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PROGRESS REPORT

on the New York State Common Retirement Fund's

Climate Action Plan

Thomas P. DiNapoli OFFICE OF THE NEW YORK STATE COMPTROLLER

Message from the Comptroller

I am pleased to present the New York State Common Retirement Fund's third annual Climate Action Plan Progress Report. The report outlines our ongoing efforts to address climate risks and opportunities across the Fund's diversified portfolio and to reach the targets we have laid out, including achieving net-zero greenhouse gas emissions by 2040. Over the past four years, the Fund has made significant progress on the Plan's key action items, including allocating more than $18 billion to sustainable and climate solutions investments, assessing and engaging portfolio companies to determine their readiness for the transition to a net-zero economy and asking companies to build resilience to physical risks.

In the last year, the Fund reassessed coal and oil sands companies, which led to its decision to continue investment restrictions for 28 companies and newly restrict or divest from six additional coal companies; committed $1 billion to a fund tracking the MSCI World ex USA Climate Change Index, which is designed to address climate-related risks and opportunities by overweighting companies that will benefit from the transition to a low carbon economy while underweighting those that face greater risks due to climate change; and filed comment letters with the U.S. Securities and Exchange Commission on the proposed climate change disclosure rule and with the U.S. Environmental Protection Agency supporting methane regulations. In addition, the Fund expanded its engagements with high-risk companies, urging them to accelerate their net-zero transition strategies.

Climate change poses risks to the economy, financial markets, and the Fund's investments. Managing these risks is integral to protecting the Fund's investments, and capitalizing on the opportunities that arise from the transition to a net-zero economy is similarly critical to ensuring that the Fund is best-positioned for market changes stemming from the transition.

The Fund has set bold targets and has made progress in achieving them. As we continue to work toward net-zero and address both specific and systemic climate risks to our portfolio, the Fund will keep focusing on long-term climate resilience in line with fiduciary duty.

In 2023, I look forward to expanding our climate efforts by completing the Fund's first review of integrated oil and gas companies; promoting climate solutions investments; exploring enhanced risk assessments; and continuing to strengthen engagement and advocacy efforts focused on realizing the transition to a net-zero economy and building resilience to physical risks.

Thomas P. DiNapoli
State Comptroller

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Introduction: Climate Action Plan

The 2019 Climate Action Plan (Plan) describes the climate beliefs of the New York State Common Retirement Fund (Fund or CRF) and delineates a set of actions for mitigating climate-change-related investment risk and investing in climate solutions. Key components of the multi-faceted plan include:

- active engagement with portfolio companies and managers;
- developing and utilizing industry-specific minimum standards and risk assessments to evaluate companies in high-impact sectors on their readiness to transition to a low-carbon economy;
- public policy advocacy at the international, federal and state levels; and
- committing $20 billion to the Fund's Sustainable Investment and Climate Solutions (SICS) Program.

In 2020, Comptroller DiNapoli set a goal for the Fund to realize net-zero greenhouse gas emissions across the portfolio by 2040. The following year, the Fund set an interim goal of 50 percent alignment with a 1.5-degree scenario by 2030. In addition, the Fund adopted interim engagement and investment goals for 2030 that include actively engaging with 50 percent of the Fund's publicly traded assets in high-impact sectors on net-zero by 2040 and allocating at least 75 percent of the $20 billion committed to the SICS program to investments in climate solutions.

Assessments

The Fund remains committed to assessing its climate risks and progress in meeting its climate goals, though significant challenges related to data and modeling remain. While identifying, developing and applying climate assessment tools is difficult, the Fund has continued to use the following assessments to better understand how climate risks and the energy transition could affect the Fund's investments.

Fossil Fuels Exposure Analysis

The Fund regularly measures its investments in fossil fuel producers. As of December 31, 2022, the value of the Fund's holdings in fossil fuel producers totaled approximately $4.69 billion in its public equity and corporate fixed income portfolios.[1]

High-Impact Sectors Exposure Analysis

In addition to measuring exposure to fossil fuel producers, the Fund assesses its investments in high-impact sectors identified by the Task Force on Climate-Related Financial Disclosures (TCFD) created by the Financial Stability Board under the auspices of the G20 group of nations. The following table presents a breakdown of the Fund's global equity and corporate fixed income investments in these high-impact sectors and industries as of December 31, 2022.

