



Kathryn Harrison
Councilmember District 4

CONSENT CALENDAR
May 16, 2017

To: Honorable Mayor and Members of the City Council
From: Councilmembers Kate Harrison and Linda Maio
Subject: In Support of SB 560 Public Retirement Systems, Investments: Financial Climate Risk

RECOMMENDATION

Adopt a Resolution supporting SB 560 Public Retirement Systems, Investments: Financial Climate Risk, an act to add Section 7510.5 to the Government Code relating to public retirement systems. Send a copy of the resolution to Governor Jerry Brown, State Senators Kevin de Leon and Nancy Skinner, and Assemblymember Tony Thurmond.

FINANCIAL IMPLICATIONS

None

BACKGROUND

The Berkeley Peace and Justice Commission previously adopted a motion in support of SB 560.

This bill would require, on and after January 1, 2019, that the retirement board of a public pension or retirement system consider the financial climate risk of their current and future investments as part of their fiduciary responsibilities. The bill, by January 1, 2020, and annually thereafter, would require the boards to report on the financial climate risks of their investments, including their carbon footprint.

The retirement board of a public pension or retirement system has the sole fiduciary responsibility over the assets of that public pension or retirement system and, as the California Constitution states, a retirement board's duty to its participants and their beneficiaries takes precedence over any other duty. Specifically, "members of the retirement board of a public pension or retirement system shall discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system".

This bill would require these boards to include in their comprehensive annual financial reports the financial climate risks of their investments, including alignment of their portfolios with a specified climate agreement and California climate policy goals, the

value at risk if these goals are achieved, and the exposure of the portfolios to long-term risks, as specified. The bill does not require the boards to take action that is not consistent with their fiduciary responsibilities.

ENVIRONMENTAL SUSTAINABILITY

No adverse effects to the environment

CONTACT PERSON

Councilmember Kate Harrison, Council District 4, 510-981-7140

Attachments:

1. Resolution
2. Text of SB560

RESOLUTION NO. ##,###-N.S.

SUPPORT FOR SB 560 PUBLIC RETIREMENT SYSTEMS, INVESTMENTS:
FINANCIAL CLIMATE RISK

WHEREAS, the California Constitution assigns members of the retirement board of a public pension or retirement system sole fiduciary responsibility over the assets of that public pension or retirement system; and

WHEREAS, the California Constitution states, a retirement board's foremost duty is to its participants and their beneficiaries; and

WHEREAS, the SB 560 bill, on and after January 1, 2019, would require retirement boards to consider the financial climate risk, as defined, of each investment, or potential investment, as part of their discharge of their fiduciary duties with respect to the investment; and

WHEREAS, this bill, by January 1, 2020, and annually thereafter, would require the boards to report on the financial climate risks of their investments, including the carbon footprint of the investments, as specified, and the alignment of their portfolios with a specified climate agreement and California climate policy goals; and

WHEREAS, the SB 560 bill would not require the boards to take action that is not consistent with their fiduciary responsibilities.

NOW THEREFORE, BE IT RESOLVED by the Council of the City of Berkeley that it hereby supports SB 560, Public Retirement Systems, Investments: Financial Climate Risk, an act to add Section 7510.5 to the Government Code, relating to public retirement systems.

BE IT FURTHER RESOLVED that the Council directs the City Clerk to send copies of the resolution to Governor Jerry Brown, State Senators Kevin de Leon and Nancy Skinner, and Assemblymember Tony Thurmond.

AMENDED IN SENATE APRIL 17, 2017

SENATE BILL

560

No.

Introduced by Senator Allen

February 17, 2017

An act to add Section 7510.5 to the Government Code, relating to public retirement systems.

legislative counsel's digest

SB 560, as amended, Allen. Public retirement systems: investments: financial climate risk.

The California Constitution requires members of the retirement board of a public pension or retirement system to discharge their duties with respect to the system solely in the interest of, and for the exclusive purposes of providing benefits to, participants and their beneficiaries, minimizing employer contributions thereto, and defraying reasonable expenses of administering the system. Existing statutory law establishes various public employee retirement systems and provides for the administration of the State Teachers' Retirement System by the Teachers' Retirement Board and for the administration of the Public Employees' Retirement System, among other public employee retirement systems, by the Board of Administration of the Public Employees' Retirement System.

~~This bill, on and after January 1, 2019, bill would require those boards to consider the financial climate risk, as defined, of each investment, or potential investment, as part of their~~

~~discharge of their fiduciary duties with respect to the investment.~~ *in their management of any funds they administer.* The bill, by January 1, 2020, and annually thereafter, would require the boards to ~~report on~~ *include in their comprehensive annual financial reports* the financial climate risks of their investments,

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~~including the carbon footprint of the investments,~~ *alignment of their portfolios with a specified climate agreement and California climate policy goals, the value at risk if these goals are achieved, and the exposure of the portfolios to long-term risks,* as specified. *The bill would provide that it does not require the boards to take action that is not consistent with their fiduciary responsibilities.* The bill would make related legislative findings and declarations.

Vote: majority. Appropriation: no. Fiscal committee: yes.

State-mandated local program: no.

