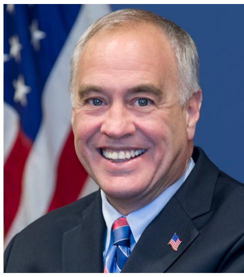


NYS Comptroller
THOMAS P. DiNAPOLI
Office of the New York State Comptroller

ECO News

Winter 2018

A MESSAGE FROM THE COMPTROLLER

Recent actions at the federal level to undercut crucial environmental protections remind us once again that we can't take our environmental quality and successes over the past decades for granted.

Over 10 years ago, I established a Green Initiative in the Office of the State Comptroller. Through this initiative, we have worked to make our internal operations more environmentally responsible while also advancing sound practices through audits, through investment decisions for the benefit of the New York State and Local Retirement System's participants, and through advocacy for improved public policies.

Comptroller DiNapoli participates in the 2018 Investor Summit on Climate Risk at the United Nations. *From left, Jack Ehnes, CEO, California State Teachers Retirement System; Sharan Burrow, General Secretary, International Trade Union Confederation; Comptroller DiNapoli; and Andrew Plepler, Global Head of ESG, Bank of America.*

As Trustee of the Common Retirement Fund, I have committed $7 billion to our Sustainable Investment Program and held companies accountable for strengthening policies related to climate change and other environmental issues. These actions are helping to preserve the long-term value of the Fund.

Recent audits of State and local government environmental programs have identified ways to reduce the waste of natural resources and taxpayer dollars. These audits have covered a range of programs including financial controls over unclaimed bottle deposits, pipeline safety and management of public water systems.

We continue to make our own operations more sustainable. Recently, we conducted an energy efficiency audit of the OSC building at 110 State Street in Albany, and resulting upgrades to lighting and building management systems have saved energy and reduced utility bills. We also began using 100 percent recycled content paper for the Retirement System's large printing jobs and we've introduced electronic forms and documents in the State's financial management system to reduce the use of paper.

At a time when environmental protections that have taken decades to establish are under threat, I have expanded our efforts to engage with public officials at all levels of government and with business leaders and company executives to oppose practices and policies that undermine the health and safety of New Yorkers. And I will take action whenever necessary to support the progress that we need to make our economy, our pension fund, and our environment more sustainable.

The fight to create a stronger, healthier, more sustainable world continues to be an all hands on deck effort. While the work continues, each day we make progress. By working together on this global challenge, we can have a lasting positive impact on our economy and our environment. As New York State Comptroller, I remain focused on that goal.

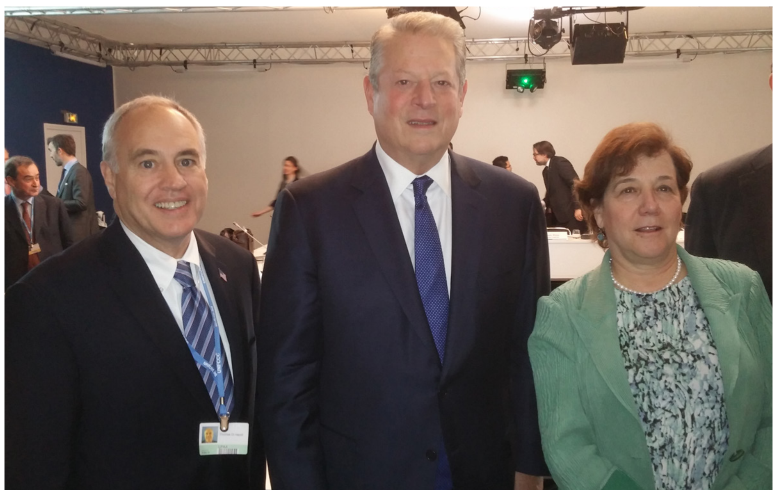
INSIDE THIS ISSUE

COMPTROLLER DiNAPOLI'S CLIMATE LEADERSHIP

Since taking office in 2007, Comptroller DiNapoli has been a global leader in recognizing and responding to investment risk posed by climate change. As Trustee of the Common Retirement Fund, he recognizes that climate change is one of the greatest threats to the Fund's investments and it is consistent with his fiduciary duty to use the most effective strategies available to address those investment risks.