Sector / Industry	Total ($ billion)
Energy	6.13
Utilities	3.79
Transportation	2.42
Materials including Forest Products	4.29
Industrials including Construction & Capital Goods	4.47
Agriculture, Food & Beverage	4.12
Real Estate	2.68
Financials	18.79

1 When used in this report, the terms "fossil fuel producers" has the same meaning as in New York State Senate Bill S2126A (2019), available at https://www.nysenate.gov/legislation/bills/2019/s2126. "Coal producer" means any corporation or company, or any subsidiary or parent of any corporation or company, that derives at least 20 percent of annual revenue from thermal coal production, or accounts for more than one percent of global production of thermal coal, or whose reported coal reserves contain more than 0.3 gigatons of potential carbon dioxide emissions. "Oil and gas producer" means any corporation or company, or any subsidiary or parent of any corporation or company, that derives at least 20 percent of annual revenue from oil or gas production, or accounts for more than one percent of global oil or gas production, or whose reported combined oil and gas reserves contain more than 0.1 giga-tons of potential carbon dioxide emissions.

Carbon Footprint Study

In 2022, the Fund again measured the carbon emissions intensity (scopes 1, 2 emissions) of its global equity and corporate fixed income portfolios.[2]

The global equity portfolio emissions intensity was 21 percent lower than its benchmark (a composite comprising 72 percent Russell 3000 and 28 percent MSCI ACWI ex-US). Emissions intensity is calculated as a weighted average of companies' carbon footprints (scope 1 & 2) divided by the total portfolio market value. The portfolio's lower emissions intensity versus the benchmark is mainly due to lower investments in high emitting industries and higher investments in less-carbon intensive companies. Global equity, however, saw a 25 percent increase in year-over-year emissions intensity from 2021, primarily due to equity markets declining in 2022. On an absolute basis, there was a small increase in the portfolio emissions from 2021 due to the post-pandemic rebound in the economy.

The corporate fixed income portfolio's emissions intensity was 5.4 percent higher than its benchmark (U.S. Bloomberg Barclays Aggregate), mainly due to higher portfolio allocation to the utilities sector. The fixed income portfolio emissions intensity increased by 1.8 percent year-over-year, also due to higher portfolio allocation to the utilities sector. Much of the increased allocation to utilities is in relatively short-term duration bonds and therefore will not necessarily increase the Fund's longer-term exposure to the sector.

The Fund believes that carbon emissions metrics can be useful in assessing transition risks, especially regulatory risks, and can inform the Fund's prioritized engagements. But these metrics, which are by their very nature backward-looking, are not an effective measure of the future direction of companies. The Fund also recognizes that the significant time lag between when emissions occur and when emissions data is verified and reported, makes it even more difficult to derive actionable information from the measurement of portfolio emissions. There are also challenges in assessing scope 3 emissions due to limited availability of accurate data.[3]

2 Scope 1 emissions are direct greenhouse (GHG) emissions that occur from sources that are controlled or owned by an organization (e.g., emissions associated with fuel combustion in boilers, furnaces, vehicles). Scope 2 emissions are indirect GHG emissions associated with the purchase of electricity, steam, heat, or cooling.

3 Scope 3 emissions are the result of activities from assets not owned or controlled by the reporting organization, but that the organization indirectly impacts in its value chain such as emissions from the organization's suppliers and sold products.

Temperature Alignment

In order to assess whether the public companies in the Fund's portfolio are on the path to achieving net-zero and meeting the Paris climate goals, the Fund measures its global equities and corporate bond holdings' temperature alignment with a 1.5-degree Celsius pathway. The Fund's portfolio alignment assessment uses a number of different data points, factors and models, including companies' historical emissions and reduction trends, and emissions reduction goals, as well as public policy impacts and technological advances, to assess whether a company is aligned with a 1.5-degree scenario and on a trajectory to achieve net-zero.

In 2022, the assessment showed that portfolio temperature alignment is currently at 2.5°C and that 13 percent of the Fund's global equity and corporate bond holdings are in line with a 1.5°C future. By looking at company climate targets, the assessment found that an additional 15 percent of the Fund's global equities and corporate bond investments would become net-zero-aligned if company targets are met. The Fund's share of 1.5°C-aligned companies is highest in Information Technology and Communication Services.