The people of the State of California do enact as follows:

- 1 SECTION 1. The Legislature finds and declares as follows:
- 2 (a) Climate change is a long-term problem that will affect our
- 3 environment, health, and economy for decades to come.
- 4 (b) Effects of global climate change that scientists predicted in
- 5 the past are already occurring – sea ice has been lost, sea levels
- 6 are rising at accelerated rates, and longer, more intense heat waves
- 7 and extreme weather events are occurring.
- 8 (c) As global temperatures ~~to~~ continue to rise, these effects will
- 9 likely accelerate. Heat waves, droughts, and hurricanes are all
- 10 projected to grow in both frequency and intensity as climate change
- 11 progresses.
- 12 (d) The financial sector is not insulated from the adverse effects
- 13 of climate change.
- 14 (e) California is a global leader in addressing climate change
- 15 and has consistently striven to protect the physical, social, and
- 16 economic resources of all Californians, as most recently
- 17 exemplified by *the passage of Senate Bills 32 and 350 of the*
- 18 *2015–16 Regular Session.*
- 19 (f) Climate change presents an array of material financial risks,
- 20 including transition risk, physical risk, and litigation risk, that
- 21 reasonable investors must take into account when making

22 investment decisions. Failure to acknowledge and address these
23 risks will result in exposure to subsequent liabilities and financial
24 risk.

25 (g) If global temperature rise is to be limited to no more than 2
26 degrees Celsius, or the aspirational target of 1.5 degrees proposed
27 in the COP 21 agreement now in effect, governments must act to
28 limit warming and hasten the transition to a low-carbon economy

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1 by halting the extraction and development of carbon reserves. This
2 regulatory risk will affect major sectors of the globaleconomy.

3 (h) In the retirement system context, these risks are especially
4 salient. Retirement boards ~~are duty-bound~~ *have the fiduciary duty*
5 to administer retirement funds solely in the interest of system
6 participants and their beneficiaries. In order to *meet this*
7 *requirement and* ensure sufficient funding of both current and
8 future retirees' financial benefits, retirement boards must consider
9 both short-term and long-term effects and risks of retirement fund
10 investments.

11 (i) If climate change and carbon emissions continue on their
12 current trajectories, both acute and chronic weather-related activity
13 will greatly compromise the ability of businesses that do not
14 account for these changes to reliably generate returns. Pension
15 funds' influence in the markets can induce firms to accurately
16 report their carbon risk to the public.

17 (j) Given the potentially catastrophic consequences of climate
18 change, the documented social and economic cost of carbon, and
19 the emerging body of literature on the material financial risks of
20 climate change, retirement boards simply cannot disregard financial
21 climate risks.

22 *(k) Governance directives of California's largest pension funds,*
23 *the California Public Employees' Retirement System (CalPERS)*
24 *and the California State Teachers' Retirement System (CalSTRS)*
25 *advise the funds' boards to take climate risk, among other risks,*
26 *into account when making investment decisions. These directives*
27 *include CalPERS Investment Belief 9 and CalSTRS*
28 *"Environmental" Risk Factor.*

29 *(l) This bill would ensure that future boards will continue to*
30 *consider financial climate risk in investment decisions.*

31 SEC. 2. Section 7510.5 is added to the Government Code, to
32 read:

33 7510.5. (a) For purposes of this section, the following
34 definitions apply:

35 (1) "Board" means the Board of Administration of the Public
36 Employees' Retirement System or the Teachers' Retirement Board.

37 (2) "Financial climate risk" means material financial risk posed
38 to an investment by the effects of the changing climate, including,

39 but not limited to, intense storms, rising sea levels, higher global
40 temperatures, economic damages from carbon emissions, and other

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1 financial risks due to public policies to address climate change,
2 shifting consumer attitudes, changing economics of traditional
3 carbon-intense industries, and other transition risks.

4 ~~(b) On and after January 1, 2019, the~~ *The board shall consider*
5 ~~the financial climate risk of each investment, or potential~~
6 ~~investment, as part of the board's discharge of its fiduciary duties~~
7 ~~with respect to the investment.~~ *in its management of any fund it*
8 *administers, including when making decisions regarding the fund's*
9 *asset allocation; increasing, decreasing, or maintaining*
10 *investments in individual companies or commingled funds; or*
11 *hiring external asset managers.*

12 (c) By January 1, 2020, and annually thereafter, the board shall
13 ~~report on~~ *include in its comprehensive annual financial reports,*
14 *the financial climate risks of its investments, including the carbon*
15 *footprint of the investments computed using the Greenhouse Gas*
16 ~~Protocol of the World Resources Institute, including Scope 3.~~
17 *alignment of the board's portfolio with the Paris climate agreement*
18 *and California climate policy goals, the value at risk if these goals*
19 *are achieved, and the exposure of the portfolio to long-term risks.*

20 (d) *The board shall include in the reports pursuant to*
21 *subdivision (c) the methods and results of the board's engagement*
22 *related to environmental factors with companies that are the most*
23 *carbon intense, such as utilities, oil, and gas producers, within*
24 *the portfolio. This component of the reports shall include both of*
25 *the following:*

26 (1) *A summary of investments in which the board has engaged*
27 *corporate management to seek information and understanding of*
28 *the corporate decisions and their ramifications on environmental*
29 *factors.*

30 (2) *A description of additional action taken, or planned to be*
31 *taken, by the board to address the investment's environmental risk,*
32 *including a list of proxy votes and shareholder proposals initiated*
33 *by the board.*

34 (e) *Nothing in this section shall require the board to take action*
35 *that is not consistent with the fiduciary responsibilities of the board*
36 *as described in Section 17 of Article XVI of the California*
37 *Constitution.*

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