carry material financial implications for fund performance, trustees must take those risks into account in investment decisions.

Renewable energy investments are increasingly profitable. For example, a report on the top 200 companies with the lowest fossil fuel investments released February 15, 2018[4] states

> The moral case for divesting from fossil fuels has been well argued, but for many, the economic case is less clear. However, as clean energy growth takes off and demand growth for fossil fuels flatlines, it is probable that divesting from fossil fuels in favor of a clean energy future does not have to come at a sacrifice to long-term investment returns. In its first full year and a half of live performance, Clean200 companies generated a total return of 32.1%. That's almost double the 15.7% for its fossil fuel benchmark the S&P 1200 Global Energy Index.

A recent Star Tribune article states that solar energy projects increased 48 per cent in 2017, supplying enough energy to power 53,000 homes.[5] Assessing the investment performances in energy efficiency and solar and wind energy projects would evaluate the investment opportunities in expanding the renewable energy portion of SBI's portfolio.

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[2] https://www.bloomberg.com/news/articles/2017-02-22/exxon-takes-historic-cut-to-oil-reserves-amid-crude-market-rout?utm_content=buffer6c49a&utm_medium=social&utm_source=twitter.com&utm_campaign=buffer
[3] https://www.divestinvest.org/pension-trustees-could-face-legal-challenge-for-ignoring-climate-risk-leading-qc-confirms/
[4] https://cyrus-nemati-w8d5.squarespace.com/report/clean200-2018-q1
[5] http://www.startribune.com/minnesota-solar-energy-employment-up-almost-50-percent-in-2017/473168603/