The Comptroller's Sustainable Investment Program, which he launched in 2008, is a multifaceted strategy for addressing climate-related investment risk by reducing portfolio exposure to greenhouse gas emissions. The strategy encompasses three objectives: sustainable investing, shareholder engagement and public policy advocacy. Highlights include:

- Committing $7 billion to investments in climate solutions and other investments consistent with the United Nations' sustainable development goals.
- Protecting the Fund's investments by challenging over 120 companies to improve their climate change policies, and encouraging long-term business model changes to reduce greenhouse gas emissions and demand for fossil fuels in the transition to the low-carbon economy of the future.
- Leading public policy advocacy at the international, federal, and State levels on climate change issues that may impact the Fund's returns.



Comptroller DiNapoli with former Vice President Al Gore and Mindy Lubber at COP 21.

Comptroller DiNapoli's efforts in combatting the risks of climate change have been recognized by the Asset Owners Disclosure Project (AODP), an organization dedicated to ensuring that pension funds and those who invest on behalf of others work to protect their investments from climate change risk. In April 2017, AODP released its annual rankings of the climate preparedness of the world's 500 largest investment funds. It ranked the New York State Common Retirement Fund as the top-rated fund in North America and the third globally for its efforts.

In June 2017, *Environmental Finance* magazine named DiNapoli as one of its "Personalities of the Year," stating that "New York State Comptroller Thomas DiNapoli has been one of the most influential investor voices on climate change in recent years."

Comptroller DiNapoli has played an instrumental role in communicating the importance of climate change risk to the investment community, and is widely recognized as an international leader in this area. As a result, he has been invited to speak about his efforts to mitigate these risks at a number of events which bring together global leaders, including:

- The Eighth International Investor Summit on Climate Change at the United Nations in 2018.
- The United Nations Framework Convention on Climate Change's 23rd Conference of the Parties in Bonn, Germany in 2017.
- The United Nations Framework Convention on Climate Change's 21st Conference of the Parties in Paris, France in 2015.

CHALLENGING CORPORATIONS ON CLIMATE CHANGE

Comptroller DiNapoli is committed to protecting the Common Retirement Fund's investments by challenging companies to adopt responsible climate change policies and encouraging long-term business model changes to facilitate the transition to a low-carbon economy.

UPDATE ON EXXONMOBIL ENGAGEMENT

In November 2016, the Fund and the Church of England led a group of investors in filing a request that ExxonMobil report to its shareholders on the potential impacts to the company of climate mitigation goals agreed to in the Paris Accord. In May 2017, this request received overwhelming support, earning approval from more than 62 percent of the company's shareholders.

In December 2017, ExxonMobil agreed to produce the requested report which it published in February 2018. As requested, the company included analysis of 2 degree scenarios and the implications of these scenarios for the production of company reserves. (A "2 degree scenario" describes the conditions under which the global average temperature rise is limited to no more than 2 degrees Celsius [3.6 degrees Fahrenheit] above preindustrial levels.) The company acknowledges that efforts to mitigate climate change will produce changes in the markets for its products, but nonetheless projects growth in markets for commercial liquid fuels, plastics and petrochemicals.

ExxonMobil's report views the most likely climate change scenario as one that the United Nations Intergovernmental Panel on Climate Change's 2013 report found could result in warming of as much as 2.4 degrees Celsius by the end of the Century. Current researchers have found that this scenario could result in warming of as much as 3 degrees Celsius by the end of the Century.[1] The company also identifies the trends in energy use that it believes would lead to this scenario.

While the report provides some insight into the company's approach to transitioning to a low-carbon economy, it also raises important questions about the company's overall strategy and the assumptions upon which it is basing its forecast. In addition, the company does not set any internal goals for greenhouse gas reductions, or address potential impacts on the company and the market for its products in a world approaching 3 degrees Celsius of warming.

Despite its limitations, the report will serve as a starting point for the Fund and other shareholders to continue engagement with and press ExxonMobil to develop targets consistent with the Paris Agreement for reduction of greenhouse gas emissions from its operations and from the use of its products.

2017 CLIMATE CHANGE AND ENVIRONMENTAL ENGAGEMENT

In 2017, Comptroller DiNapoli filed 19 shareholder resolutions addressing climate change risks or other environmental issues with companies in the Fund's portfolio. Three of these resolutions, including that filed at ExxonMobil, won support from a majority of voting shareholders; in eight instances, the companies agreed to take the actions requested.