The temperature alignment assessment in 2021 showed that 13 percent of the global equity and corporate fixed income investment are in line with 1.5°C. However, a year-over-year comparison is not possible since the methodology was updated in 2022 to reflect the most recent TCFD guidance on temperature alignment, which resulted in more conservative projections for companies' emissions.

Corporate Climate Data

The Fund continues to collect and utilize a range of corporate climate data for integration into its company and industry analyses. Key data include detailed descriptions and metrics of portfolio companies' transition strategies, capital expenditures, carbon emissions, fossil fuel reserves, implied temperature score, physical risk, green/low-carbon revenue, climate governance, and TCFD reporting assessments. The Fund also applies data and analyses from nonprofit organizations and academic studies to the Fund's assessments—these are provided by organizations such as the Transition Pathway Initiative, Climate Action 100+ net-zero benchmarking assessments, the Carbon Tracker Initiative, CDP, and the FAIRR Initiative. These sources inform the Fund's establishment of minimum standards, transition assessment, and prioritized engagements.

Manager Evaluation and Monitoring

The Fund continues to utilize a set of climate key performance indicators (KPIs) in the Fund's ESG risk assessment to evaluate existing and prospective external investment managers' capabilities to assess and manage climate risks and opportunities. In 2022, the Fund evaluated managers based on these KPIs, which informed the investment due diligence and manager monitoring. The following chart shows the KPIs used to evaluate managers.

ESG Scorecard – Climate KPIs

Category	Key Performance Indicators (KPIs)
Governance	Senior leadership oversight on climate risks.
Assessment	Systematic efforts to assess climate risks and opportunities and apply the latest climate science and best data and analytics in the market to investment analyses, including transition and physical risks and opportunities.
Active Ownership & Stewardship	• For publicly traded asset classes, corporate engagements on transition and physical risks and TCFD reporting. • Where relevant, proxy voting policies to support climate-related shareholder resolutions and integrate climate concerns into director election votes. • Public support of global, federal, state climate regulations.
Reporting	Robust TCFD reporting in the four categories — Governance, Risk Assessment, Strategy, and Metrics & Targets — including scenario analyses and/or enhanced risk assessments.

Investment and Divestment

Sustainable Investment and Climate Solutions Program (SICS)

The Fund’s SICS program is a formal, multi-asset-class commitment with dedicated funding for sustainable investment strategies including climate solutions. As of March 31, 2023, the Fund has deployed over $18 billion, toward its goal of $20 billion, to specific investment opportunities in the SICS Program. The Fund has made commitments across asset classes including actively and passively managed public equity, fixed income, private equity, infrastructure and real estate.

Some examples of investments in climate solutions made in 2022 are described below.

- **MSCI Climate Change Index** ($1 billion commitment by the Fund) is designed to address climate-related risks and opportunities by overweighting companies that will benefit from the transition to a low carbon economy, while underweighting those that face greater risks due to climate change. Key factors that are considered include a company’s carbon intensity, climate risk management, potential stranded assets, physical risk exposure and development of climate solution products and services.
- **Carval Clean Energy Fund II** ($300 million commitment by the Fund plus $100 million co-investment) is a credit fund focusing on opportunities in clean energy, renewable energy, energy efficiency and energy storage, primarily in North America and Europe.
- **DIF VII** ($200 million commitment by the Fund) is a global mid-market infrastructure fund that will invest in renewable energy and broader energy transition and climate-oriented assets, primarily in Europe, the Americas, and Australia.
- **Blackstone Green Private Credit Fund III** ($350 million commitment by the Fund) will seek to capitalize on investment opportunities related to alternative energy sources. The private credit strategy will provide flexible credit capital to companies and assets that focus on renewable energy and climate change solutions.

Transition Assessment and Minimum Standards

The Fund continues to develop transition assessments and minimum standards to evaluate whether portfolio companies in high-impact sectors identified by TCFD have a sustainable business model in line with the emerging net-zero carbon economy. Not all companies within a high-risk sector pose the same investment risks. As such, company-specific analysis and engagement is a key component of our efforts to assess and address risks.

