Shareholder Engagement: A license to fuel rather than fight climate change

The Minnesota State Board of Investment (MSBI) published a set of principles in 2018 with respect to shareholder engagement:

> Utilizing engagement initiatives to address environmental, social, and governance-related (ESG) issues can lead to positive portfolio and governance outcomes. In addition to specific engagement strategies the SBI might apply, proxy rights attached to shareholder interests in public companies are also "plan assets" of the SBI and represent a key mechanism for expressing SBI's positions relating to specific ESG issues. By taking a leadership role in promoting responsible corporate governance through the proxy voting process, SBI can contribute significantly to implementing ESG best practices which should, in turn, add long-term value to SBI's investments.

The February 2020 MSBI ESG resolution further describes the value of shareholder engagement to implement the board's principles and intentions for oversight of the environmental, social and governance behavior of the companies in the SBI portfolio.

The Minnesota Divestment Coalition supports shareholder engagement with companies that purchase energy for their operations. Such companies have been able to lower their carbon footprint and save money at the same time by moving from fossil fuels to renewable energy sources - providing good results from the engagement process.

The Minnesota Divestment Coalition does not, however, support engagement with fossil fuel companies, because stakeholders are not allowed to fundamentally alter the basic core business of these companies. The fiduciary duty of officers and board members of the top carbon burning companies will not allow them to make business choices which actively decrease their ability to profit from burning oil, gas, and coal. Thus, advocacy is a fundamentally flawed approach to the Carbon Underground 200 companies. Starving the companies of both investors and customers is the only way to keep this carbon in the ground.

While in principle, shareholder engagement may be a way to drive change in companies, in practice, little has been achieved by the MSBI through this approach. To date the only companies MSBI has engaged with are Xcel Energy on climate change issues, and ANI Pharmaceutical Inc, Groupon Inc and Navistar on Board Diversity (Source: Shareholder Resolutions & Engagement | Minnesota State Board of Investment (SBI) (msbi.us))

Meanwhile, the MSBI continues to invest in climate-change-inducing fossil fuel companies across its public and private portfolios. Unfortunately, there has been no reported engagement with these companies to drive any carbon reduction target or protect the portfolio from climate related financial risks.

Jeremy Grantham, Founder GMO Investment Management supports stakeholder engagement in general but has serious reservations regarding shareholder engagement with oil companies. "I think oil is somewhat the exception because the oil industry ran a deliberate campaign of obfuscation, political propaganda to mislead the world. They funded dozens of organizations to put out basically fake news that it didn't really matter—that climate change was a hoax, etc. ….. They've played a very big political role to confuse the issue on climate change. That should be criminal."

Given this ignominious history, Minnesota pension funds should not be invested in fossil fuel companies with the hope that stakeholder engagement will persuade them to stop extracting oil and gas. Our pensions are fueling climate change rather than fighting it. This needs to stop.

The Minnesota based Ethos Group leveraged their ESG platform to assess the environmental impact of the three largest pension funds in the US - CalPERS, New York State Common Retirement Fund and NY State Teachers Retirement System. Their conclusion is as follows, “Retirement plans are funding global warming.”

Carbon comparison

Metric	Teacher Retirement System of Texas Pension Fund	CalPers Public Employees’ Retirement Fund	New York State Common Retirement Fund
Carbon footprint GHG/CO2 equivalent (CO2e) Scope 1, 2 and 3 emissions, net of emissions offset by company products. Indicates total carbon footprint, regardless of revenue or market cap	78,217,486 metric tons	34,918,496 metric tons	24,157,621 metric tons
Carbon footprint change Annual percentage change in absolute GHG/CO2 equivalent (CO2e) Scope 1 and 2 emissions. Indicates extent of reduction (or increase) in emissions over time	-6%	-4%	-3%
Carbon intensity GHG/CO2 equivalent (CO2e) Scope 1, 2 and 3 emissions per $1M USD revenue. Indicates carbon footprint in relation to size (based on revenue)	1,273 tons / $1M rev	979 tons / $1M rev	623 tons / $1M rev
Climate solutions Whether company offers a "climate solution" product or service as part of its primary business model	9% of holdings	8% of holdings	6% of holdings
Global warming potential Global warming potential that company is aligned with, in degrees celsius. Based on aggregate analysis including emissions reduction targets, current carbon footprint, and contribution to climate solutions	2.78 degrees Celsius	2.7 degrees Celsius	2.64 degrees Celsius

Source: [Is your retirement plan warming the planet? (ethosesg.com)]

As per this analysis, all of these funds have an estimated global warming potential of 2.6 degrees Celsius to 2.8 degrees Celsius, well above the 1.5 - 2.0 degrees Celsius targets set under the Paris Climate Agreement. In the words of Ethos, “Pension plans are major funders in the landscape of ESG investing. Changes in their investment decisions -- investing in more low-carbon, climate-solution companies -- would make a significant difference in the effort to limit global warming and prevent the most catastrophic impacts of climate change.”

Clearly, shareholder engagement is not reaping any benefits for these funds and only a three-pronged strategy of 1) divestment out of fossil fuels, 2) reinvestment into clean energy, and 3) shareholder engagement for everything else could achieve the dual targets of reducing the carbon footprint and climate-related financial risks to our pension portfolios.

Several large pension funds in the US, including New York and Maine, have already announced their commitment to net zero greenhouse gas emissions with a clear intention to divest from fossil fuels. More recently, Macalester College and Harvard University have announced their commitment to divest their endowment funds from holdings in fossil fuels. (Read more here.)

Minnesota should be a leader in the movement to divest from fossil fuel companies. The SBI can make this a reality. We are asking the MSBI to protect our pensions as well as future generations from the biggest natural calamity in human history.