In 2017, the Fund wrote to more than 300 companies in the Fund's Low Emissions Index, calling on them to publicly disclose their greenhouse gas emissions data. This outreach has convinced over 70 additional companies to disclose their data.

Comptroller DiNapoli was honored by the Adirondack Council for his leadership on environmental protection. *From left, Robert Kafin, Chair, Adirondack Council Board of Directors; Comptroller DiNapoli; Lem Srolovic, Bureau Chief, Environmental Protection Bureau in the Office of the Attorney General; and Allison Fultz, Partner, Kaplan, Kirsch and Rockwell law firm.*

In December 2017, Comptroller DiNapoli wrote to Warren Buffett, Chairman and CEO of Berkshire Hathaway, with respect to a growing controversy regarding the storage of empty rail tank cars owned by a Berkshire Hathaway subsidiary on an unused rail line in the heart of New York's Adirondack Forest Preserve.[2] The Fund holds over five million shares of Berkshire Hathaway. Citing media coverage and the critical reaction from local elected officials, community stakeholders, and conservation groups, and expressing concern that the issue could negatively impact the reputation of Berkshire Hathaway, DiNapoli urged that the tank cars be removed from the Adirondack Park as quickly as possible. The company agreed to remove its rail cars from the Park.

2017 SHAREHOLDER RESOLUTIONS ON ENVIRONMENTAL ISSUES

Company	Issue	Result
Assurant, Inc.	Sustainability Reporting	Agreement
PayPal Holdings, Inc.	Sustainability Reporting	Agreement
Under Armour, Inc.	Sustainability Reporting	Agreement
W. R. Berkley Corporation	Sustainability Reporting	Agreement
ExxonMobil Corporation	Climate Risk—2 Degree Scenario	62.3% and Agreement
PPL Corporation	Climate Risk—2 Degree Scenario	56.8% and Agreement
Pioneer Natural Resources Co.	Sustainability Reporting	52.1% and Agreement
Duke Energy Corporation	Climate Risk—2 Degree Scenario	46.4% and Agreement
Dominion Resources, Inc.	Climate Risk—2 Degree Scenario	47.8%
DTE Energy Company	Climate Risk—2 Degree Scenario	45.0%
Michael Kors Holdings	Climate Change—Energy Efficiency	39.6%
Kinder Morgan, Inc.	Sustainability Reporting	38.4%
Fluor Corporation	Climate Change—GHG Reductions	36.7%
Marathon Petroleum Corporation	Sustainability Reporting	35.2%
Netflix, Inc.	Sustainability Reporting	29.5%
Domino's Pizza, Inc.	Climate Risk—Deforestation	23.1%
Chevron Corporation	Director with Environmental Expertise	19.6%
Diamond Offshore Drilling	Sustainability Reporting	17.5%
The Kraft Heinz Company	Climate Risk—Deforestation	13.1%

2018 CLIMATE CHANGE AND ENVIRONMENTAL ENGAGEMENT

To date, Comptroller DiNapoli has filed 21 resolutions requesting Fund portfolio companies address climate change risks or other environmental issues during the 2018 proxy season. Although no resolutions have yet come to a vote, six have already led to agreements with the companies to take the requested actions.

In January 2018, he wrote to First Quantum Materials, citing his concerns with the company's possible investment in the Pebble Mine, an open pit mine that would affect up to 12 million acres in the headwaters of Bristol Bay, Alaska, home to one of the world's largest wild salmon fisheries. The Comptroller called on the company to report to shareholders on the steps it has taken to assess the likely liability and reputational risk from potential damage to the environment and regional economy.

Also in January, the Comptroller wrote to the leadership of Ford Motor Company. His letter asks that Ford plan for a fleet emissions goal that is consistent with the goals of the Paris Agreement, and that the company publicly oppose the Automobile Alliance's efforts to delay and undermine current U.S. standards for vehicle fuel economy and greenhouse gas emissions.