The first step in each transition assessment is to establish an industry-specific assessment framework by identifying key performance indicators to evaluate individual companies' transition readiness. Subsequently, the Fund identifies companies that meet the Fund's threshold criteria for prioritized engagement.

If, after engagement and assessment, companies on this watch list fail to demonstrate minimal transition readiness, the Fund will consider taking investment actions with respect to those companies, such as underweighting, restricting new investments, or divestment, consistent with fiduciary duty to the members, retirees, and beneficiaries of the New York State and Local Retirement System.

The Fund's assessment frameworks and individual company analyses have been informed by consultation with climate and investment professionals. To date, the Fund has completed reviews of energy-sector companies engaged in thermal coal mining, crude oil production from oil sands, and shale oil and gas production.

The Fund's first assessment of 27 integrated oil and gas companies, including the world's largest oil and gas companies: BP, Chevron, Equinor, Exxon Mobil, Saudi Arabian Oil Company, Shell and TotalEnergies, is underway, and is expected to be completed later in 2023.

Thermal Coal Mining and Oil Sands Annual Review

In 2022, the Fund completed its annual review of thermal coal and oil sands companies to ensure that Fund is capturing all the companies that meet our threshold criteria and to review their transition readiness.

For the coal review, seven companies were added to the watchlist because they were newly identified as meeting our threshold criteria of deriving more than 10 percent of revenues from thermal coal mining, and four companies — Hallador Energy, NACCO, CIMIC Group, South32 — were removed from the watch list since they no longer met the Fund's threshold criteria for thermal coal mining revenues. Based on assessment results, the Fund will continue to restrict investments in the 22 coal companies previously restricted and will newly restrict investments in the following six coal companies that have not demonstrated that they are prepared for the transition to a low-carbon economy: Alliance Resource Partners L.P., Geo Energy Resources Limited, PT ABM Investama Tbk, PT Delta Dunia Makmur Tbk, PT Indonesia Asahan Aluminium (Persero), and Thungela Resources Ltd.

Of the nine oil sands producers evaluated, six continued to fail to demonstrate transition readiness, including Athabasca Oil Corporation, Canadian Natural Resources Limited, Cenovus Energy Inc., Husky Energy, Imperial Oil, and MEG Energy Corp., resulting in the Fund continuing to restrict investment in those companies. Japan Petroleum Exploration Co., Ltd, which was previously restricted, showed improved transition readiness, and because it now meets the Fund's minimum standards, the investment restriction was rescinded.

The Following Tables show the assessment results of thermal coal and oil sands companies.

Thermal Coal Assessment Results

Company Name	Result
Alliance Resources Partners, L.P.	New Restriction
Alpha Metallurgical Resources, Inc.	Continued Restriction
Arch Resources, Inc.	Further Engagement
Banpu Public Company Limited	Further Engagement
China Coal Energy Company Limited	Continued Restriction
China Shenhua Energy Company Limited	Continued Restriction
CIMIC Group	Removed From Watchlist
Coal India Limited	Continued Restriction
CONSOL Energy Inc.	Continued Restriction
DMCI Holdings, Inc.	Continued Restriction
Exxaro Resources Limited	Further Engagement
GEO Energy Resources Limited	New Restriction
Guanghui Energy Co., Ltd.	Continued Restriction
Hallador Energy Company	Removed from Watchlist
Huadian Power International Corporation Limited	Continued Restriction
Inner Mongolia Yitai Coal Co., Ltd.	Continued Restriction
Jastrzebska Spolka Weglowa SA	Continued Restriction
NACCO Industries, Inc.	Removed from Watchlist
New Hope Corporation Limited	Continued Restriction
Peabody Energy Corporation	Continued Restriction
PT ABM Investama Tbk	New Restriction
PT Adaro Energy Indonesia Tbk	Continued Restriction
PT Astra International Tbk	Further Engagement
PT Bukit Asam Tbk	Continued Restriction
PT Delta Dunia Makmur Tbk	New Restriction
PT Indika Energy Tbk	Further Engagement
PT Indo Tambangraya Megah Tbk	Continued Restriction
PT Indonesia Asahan Aluminium (Persero)	New Restriction
PT United Tractors Tbk	Further Engagement
Semirara Mining and Power Corporation	Continued Restriction
Shaanxi Coal Industry Company Limited	Continued Restriction

