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9 January, 2018

Mr. Glenn Miles
Executive Staff Director
CA Senate Public Employment and Retirement Committee
CA Assembly Committee on Public Employees Retirement, and Social Security

Dear Mr. Miles,

Thank you for the invitation to speak at the Informational Hearing tomorrow on "How California's Public Pension Funds Support California Values While Fulfilling Their Fiduciary Obligations." Please circulate this written submission to the Committees' members in support of my brief oral comments.

The Ceres Investor Network on Climate Risk and Sustainability comprises more than 130 institutional investors, collectively managing more than $20 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. Both of your state pension funds, CalSTRS and CalPERS have been represented on the Ceres Board and have been active members of the network. Through the Investor Network and other investor groups, they have been collaborating and sharing best practices with other investors to address the systemic risks of climate change, look for investment opportunities in the transition to the low carbon economy and integrate environmental, social and governance (ESG) issues into their investment process as they manage their global portfolios for the benefit of their participants and beneficiaries.

Shareowner engagements and proxy voting are core strategies that investors use to address the types of systemic investment risks and opportunities posed by climate change, human rights issues and freshwater management along with other environmental, social and governance risks. The essence of the strategy is that institutional investors individually and collectively engage with the companies they own to address risks that are material to the company and therefore to the investors. Collaborative and collective engagements, filing proxy resolutions, and proxy solicitation campaigns are critical to addressing systemic risks that affect many sectors, geographies and asset classes—risks that could significantly impact the pension funds' overall portfolios. No one investor could address these systemic risks by engaging its portfolio companies alone—these risks require collective solutions that will result in a more sustainable global economy.

I will give three examples of shareowner engagements and proxy voting campaigns that illustrate how your funds with other investors in our network are addressing systemic risks to their portfolios.

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Ceres' oil and gas program works to reduce the significant climate impact of the oil and gas sector, with a focus both on reducing the industry's current carbon footprint as well as its future greenhouse gas emissions. Persistently low oil prices, the launch of the Paris Agreement, and the rapid evolution of clean energy technologies have combined to make the current moment a potential turning point for the oil industry—the industry could lock into a long term fossil fuel dependency or could begin to transition towards a lower carbon energy future. In this context, our investors' work is aimed at significantly reducing the capital spending of the industry on carbon-intensive fossil fuel projects by pushing companies to examine the resiliency of their portfolios and business plans under a 2 degree scenario.

In 2016, CalSTRS led engagements with fourteen oil and gas companies to improve disclosure of methane emissions risk management efforts. Their engagements focused on EPA regulations and integrating emissions risk management into business plans. The results of these engagements was significant; with eight out of fourteen companies committing to enhancing and disclosing methane emissions risk management activities. The remaining six companies received shareholder proposals from CalSTRS. Subsequently, two of the six companies engaged with CalSTRS and the shareholder proposals were withdrawn. CalSTRS and other investors will continue to engage with these companies to ensure that they are appropriately managing their methane emissions and reporting on these strategies to their investors. Not only is this work important to the oil and gas holdings of the pension funds, but it will also have significant impact on global warming (which affects every economic sector). About 30 percent of the warming we are projected to experience over the next two decades in a business-as-usual scenario can be tied to this year's emissions of methane alone. The oil and gas sector is the largest source of methane emissions in the US (having recently surpassed the ag sector), and recent studies have concluded that methane emissions from the US natural gas supply chain are nearly double the official estimates. Fortunately, they can be meaningfully reduced in a cost effective manner—as the companies that CalSTRS has engaged have shown.

In 2017, CalPERS co-filed a proxy resolution at Exxon as part of a global campaign to get the major oil and gas companies to reveal the impact of a two-degree global warming scenario (2DS) on their portfolios. Forcing the oil majors to reveal the impacts of a two degree future on their portfolios is one of the most effective tools for moving them to shift their business strategies because it provides investors and oil company board members with the information they need to understand just how significant the risks of stranded assets are on a company-by-company basis. The 2DS analysis resolution at Exxon Mobile received a 62% vote after CalPERS led a very effective proxy solicitation. Exxon Mobile has now publicly agreed to disclose to shareholders "energy demand sensitivities, implications of two degree Celsius scenarios, and positioning for a lower-carbon future" – all disclosures that have been pushed by Ceres and its shareholder partners for over a decade. This is a major change in messaging from Exxon, which as recently as 2016 stated that a two-degree future was "highly unlikely" and thus didn't warrant such scenario planning. The impact of CalPERS leadership and the strong support of other investors will be felt across the oil and gas industry as companies begin to reduce their

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capital expenditures in oil sands, and make significant investments in research and development in wind, solar and battery storage technology as they implement their 2DS plans.

This year, Ceres and its global investor network partners are undertaking a new collective engagement strategy to improve governance on climate change, curb emissions and strengthen climate-related financial disclosures among the world's largest corporate greenhouse gas emitters. To date, 225 investors with more than USD $26.3 trillion in assets under management have signed on to the initiative called Climate Action 100+. With CalPERS on the steering committee and leading the North American Working Group of the initiative, we anticipate addressing three key areas to address climate risk, greenhouse gas emissions and prepare for a lower carbon future. Companies on the list will be asked to: 1) Implement a strong governance framework which clearly articulates the board's accountability and oversight of climate change risks and opportunities; 2) Take action to reduce greenhouse gas emissions across the value chain, consistent with the Paris Agreement's goal of limiting global average temperature increase to well below 2 degrees Celsius above pre-industrial levels; and 3) Provide enhanced corporate disclosure in line with the final recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) and, when applicable, sector-specific Global Investor Coalition on Climate Change Investor Expectations on Climate Change to enable investors to assess the robustness of companies' business plans against a range of climate scenarios, including well below 2-degrees Celsius, and improve investment decision-making. We anticipate that this global initiative will systemically address climate change as material risk to long term investor portfolios and will have ripple effects throughout the economy as the practices of the largest corporate emitters change and others follow in a ripple effect from these engagements.

These are only three examples of significant engagement initiatives led by California's pension funds. Working collectively with other global investors, these initiatives have proven to be effective portfolio risk management strategies that position the funds to produce long term returns for their participants and beneficiaries consistent with their fiduciary duty. Ceres applauds the leadership of CalPERS and CalSTRS and looks forward to ongoing work as we seek to address the most pressing environmental, social and governance issues of our time and create an equitable and sustainable global economy and planet.

Thank you for the opportunity to testify before your committee.

Yours truly,

Kirsten Snow Spalding

The Rev. Kirsten Snow Spalding
Senior Program Director, California