



A New Call for Action: Managing Climate Risk and Capturing the Opportunities

May 10, 2005

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Lance E. Lindblom, President and CEO, The Nathan Cummings Foundation

Religious Institutional Investors:

The General Board of Pension and Health Benefits of the United Methodist Church
William Somplatsky-Jarman, Presbyterian Church (USA)

European Investor Supporters of the Call for Action:

Sir Graeme Davies, Chairman, Universities Superannuation Scheme
Neil Newton, Chair, London Pensions Fund Authority
Peter Scales, Chief Executive, London Pensions Fund Authority



Background

In November 2003, in the midst of the first Institutional Investor Summit on Climate Risk, leading investors launched a new effort to address the financial risks and investment opportunities posed by climate change. The Investor Network on Climate Risk (INCR), inaugurated by ten institutional investors,¹ announced a ten-point action plan, and began to educate other investors about climate risk.

Today we are reporting on the status of the action items included in the first action plan and announcing the next steps we intend to take on this issue.

During the past 18 months, investors have advocated and achieved increased corporate disclosure of climate risk, encouraged investment company consideration of climate risk in investment decision-making, and witnessed new government policies to set global warming emission standards that create certainty and level the playing field among all companies.

While substantial progress has been made, too few investors are seriously addressing the risks and opportunities posed by climate change, and most investment managers lack expertise in climate change or the capacity to assess its risks to portfolios. While some companies have begun to treat climate change as a fundamental strategic issue, many more are not disclosing their climate risk or plans to address it, creating uncertainty for investors and difficulty assessing the true longer-term value of our portfolios.

We are more firmly convinced than ever that climate change presents a material risk to investment portfolios, especially as policies to limit emissions, such as the Kyoto Protocol and various state initiatives, take hold. Indeed, prudence, common sense, fiduciary responsibility, and legal duty compel us to examine the financial ramifications of climate risk with care, and where appropriate, to act.

As fiduciaries of hundreds of billions of dollars of fund assets, we are compelled to renew previous efforts and take additional steps to respond to the challenges and opportunities presented by climate risk. It is our intention to use the knowledge we have gained, in the absence of clear policy, to encourage disclosure that will better enable us to measure our risks as shareholders due to climate change.

1. Phil Angelides, Treasurer, State of California; Randall Edwards, Treasurer, State of Oregon; Dale McCormick, Treasurer, State of Maine; Denise Nappier, Treasurer, State of Connecticut; Jeb Spaulding, Treasurer, State of Vermont; Robert Vigil, Treasurer, State of New Mexico; Alan Hevesi, Comptroller, State of New York; William Thompson, Comptroller, New York City; Steve Abrecht, Executive Director, National Industry Pension Fund, Service Employees International Union (SEIU); and William J. Boarman, Chairman of the Board of Trustees, CWA/ITU Negotiated Pension Plan.



Managing Climate Risk and Capturing the Opportunities: A Renewed Call for Action

Recognizing that climate change embodies risks and opportunities of a significant magnitude for investors and our economy, and represents one of the greatest challenges facing our planet, we are compelled to seek improved approaches in responding to the fiscal ramifications of climate risk for institutional investors, fund managers and financial advisors, companies, and others. Therefore, we call on each of these sectors to respond, affirmatively and definitively, and state our intention to move forward to implement this essential agenda.

Institutional investors

- 1. Call to Action:** Invest capital, individually or collectively, in companies developing and deploying clean technologies, which we believe will enhance and sustain the long-term viability of corporate assets and shareholder value.
Our Commitment: Our collective goal in the next year is to seek to deploy \$1 billion of capital to achieve attractive investment returns over the long term and help catalyze adoption of clean technology in the broader marketplace, while at the same time adhering to the fiduciary standards that govern our overall actions.
- 2. Call to Action:** Support for and success of appropriate shareholder resolutions and company engagement to improve corporate disclosure and governance on climate risk.
Our Commitment: We will develop through the Investor Network on Climate Risk (INCR) a model climate risk policy for institutional investors. This policy will specifically address shareholder resolutions, proxy voting, and corporate dialogue on climate risk. We will share the policy with other institutional investors and with fund managers.
- 3. Call to Action:** Adopt a reliable and generally accepted global standard for disclosure of climate risk.
Our Commitment: We pledge to work with investors around the world to develop such a standard.
- 4. Call to Action:** Promote information sharing among the growing number of institutional investors and organizations around the world concerned about climate risk.
Our Commitment: We will build a new forum for international investor collaboration on climate risk.

Fund managers and financial advisors

- 5. Call to Action:** Improve capacity to assess climate risk.
Our Commitment: We will require and validate that relevant investment managers, seeking to manage our fund assets, describe the resources, expertise and process that they use to assess the risks associated with climate change.
- 6. Call to Action:** Improve mutual fund engagement in addressing climate risk.
Our Commitment: INCR will publish an annual scorecard showcasing how mutual funds vote on climate change shareholder resolutions.

Companies

- 7. Call to Action:** All publicly-held companies in the auto, electric power, and oil and gas sectors should follow the lead of some companies and report within a year how likely scenarios for climate change, future greenhouse gas limits, and dwindling access to inexpensive energy will affect their businesses and competitiveness, and to identify steps they are taking to reduce those financial impacts and seize new emerging market opportunities.
Our Commitment: We will engage with these companies to consider and address climate risk.
- 8. Call to Action:** Renew dialogue between investors and all companies that have already disclosed their climate risk to focus on steps that investors and companies can take to address this risk.
Our Commitment: We will engage with companies, recognize leaders, and promote best practices.
- 9. Call to Action:** Help investors assess climate risk.
Our Commitment: Through INCR, we will produce the "Corporate Governance Score Card on Climate Risk", an annual corporate governance scorecard of 100 large emitters of greenhouse gases. We will distribute this scorecard throughout the investor community by the end of 2005. This report will inform them of the efforts that companies and their boards of directors are taking to consider and address climate risk.²

Government

- 10. Call to Action:** The Securities and Exchange Commission (SEC) to require that companies disclose the risk associated with climate change as part of their securities filings.
Our Commitment: We will work with the SEC to disclose climate risk.

2. This work will build on efforts such as the 14-point checklist developed by Ceres and the Investor Responsibility Research Center.