Thermal Coal Assessment Results Continued

Company Name	Result
Shanxi Coking Coal Energy Group Co., Ltd.	Continued Restriction
Shanxi Lu'An Environmental Energy Development Co., Ltd.	Continued Restriction
South32 Limited	Removed from Watchlist
Thungela Resources Ltd.	New Restriction
Washington H. Soul Pattinson and Company Limited	Continued Restriction
Whitehaven Coal Limited	Continued Restriction
Yankuang Energy Group Company Limited	Continued Restriction

Oil Sands Assessment Results

Company Name	Result
Athabasca Oil Corporation	Continued Restriction
Canadian Natural Resources Limited	Continued Restriction
Cenovus Energy Inc.	Continued Restriction
Husky Energy	Continued Restriction
Imperial Oil	Continued Restriction
MEG Energy Corp.	Continued Restriction
Japan Petroleum Exploration Co., Ltd.	Restriction Rescinded Further Engagement
Suncor Energy Inc.	Further Engagement
Teck Resources Ltd.	Further Engagement

Engagement and Advocacy

Corporate Engagement

Engagement remains a critical component of the Fund's climate risk and opportunity analyses and includes both direct discussions with company management and filing of shareholder proposals. The Fund engages directly with high-risk companies, and also in collaboration with other investors through initiatives such as Climate Action 100+, the Ceres Investor Network on Climate Risk, and the CDP Non-Disclosure Campaign, which engages with companies that do not respond to investor requests for disclosure to CDP. The Fund's own direct engagements consist of letter writing and meetings with management and board directors. The Fund also files shareholder resolutions to encourage changes in companies' strategies to address climate-related investment risks. In 2022, the Fund staff engaged with various high-risk companies, urging them to develop net-zero transition strategies and set net-zero GHG reduction targets.

2022 Shareholder Proposals

Since 2008, the Fund has filed over 160 climate-change-related shareholder resolutions, reaching more than 85 agreements with portfolio companies on climate issues such as setting net-zero GHG emissions targets, committing to renewable energy and energy efficiency goals, and providing enhanced climate disclosures in line with TCFD.

In 2022, the Fund reached agreements with seven portfolio companies where it filed climate-related shareholder proposals. The Fund filed shareholder proposals on GHG reduction targets at Antero Midstream, Eastman Chemical, Eversource Energy, Carnival Corp. and Vulcan Materials. These companies were selected based on their relatively high carbon emissions and all agreed to the Fund's request that they set targets for lowering greenhouse gas emissions. For example, Antero Midstream, an energy midstream company focusing on natural gas, announced its net-zero by 2050 emissions target. Vulcan Materials, a construction material manufacturer, has committed to adopting science-based GHG targets in line with a 1.5°C future.

The Fund joined Impax Asset Management in pioneering a new type of shareholder proposal that called on The J.M. Smucker Company to assess the risks their physical operations and facilities face from rising sea levels, flooding and other climate change impacts. The Fund reached agreement with the company to publish periodic reports detailing steps taken by the company to address these risks.

The Fund also partnered with CalSTRS and other investors in filing a proposal asking Duke Energy for a report assessing how the expected reduction in use of fossil fuels will impact its business in light of the International Energy Agency's (IEA) Net-Zero Emissions (NZE) by 2050 scenario, which estimates a greater than 50 percent drop in natural gas demand from 2020 levels by 2050. The report would give the company and investors greater insight into Duke's readiness to adapt to a lower carbon economy. The proposal was withdrawn due to Duke's commitment to publish an IEA NZE scenario analysis of both Duke Energy's electric and natural gas distribution businesses.

Direct and Collaborative Engagements

The Fund continues to expand its engagements with portfolio companies across high-impact climate sectors, including those engaged in the following industries: oil and gas production, coal mining, electric and natural gas utilities, automobile manufacturing, banking, food, materials, and real estate. The Fund urges them to establish net-zero transition strategies, develop strategic capital expenditures (CAPEX) planning, and adopt GHG reduction targets and TCFD reporting.