[1] Brown, T. Patrick and Ken Caldeira. *Greater Future Global Warming Inferred From Earth's Recent Energy Budget,* Nature, Volume 552, December 7, 2017

[2] www.chicagobusiness.com/article/ 20151109/NEWS05/ 151109829/a-billion-dollar-deal-and-barely-a-mention

2018 SHAREHOLDER RESOLUTIONS ON ENVIRONMENTAL ISSUES

Company	Issue	Current Status
Dominion Resources, Inc.	Climate Change—2 Degree Scenario	Withdrawn With Agreement
Lowe's Companies, Inc.*	Climate Change—Energy Efficiency	Agreement
Advance Auto Parts, Inc.	Sustainability Reporting	Agreement
DTE Energy Company	Climate Change—2 Degree Scenario	Withdrawn With Agreement
US Foods Holding Corp.	Climate Change—Deforestation	Withdrawn With Agreement
American Electric Power Co.	Climate Change—GHG Reductions/Decarbonization	Withdrawn With Agreement
Bunge Limited	Climate Change—2 Degree Scenario	Filed
Chesapeake Energy Corp.	Climate Change—2 Degree Scenario	Filed
Great Plains Energy Inc.	Climate Change—2 Degree Scenario	Filed
SCANA Corp.	Climate Change—2 Degree Scenario	Filed
Southwestern Energy Co.	Climate Change—2 Degree Scenario	Filed
Domino's Pizza, Inc.	Climate Change—Deforestation	Filed
Community Health Systems	Climate Change—Energy Efficiency	Filed
General Dynamics Corp.	Climate Change—Energy Efficiency	Filed
Rite Aid Corporation	Climate Change—Energy Efficiency	Filed
Michael Kors Holdings	Climate Change—Energy Efficiency & Renewables	Filed
Fluor Corporation	Climate Change—GHG Reductions/Decarbonization	Filed
The AES Corporation	Climate Change—GHG Reductions/Decarbonization	Withdrawn
Chevron Corporation	Director with Environmental Expertise	Filed
American Financial Group	Sustainability Reporting	Filed
Kinder Morgan, Inc.	Sustainability Reporting	Filed
Universal Health Services	Sustainability Reporting	Filed

*In negotiations prior to filing, Lowes agreed to implementation of the requests in the resolution and as a result, the resolution was not filed.

COMPTROLLER DiNAPOLI DOUBLES COMMITMENT TO LOW EMISSIONS INDEX

In January 2018, Comptroller DiNapoli announced the commitment of an additional $2 billion to the New York State Common Retirement Fund's Low Emissions Index, doubling the investment in this innovative portfolio decarbonization strategy. DiNapoli first announced the creation of the Index—a first for U.S. public pension funds—at the 2015 Paris Climate Change Conference. This additional allocation raises the current total commitment to the Fund's sustainable investments to $7 billion.

The Low Emissions Index underweights stock ownership in some of the worst greenhouse gas emitters based on independent emissions data reported to the CDP (Carbon Disclosure Project), and increases investments in companies with lower carbon emissions. The carbon footprint of DiNapoli's low emissions index is 75 percent lower than its benchmark.

The Low Emissions Index was developed to employ the Fund's efficient passive equity investment strategy in an index that reduced the carbon footprint of the Fund's equities portfolio. Since its inception, the Index performance has closely tracked that of the Russell 1000.

DiNapoli announced the additional allocation to the Low Emissions Index at Ceres' Eighth International Investor Summit on Climate Change held at the United Nations in January, stating: "Our State pension fund is at the forefront of the worldwide effort to build a lower carbon economy. Our investment decisions and our shareholder engagements are a caution to corporations: if they're not helping build a decarbonized future, they may get left behind. Our strategy for sustainable, lower carbon investing is working and will continue to expand."

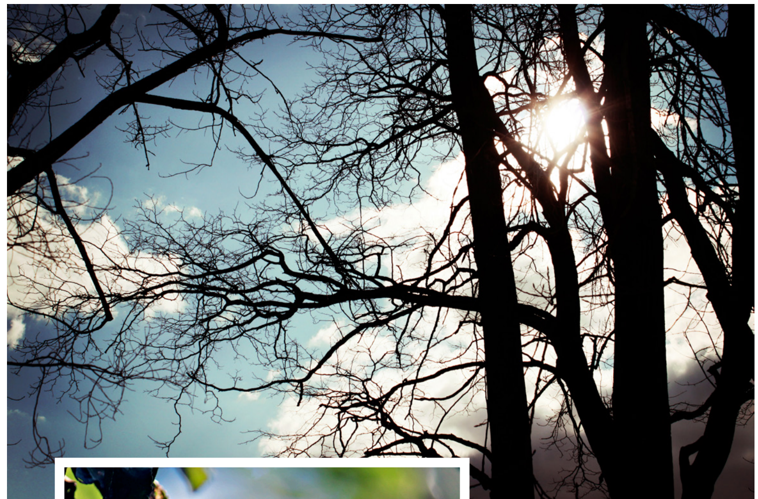
The Low Emissions Index is a key part of the Comptroller's larger strategy to decarbonize and reduce the risks to the Fund posed by climate change without losing value.

