MINNESOTA DIVESTMENT COALITION

AUGUST 2021 BRIEFING TO THE SBI

This monthly update highlights global action on fossil fuel divestment and serves to inspire MN State Board of Investment Members to take urgent action to protect our investments and stop climate change.

At the May 26, 2021, State Board of Investment (SBI) meeting, board members approved private equity company KKR to manage a private equity fund within the Minnesota portfolio. While the Minnesota Divestment Coalition recognizes that KKR is a reputable private equity company, we do have concerns regarding the nature of the agreement. Our apprehensions are twofold:

1) Unlike publicly traded stocks, private equity companies are not required to disclose where they are investing our money. This lack of transparency means that the SBI may have no ability to push an equity company to move away from fossil fuels. The two most recent reports on the pace of our runaway climate change - The International Energy Agency ((IEA) report, which our June 2021 briefing reported on, and the Intergovernmental Panel on Climate Change (IPCC) report - have outlined the urgency to move immediately away from fossil fuels toward renewables. The IPCC calls the situation "code red for humanity." Both reports stress the need to cease funding new fossil fuel infrastructure like Line 3 and to shut down any coal-fired power plants still in operation.
2) Private equity companies require a contract from investors like the SBI, stipulating that funds remain invested in the equity company (KKR) for the time specified in the contract - often for up to ten years. If the SBI learned that the fund is invested in poorly performing fossil fuel companies, for example, it could not extricate itself until the 10-year period had expired.

The implications of these private equity fund requirements are significant. In at least one instance reported last year, KKR invested in a coal-fired power plant that received stimulus money and then filed for bankruptcy. If this had been an investment KKR made with Minnesota pension money, we wouldn't necessarily know about it. As publicly traded companies like Exxon are pressured to sell off fossil fuel investments, private equity firms that aren't subject to stakeholder scrutiny are buying them up at rock bottom prices. Do Minnesota's pension holders want to be partners with companies that invest in climate destruction and are in long-term decline? None of our coalition's members do. Furthermore, the SBI has committed to undertaking a climate risk assessment of the portfolio. With approximately 25% of pension funds in private equity companies, it will be difficult, if not impossible, for analysts to assess this portion of the portfolio.

We recommend the following:

(1) The SBI should formulate a policy with a clear timeframe to divest its current investments from Carbon Underground 200 and other such fossil fuel companies.
(2) SBI contracts with private equity firms including KKR should stipulate that funds are not invested in Carbon Underground 200 or other fossil fuel companies. The contracts should also require full

disclosure as to where funds are invested. If private equity firms are unable to do this, then the SBI should cease to invest in them.

Simple common sense requires that every institution do its part to turn the tide on climate change before it's too late. At what point do we stop mortgaging our future for the sake of ever-higher returns? Two decades from now, as public leaders, will you be able to look back and say you did everything within your means to prevent a climate catastrophe?