The Fund was the lead investor in the Climate Action 100+ American Electric Power (AEP) engagement group. AEP is one of the largest electric utilities in the United States, with substantial reliance on coal. In 2022, AEP updated its carbon emissions targets to achieve net zero by 2045 by accelerating its climate ambition by five years.

The Fund also engaged with AEP through CA100+ on climate lobbying reporting. We consider climate lobbying a key component of a company's climate transition strategies, and increasingly encourage portfolio companies to disclose the following information:

- climate lobbying activities, including direct and indirect lobbying activities including through trade associations;
- how the company's policies and lobbying are aligned with the 1.5°C future;
- alignment assessment methodologies in detail; and
- intervention efforts that will be utilized by the company when direct and indirect lobbying misalignments are identified.

The Fund will continue to engage with AEP on climate lobbying disclosure as well as in other key areas such as decarbonization strategies and capital alignment.

In addition, the Fund actively participates in engagements with Duke Energy, Ford Motor Company and Exxon Mobil Corporation through CA100+. These engagements include discussion of decarbonization of gas utilities, scope 3 disclosure and targets, climate lobbying, capital allocation alignment, and just transition, among other issues.

In 2022, the Fund joined other investors in the Ceres's Food Emissions 50 (FE50) campaign, which aims to engage 50 of the highest-emitting public food companies in North America in order to improve their GHG emissions disclosures, set ambitious emission reduction targets, and implement ambitious climate transition plans in line with the Paris Agreement. The Fund launched engagement dialogues with Hormel Foods Corp. and Kroger Co. via FE50 on GHG reduction initiatives, scope 3 GHG management and other issues.

CDP Climate Disclosures and Other Climate Reporting

It is important for the Fund to obtain standardized climate data in order to evaluate risks with even greater precision and comparability. CDP provides a standardized and comparable dataset that now covers more than 18,000 companies. The Fund believes that there is great value in bringing together information on this issue across sectors and regions, using this consistent approach. Therefore, the Fund engages with companies to urge their disclosure of emissions data and other key climate-related metrics to CDP.

In 2022, the Fund participated in CDP's Non-Disclosure Campaign for the third time. The campaign is a joint initiative, led by CDP, through which more than 260 financial institutions engage over 1,460 companies worldwide to disclose climate information through CDP's standardized, TCFD-aligned platform. In this initiative, the Fund sent letters to over 100 of its high-emitting companies such as Kinder Morgan, Phillips 66, and CNX Resources, which disclosed climate-related information to CDP for the first time.

Additionally, in 2022, the Fund joined with over 220 investors to participate in the CDP Science-Based Targets Campaign, which invited 1,610 global companies with a total market cap of $27.8 trillion to set science-based greenhouse gas reduction targets in line with net-zero. As a result of the campaign, 213 companies committed to setting science-based GHG targets to be validated by the Science-Based Targets Initiative (SBTi), 38 companies had near-term science based GHG targets approved by the SBTi, and 96 committed to net-zero targets.

Physical Risks

Knowing where an organization's major assets are located is the first step to understanding its physical risk exposure. Currently, corporate disclosure of the physical location of major assets is very limited. General geographical information about the locations of assets, such as merely noting the country of location, is insufficient for evaluating exposure to specific physical hazards such as wildfires, floods and hurricanes. There are significant differences in physical risks within such broad geographies.

The Fund, in partnership with Impax Asset Management, wrote to all S&P 500 companies in 2021, asking the companies to disclose precise location information of their significant assets. In 2022, the Fund and Impax staff engaged with a number of the high-risk companies and found that some have conducted physical impact assessments using climate scenarios. Several of those companies acknowledged the need to identify high-risk assets and building resilience to physical risks and are considering more robust location disclosure of significant assets. Still others declined to disclose location information due to security risks. Several respondents declined to provide specific locations either because they did not feel they had any exposure to physical risk or because they did not believe that physical hazards could have material impacts on their facilities in the future. Overall, most of the companies we engaged with were in the early stage of assessing physical risk exposure and preparing to manage such risks.

While it is urgent for the companies to reduce GHG emissions, the world is falling short of the Paris goals and climate impacts such as extreme weather events causing business disruptions are accelerating.[4] Companies need to prepare to manage physical risks that are already present and growing. The Fund will continue to engage with portfolio companies on this issue.