INVESTING IN CLIMATE SOLUTIONS

By its nature, the New York State Common Retirement Fund is a long-term investor. As the Fund's Trustee, Comptroller DiNapoli believes it is prudent to invest in the low-carbon economy of the future. The Comptroller's Sustainable Investment Program has committed $7 billion to investments in climate solutions and other investments consistent with the United Nations' sustainable development goals. These commitments include:

- $4 billion in the Fund's own ground-breaking Low Emissions Index, which reduces investments in companies with the highest carbon emissions and increases investments in companies with lower emissions.
- $3 billion in large-scale sustainable investments around the world, across all asset classes.

When considering new investments, the Fund mandates rigorous assessments that evaluate an investment's potential environmental, social and governance (ESG) risks. The Fund also conducts annual ESG reviews of existing investments, and carbon footprint analysis of the Fund's public equity portfolio, which achieved a 16 percent lower emissions footprint than the public equities portfolio benchmark in 2017.



RECENT ENVIRONMENTAL POLICY REPORTS

SAFE DRINKING WATER REPORT

Incidents of contamination in our public water supplies in recent years have reminded us that strong regulatory oversight is essential to assure the quality and safety of our drinking water. A June 2017 report issued by Comptroller DiNapoli summarizes the current regulation of public water supplies and outlines potential steps to enhance oversight to protect individuals and communities throughout New York. The report found that the current federal-state regulatory structure can leave significant gaps in protection.

The federal Safe Drinking Water Act (SDWA) provides the statutory basis for federal and state regulations governing operation of public water systems. Even though federally mandated sampling has found harmful contaminants in drinking water systems, no new federal regulations for contaminants have been issued since 1996. The SDWA includes a key role for state governments to play in ensuring safe drinking water. Although regulations for drinking water contaminants issued by the New York State Department of Health are as stringent as EPA regulations, in some cases they are much less protective than the federal health advisories issued for contaminants that the EPA does not regulate. Programs to assess the prevalence of drinking water contamination and to adopt new regulations for contaminants if necessary were enacted in the State Budget for State Fiscal Year 2017-18. The Budget included $2.5 billion for water quality projects which will have to be carefully monitored.

The Comptroller's report includes recommendations for State policy makers to strengthen safeguards and improve responses to contamination, including:

- Considering a more precautionary approach for regulation of contaminants that are unregulated at the federal level, and broadening the scope of review when identifying emerging contaminants.
- Developing and publishing a plan, with public input, for responding swiftly and effectively to instances of drinking water contamination.
- Creating a statewide program that would proactively monitor the health of residents exposed to drinking water contaminants.
- Issuing regular reports on statewide trends in drinking water quality and implications for public health.

For the full report, visit: www.osc.state.ny.us/reports/environmental/drinking-water-contaminants.pdf

