



NYS Comptroller
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Office of the New York State Comptroller

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A MESSAGE FROM THE COMPTROLLER

Even as we grapple with the serious public health and economic challenges stemming from the Covid-19 pandemic, climate change continues to represent an urgent and growing threat. Experts agree that nations around the world will have to decarbonize our economy dramatically and rapidly to limit the harmful effects of human-induced warming of the atmosphere. To achieve this monumental task, governments at every level must put policies in place to reduce emissions of carbon dioxide and other greenhouse gases (GHG). Our experience with extreme weather in recent years demonstrates the ecological and economic disruptions that result from increasing concentrations of GHG. As Trustee of the New York State Common Retirement Fund, I have worked to lessen the investment risks presented by climate change while seizing opportunities to invest in climate solutions.

This edition of *EcoNews* provides more detail on our work to address climate risks to the Fund, including updates on: steps taken to implement our Climate Action Plan, such as our assessment of the transition risks in the thermal coal industry and associated divestment of a significant portion of the Fund's holdings in this industry; our \$20 billion commitment to sustainable investments and climate solutions; and our efforts to persuade companies and nations around the globe to reduce climate pollution and embrace the low-carbon future. In addition, this issue discusses actions by other

divisions of the Office of the State Comptroller (OSC) to promote environmental sustainability at the State and local levels of government.

The release of the Fund's Climate Action Plan in 2019 was praised by investors and by advocates for a more sustainable economy. I have worked to promote climate risk planning by all investors, and shared my experiences in developing our Plan at Climate Week NYC in September 2019.



For years, the Fund has been recognized as a global leader in addressing climate-change-related investment risk and opportunities, with the Asset Owners Disclosure Project (AODP) ranking the Fund as third in the world and first in the United States among public funds. This international recognition is based on the Fund's multi-faceted approach to climate change that employs investment, active stewardship and public policy advocacy strategies.

Addressing climate change at the national level remains a significant challenge. However, we have many reasons to celebrate progress—including a variety of actions New York State is taking in response to this pressing issue. I am proud of OSC's contributions, and appreciate your interest and support. By working together, we can build a healthier, more sustainable and more prosperous future for all.

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NEW YORK STATE COMMON RETIREMENT FUND ACTIONS ON CLIMATE AND SUSTAINABILITY

Climate Action Plan Implementation

As Trustee of the New York State Common Retirement Fund, Comptroller DiNapoli issued a Climate Action Plan, which outlines steps to protect and invest the assets of the Fund in the face of the serious disruptions and threats presented by global climate change. The Plan lays out actions the Fund will take to further integrate the assessment of climate risks and opportunities into its investment processes. The Fund has made significant progress in implementing key components of the Plan since its release in June 2019.

Transition Readiness and Climate Resilience Analysis: Coal

The Plan calls for the evaluation of high-impact economic sectors, as identified by the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD), starting with the thermal coal mining industry. In this analysis, companies that earn more than 10 percent of their revenue from the sale of thermal coal were evaluated based on:

- 🌍 low-carbon transition strategies;
- 🌍 patterns of capital expenditures with respect to readiness for transition to a low-carbon economy;
- 🌍 company-wide targets to reduce GHG emissions in line with the Paris Agreement's goals;
- 🌍 revenues derived from low-carbon/green business investment; and
- 🌍 disclosure of climate risks consistent with the recommendations of the TCFD.

A total of 27 companies were assessed on their ability and willingness to successfully adapt their business models for the transition to a low-carbon economy. Of these companies, 22 failed to demonstrate that they were pursuing strategies to address long-term transition risks and opportunities. As a result, the Fund will divest its holdings in these companies.

Companies on this list include:

China Shenua Energy Co	COAL India Ltd.
China Coal Energy Co.	PT Bukit Asam Tbk.
Consol Energy	Huadian Power International Corporation Ltd.
Inner Mongolia Ytai Coal Company Ltd.	PT Adaro Energy Tbk
PT Astra International Tbk.	Arch Coal
PT United Tractors Tbk.	Contura Energy, Inc.
Guanghui Energy Co.	Jastrzebska Spolka Weglowa SA
NACCO Industries, Inc.	Shaanxi Coal Industry Company, Ltd.
Shanxi Lu'An Environmental Energy Development Co.	Washington H. Soul Pattinson & Co.
Peabody Energy Corporation	Yanzhou Coal Mining Co
Hallador Energy Co.	DMCI Holdings, Inc

Recent Sustainable Investments

As part of the Climate Action Plan, Comptroller DiNapoli announced a \$20 billion commitment to the Fund's Sustainable Investments and Climate Solutions program. To date, the Fund has deployed over \$10 billion to a variety of sustainable investments that present risk and return characteristics that track to the relevant asset classes.

Recent sustainable investments include:

- 🌍 Avenue Capital Sustainable Solutions Fund, L.P., which makes renewable energy, recycling and waste management investments (\$300 million);
- 🌍 Calvert Core Bond Strategy, which makes green bond and affordable housing investments (\$250 million);
- 🌍 Nuveen Core Impact Bond Strategy, which makes renewable energy, natural resource conservation, affordable housing, and economic development investments (\$250 million); and
- 🌍 Stonepeak Global Renewables Fund, L.P., which makes renewable energy infrastructure investments (\$350 million).

Holding Companies Accountable on Sustainability Concerns

Comptroller DiNapoli, as Trustee of the Common Retirement Fund, actively encourages companies in which the Fund invests to improve a range of policies and practices related to sustainability that have been shown to promote long-term profitability.

Results from the 2019-20 Season

Comptroller DiNapoli exercises the Fund's shareholder rights by voting in annual meetings on board composition and on proposals that promote sound environmental management. More information on this topic may be found on the Comptroller's Corporate Governance [webpage](#).