4 See https://www.nytimes.com/interactive/2022/11/08/climate/cop27-emissions-country-compare.html; https://climateactiontracker.org/countries/; 2023 Intergovernmental Panel on Climate Change's (IPCC) *Sixth Assessment Report (AR6)* at https://www.ipcc.ch/ar6-syr/; https://foreignpolicy.com/2022/08/24/extreme-weather-asia-climate-change-floods-droughts-heatwave/ and https://www.pcgamer.com/google-oracle-datacenters-melt-down-in-extreme-european-heatwave/

Environmental Stewardship and Climate Risk Proxy Votes

The Fund believes that the election of directors is a fundamental shareholder right, providing the most direct means for shareholders to hold directors accountable for their actions and decisions. The Fund generally withholds support from audit committee members or directors responsible for climate risk oversight when there is failure of the company to disclose and appropriately manage and comprehensively report climate risks. The Fund's proxy guidelines incorporate criteria used to evaluate companies' climate performance, including climate transition targets, strategies, capital expenditure alignment, and TCFD disclosure. The Fund utilizes a variety of data sources, such as company filings, CDP, and the Climate Action 100+ net-zero benchmarking assessment, to inform the Fund's director votes. In 2022, the Fund withheld support from or voted against 462 individual directors at 59 portfolio companies that lacked robust climate risk management, including Berkshire Hathaway, Kinder Morgan, and NextEra Energy.

The Fund will continue to use its voice and vote to encourage and support robust climate risk management, strategic planning, and reporting by portfolio companies in order to achieve a successful transition to the low-carbon economy, which is integral to long-term value creation for shareholders.

Manager Engagement

The Fund staff regularly engages with its managers and index providers to identify how these partnerships can help the Fund enhance its climate risk management and achieve net-zero. The Fund staff had discussions with a number of managers on various topics including portfolio decarbonization and net-zero, the oil and gas industry's key trends and business models, decarbonization/green technology outlook, climate data analysis and modeling, regulatory trends related to climate and green technologies, and proxy voting and corporate engagements. In addition, the Fund staff participated in several working groups including Ceres' Private Equity Paris Aligned Investment Initiative and the Wellington Climate Leadership Coalition.

Public Policy and Market Leadership

Exerting leadership with respect to pertinent public policy issues, including policies governing the financial markets, is an on-going component of the Fund's strategy. The Fund supports policies and practices that promote the overall stability, transparency and functionality of financial markets and the economy. The Fund's public policy engagement takes many forms, including meetings and correspondence with elected representatives, regulators and other public officials, testimony at hearings and forums, and comments on regulatory and legislative proposals.

The Fund's primary public policy advocacy priorities have included enhanced climate disclosures, improved regulation of GHG emissions and increased financial incentives for climate solutions. In 2022, the Fund submitted comments to the U.S. Securities and Exchange Commission in support of its proposed rule, The Enhancement and Standardization of Climate-Related Disclosures for Investors.[5] Also, the Fund filed comments with the U.S. Environmental Protection Agency on its proposed rulemaking, Standards of Performance for New, Reconstructed, and Modified Sources and Emissions Guidelines for Existing Sources: Oil and Natural Gas Sector Climate Review.[6] In addition, the Fund supported the passage and enactment of the Inflation Reduction Act (IRA), which makes the largest climate investment in American history, including $369 billion in funding and tax incentives to drive the energy transition, grow domestic clean energy manufacturing, address environmental justice and develop climate solutions.[7]

Moving forward, the Fund will continue to work on key legislative and regulatory issues including corporate climate disclosures, emissions standards, meaningful carbon pricing, clean energy infrastructure funding, and tax incentives that drive climate solution investments.

5 2022 Comments on the proposed climate change disclosure rule at https://www.sec.gov/comments/s7-10-22/s71022-20130550-299408.pdf

6 2022 Comments on methane regulations for the oil and gas industry at https://www.regulations.gov/comment/EPA-HQ-OAR-2021-0317-0437

7 2021 Letter calling on Congress to focus on Build Back Better climate provisions, which were precursor to the IRA at https://www.ceres.org/sites/default/files/Letter%20to%20Congress.pdf

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