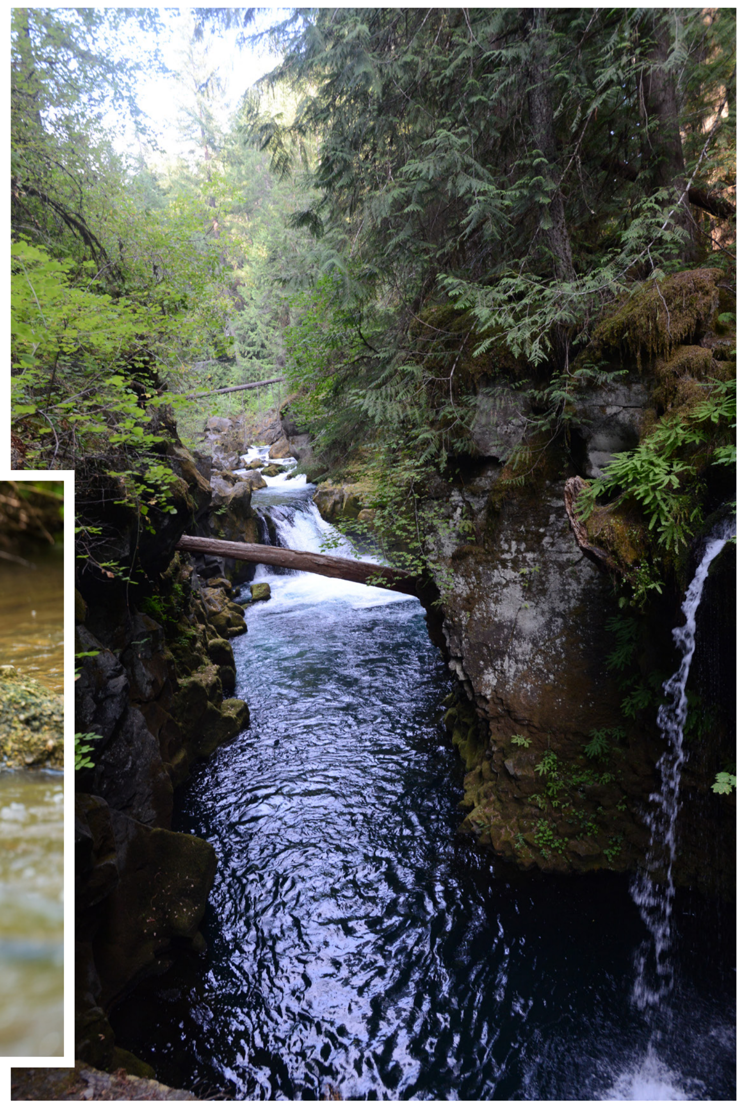
Adequate maintenance of public drinking water infrastructure is fundamental to ensuring that this vital resource is delivered in a safe, reliable and affordable manner. In 2017, the Office of the State Comptroller issued a report evaluating the status of New York's drinking water infrastructure and found significant concerns, including:

- Water losses in some systems reached 50 percent of water distributed due to leaking pipes, unmetered uses and other problems.
- Failure to conduct regular maintenance contributed to disruptive water main breaks.

The report also considered options for funding the maintenance activities needed to keep public drinking water systems in good repair. The New York State Drinking Water Revolving Fund is one important resource. Since this funding comes primarily in the form of loans, however, their repayment can be difficult for many municipalities within already stressed local budgets. The State's recent commitment of $2.5 billion for a variety of water infrastructure project categories will be helpful, but current estimates from the EPA find that New York will need to invest $22 billion in drinking water infrastructure by 2030. A 2008 assessment from the New York State Department of Health estimated that close to $40 billion would be needed over a 20-year period.

Maintaining critical infrastructure, like public drinking water and waste water treatment systems, will continue to be a challenge for New York State and its municipalities. Comptroller DiNapoli has proposed legislation that would create a rational, comprehensive capital planning process through the establishment of a New York State Capital Asset and Infrastructure Council. The Council would assess and recommend investments in State, and at the discretion of the Council, municipal capital assets, including water infrastructure.

For the full report visit: www.osc.state.ny.us/localgov/pubs/research/drinkingwatersystems.pdf



PUBLIC POLICY ACTIONS AND ADVOCACY IN 2017

Comptroller DiNapoli provides public policy leadership at the international, federal and State levels on climate change issues that may impact the Fund's returns, including supporting the U.S. participation in the Paris Agreement, pressing Congress to support tax credits for solar and wind power, supporting the adoption of low-carbon fuel standards in New York, calling for carbon pricing, supporting the Regional Greenhouse Gas Initiative, and urging the SEC to adopt stronger requirements for corporate disclosure of material carbon risks and opposing proposals to reduce shareholder rights.

In March, after the derailment of a train carrying hazardous materials in Newburgh, New York, Comptroller DiNapoli wrote to the Secretary of the U.S. Department of Transportation, Elaine Chao, requesting that she revisit the need for additional safety measures to prevent derailment of trains carrying hazardous cargoes.

Comptroller DiNapoli with Lord Nicholas Stern, a noted climate economist, at COP 23.

In May, the Comptroller joined 217 investors in writing to the governments of the G7 and G20 nations urging them to continue to support and fully implement the Paris Climate Agreement, to drive investment into the low-carbon transition, and to implement climate-related financial reporting frameworks.

In July, the Comptroller co-signed a global investor statement to the G20 nations requesting that countries stand by the Paris Agreement and strive for its swift implementation.