Climate Updates to Proxy Voting Guidelines

In 2019, Comptroller DiNapoli added several climate performance standards to the Fund's proxy voting guidelines to increase the accountability of portfolio companies for their management and their disclosure of climate risks and opportunities. Among the climate-related factors the Fund considers in its voting analysis are corporate performance on the following issues:

- 🌍 development and implementation of strategies for a low-carbon transition consistent with the goals of the Paris Agreement;
- 🌍 use of climate risk metrics and targets as recommended by the TCFD;
- 🌍 establishment of company board competency in assessment and management of climate risks and opportunities; and
- 🌍 public policy advocacy on climate change and energy.

The policy explicitly states that failure of a board to appropriately manage and comprehensively report climate and other material Environmental, Social, and Governance (ESG) risks may lead the Fund to withhold support from directors.

Comptroller Presses for Paris-Aligned Corporate Lobbying

As part of a Ceres initiative, Comptroller DiNapoli called on 47 of the largest publicly traded companies in the United States to ensure that their lobbying activities are aligned with the goals of the Paris Agreement. Most of these companies have made public statements in support of the Paris Agreement on climate change, while in some cases lobbying against climate mitigation efforts, or supporting trade associations that oppose efforts to address climate change. Investors are now pressuring these companies to:

- 🌍 ensure that all direct and trade association lobbying is in line with the company's climate change commitments;
- 🌍 engage with organizations of which the company is a member to evaluate whether the organization's lobbying activities are consistent with the goals of the Paris Agreement and, if the organization is unwilling or unable to demonstrate alignment with the Paris Agreement, to take steps to disassociate the company from those policies or organizations; and
- 🌍 increase transparency by reporting on company climate policy and any specific lobbying actions to support that policy, memberships in associations that engage in lobbying on climate policies, and positions taken by such associations.

Global Investor Statement to Governments on Climate Change

In 2019, Comptroller DiNapoli joined 631 other investors representing over \$37 trillion in assets in calling on governments around the world to take specific actions to mitigate climate change. The [statement](#) urges governments to take action to attempt to limit global warming within the range of 1.5 degrees Celsius in keeping with the Paris Agreement.¹ Specific policy actions called for in the investor statement include: establishing a meaningful price on carbon; ending fossil fuel subsidies and phasing out thermal coal power by set deadlines; and adopting comprehensive and comparable climate risk reporting standards for businesses, as recommended by the TCFD.

¹Investor Agenda, Global Statement to Governments on Climate Change (2019), at theinvestoragenda.org.

OTHER ACTIONS TO PROMOTE SUSTAINABILITY

Comptroller Supports Clean Energy Tax Credits

In December 2019, Comptroller DiNapoli wrote to New York State's Congressional Delegation in support of expanding and/or renewing clean energy tax credits as part of a federal government funding bill. In question were legislative proposals such as increasing the number of electric vehicles eligible for tax credits, and extending the production tax credit for wind generating facilities as well as the investment tax credit for solar generating facilities. The Comptroller urged inclusion of these tax credits in the funding bill to help reduce the risks of climate

change to the investments of the New York State Common Retirement Fund and to reduce the costs to the State of implementing the Climate Leadership and Community Protection Act. Ultimately, however, most of the clean energy tax credits were omitted from the funding deal, with the only surviving provisions being a one-year extension of the production tax credit for wind power along with certain tax credits for biofuels, energy-efficient homes, geothermal energy and electric scooters.



Environmental Audits and Reports

The Office of the State Comptroller maintains an active program to audit and report on the performance of State agencies, local governments and public authorities in implementing programs to protect the environment and public health. These [audits and reports](#) are available on the Comptroller's website. Recently released environmental publications include:

[Management of Invasive Species](#). OSC examined the Department of Environmental Conservation's management of invasive species in New York State. The audit found that while the Department has been active in establishing programs to address invasive species, improvements in its oversight, monitoring, and communication relating to boat inspections, permits, and early detection and assessment of invasive species could strengthen its ability to mitigate the spread of invasive species.

[Oversight of Drug Disposal](#). OSC evaluated efforts by the Office of Addiction Services and Supports to promote environmentally sound disposal of prescription drugs as mandated by the Health Department and DEC policy. The audit found that 53 percent of controlled substances were flushed down the drain in contravention of these policies.

[Smart Solutions Across the State: Advanced Technology in Local Governments](#). OSC highlighted efforts by local governments to use new technologies to reshape how local government services are delivered across the State. Some cities, for instance, have started integrating automatic sensor controls and remote metering into water treatment and delivery. Other local governments have taken advantage of the Smart Street Lighting NY program, offered by the New York Power Authority, to convert to LED street lighting.

Sustainability Initiatives

The Office of the State Comptroller has continued its efforts to make its own operations more energy-efficient and sustainable.

The OSC Bureau of State Expenditures' Government to Business program is assisting State agencies in making purchases electronically and eliminating the need for paper invoices and checks. In addition, through this program, vendors are able to update information online, further streamlining the State procurement process and eliminating paper forms.

Ongoing projects to move the State payment and contract approval process to electronic platforms have significantly reduced paper use. OSC's Bureau of

Contracts has transitioned to an electronic submission system for grant procurement records and requests for exemption from Contract Reporter requirements, eliminating 99 percent of paper submissions for these work streams. The Bureau has also introduced an electronic contract submission process to eliminate the need to submit paper contracts and contract amendments. The Bureau receives over 20,000 record submissions annually, and this change will dramatically reduce paper use. Finally, an initiative to digitize contract files at the Bureau's offsite record storage facility will reduce the need to physically transport files, reducing vehicle fuel use and emissions.



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