In December, Comptroller DiNapoli led a coalition of state and municipal treasurers and comptrollers in urging the U.S. Environmental Protection Agency to reconsider its announced repeal of the Clean Power Plan. The comment letter highlighted the importance of the Plan, and the potential negative impacts of climate change on the operations and revenues of the nation's businesses, as well as on the physical and financial well-being of all Americans.

OVERVIEW OF RECENT GREEN AUDITS

Comptroller DiNapoli's office has issued numerous audits that relate to environmental concerns in New York State. Recent examples include:

- *Department of Taxation and Finance: Controls Over Unclaimed Bottle Deposits (2016-S-96)*. This audit assessed the enforcement and oversight of the State's program to reclaim a portion of unredeemed bottle deposits by the Department of Taxation and Finance (DTF). These funds support spending from the Environmental Protection Fund and the State's General Fund. The audit found that DTF failed to investigate certain indicators of material errors and/or fraudulent reporting, and did not issue penalties for failures to comply with the law.
- *Public Service Commission: Pipeline Safety Oversight (Follow-Up) (2017-F-20).* A 2016 audit assessed the oversight of pipelines transmitting natural gas and hazardous liquids by the Public Service Commission (PSC). The audit found that the PSC failed to confirm the qualifications of company pipeline safety inspectors, was unaware that some pipeline operators had failed to provide required notification of serious accidents, and was not gathering and evaluating available sources of data to help identify risks and improve pipeline safety. The follow-up audit found that the PSC had put systems in place to check the credentials of essential pipeline personnel and to ensure that pipeline accidents were reported. The agency had not, however, developed a program to collect and assess available pipeline safety data, but was working on developing a database to assist in this process.
- *Office of General Services: Food Metrics Implementation (2017-S-18).* The 2013 Food Metrics law was enacted to encourage purchasing of locally grown foods by New York State agencies. In 2017, the Office of the State Comptroller published an audit evaluating the performance of the Office of General Services (OGS) in implementing this law. The audit found that OGS had failed to develop required guidelines or training to assist agency personnel in purchasing foods produced in the State, and was inaccurately tracking and reporting agency purchases of such foods. In response to the audit, OGS developed and published the required guidelines.

Other audits with important environmental implications have included:

- *NYSERDA NY-Sun Incentive Program (2015-S-91)*
- *State Parks Oversight of Health and Safety Regulations at Public Pools, Beaches and Spray Grounds (2016-S-55)*
- *Hudson River Park Trust Selected Financial Management Practices (2016-F-22)*
- *DEC Collection and Use of Oil Spill Funds (Follow-Up) (2017-F-13)*
- *DEC Oversight of Health and Safety Regulations at Public Pools, Beaches and Spray Grounds (2016-S-55)*
- *County of Franklin Solid Waste Management Authority—Solid Waste and Recycling Charges and Host Community Fees (2016M-418)*
- *City of Glens Falls—Water and Wastewater System Cybersecurity (2017M-117)*
- *Cortland County—Public Water Supplies (2016M-318)*
- *Seneca County—Water and Sewer Operations (2017M-4)*
- *Buffalo Sewer Authority—Industrial Waste Section (2016M-434)*
- *Wilton Water and Sewer Authority—Water and Sewer Charges (2016M-329)*

Comptroller DiNapoli talks with panel members at COP 21.

GREEN OPERATIONS

Comptroller DiNapoli issued an Executive Order on Energy and the Environment shortly after taking office in 2007, establishing the goals and structure of a Green Initiative for the Office of the State Comptroller (OSC). The Order directs OSC to operate in an environmentally sustainable manner and to incorporate long-range environmental planning in daily agency operations. In addition, the Order directs OSC to use its experience to assist other State agencies and local governments in operating in a way that is more environmentally sustainable. State government can thereby prevent environmental harm and ensure that future generations enjoy access to New York's high-quality natural resources. Sustainable operations can also help reduce operating costs.

Pursuant to this Executive Order, OSC is continuing its efforts to be a model of sustainability. The Agency's paper use has been reduced by more than 50 percent in the decade following the Comptroller's Order. Since 2010, energy use intensity at OSC's Albany headquarters has been reduced by 16 percent. Electricity bills for the building were cut by 43 percent between 2014 and 2016. Starting in 2018, OSC will begin a top-to-bottom lighting retrofit, replacing fluorescent fixtures with LED lighting fixtures, which will substantially improve the building's energy efficiency. This project is expected to be completed over the next several years.

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