File No. 170305

Committee Item No. 5
Board Item No. 14

COMMITTEE/BOARD OF SUPERVISORS

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Prepared by: John Carroll **Date:** Sept. 1, 2017
Prepared by: John Carroll **Date:** Sept. 7, 2017

FILE NO. 170305 RESOLUTION NO.

[Urging the Retirement Board to Renew Its Commitment to Divest from Fossil Fuel Companies]

Resolution urging the Retirement Board of the Employees' Retirement System to renew its commitment to divest from publicly-traded fossil fuel companies, pursuant to its commitments to do so since October 2013, and to provide an update on public and private equity fossil fuel holdings.

WHEREAS, On April 23, 2013, the San Francisco Board of Supervisors passed, by a unanimous vote, a Resolution urging the Retirement Board of the Employees' Retirement System (the "Retirement Board" or "SFERS") to divest from publicly-traded fossil fuel companies (the "2013 Resolution"); and

WHEREAS, At the time that the Board of Supervisors passed the 2013 Resolution, reports indicated that the San Francisco Employee Retirement System had approximately $583.7 million of its total $16 billion pension fund (the "Retirement Fund") invested in 91 of the top 200 corporations that hold the majority of the world's fossil fuel reserves, including $112 million in ExxonMobil, $60 million in Chevron, $26 million in Shell Oil, $17 million in Occidental Petroleum, and $11 million in the China National Offshore Oil Corporation; and

WHEREAS, The 2013 Resolution urged the Retirement Board to "ensure that within five years none of its directly held or commingled assets include holdings in fossil fuel public equities and corporate bonds" as listed in the Carbon Tracker Initiative's "Unburnable Carbon" report; and

WHEREAS, At its March 2015 meeting, the Retirement Board moved to "adopt Level II of the SFERS Social Investment Policies and Procedures regarding fossil fuels...and direct staff to prepare an implementation plan and timeline to the Retirement Board for its consideration and approval;" and

WHEREAS, In spite of the March 2015 Motion, SFERS staff has yet to present an implementation plan and timeline for Level II engagement with its fossil fuel holdings; and

WHEREAS, In October 2015, the Rules Committee of the San Francisco Board of Supervisors held a Hearing on SFERS' progress in protecting the City's Retirement Fund from the stranded asset risk that global climate change poses to their investments in fossil fuel companies, including their progress in implementing Level 1 and Level 2 of their Social Investment Procedures, investing in a fossil fuel-free index fund, and divesting from the "worst of the worst" fossil fuel companies; and

WHEREAS, At the December 2015 meeting of the Retirement Board, SFERS staff identified $21.1 million of holdings in companies with coal mining operations, and the Retirement Board moved to "prudently divest from thermal coal companies held in the portfolio;" and

WHEREAS, At the July 2016 meeting of the Retirement Board Executive Director, Jay Huish, stated that SFERS staff had not yet divested any of the coal holdings because, "we choose to ignore the part (of the motion) we believe is not prudent," and the Retirement Board has taken no further action on divesting from coal since then; now, therefore, be it

RESOLVED, That the Board of Supervisors of the City and County of San Francisco urges the Retirement Board of the San Francisco Employees' Retirement System to adopt an implementation plan and timeline for Level II engagement with its fossil fuel holdings consistent with its motion adopted in March 2015; and, be it

FURTHER RESOLVED, That the Board of Supervisors urges the Retirement Board to provide an update on its motion to divest from coal companies, including but not limited to a progress report on divestment from relevant public and private equity holdings from July 2013 through the present date; and, be it

FURTHER RESOLVED, That the Board of Supervisors urges the Retirement Board to adopt a plan for protecting the Retirement Fund from the stranded asset risk posed by global climate change that includes full divestment from fossil fuel companies.

Carroll, John (BOS)

From: Carroll, John (BOS)
Sent: Tuesday, September 05, 2017 1:53 PM
To: 'Patrick Monette-Shaw'
Cc: Cohen, Malia (BOS); Calvillo, Angela (BOS); Hepner, Lee (BOS); Kittler, Sophia (BOS); Kim, Jane (BOS); Peskin, Aaron (BOS); Breed, London (BOS)
Subject: RE: Testimony to the GAO Committee on SFERS Fossil Fuel Divestment Resolution

Categories: 2017.09.06 - GAO, 170305

Thank you for the commentary. I will add the communication to the official file.

I invite you to review the entire matter on our Legislative Research Center by following the link below:

Board of Supervisors File No. 170305

As you know, the matter will be heard at tomorrow's Government Audit and Oversight Committee. The meeting will commence no earlier than 10:00 a.m.

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From: Patrick Monette-Shaw [mailto:pmonette-shaw@earthlink.net]
Sent: Tuesday, September 05, 2017 12:54 PM
To: Kim, Jane (BOS) <jane.kim@sfgov.org>; Peskin, Aaron (BOS) <aaron.peskin@sfgov.org>; Breed, London (BOS) <london.breed@sfgov.org>
Cc: Carroll, John (BOS) <john.carroll@sfgov.org>; Cohen, Malia (BOS) <malia.cohen@sfgov.org>; Calvillo, Angela (BOS) <angela.calvillo@sfgov.org>; Hepner, Lee (BOS) <lee.hepner@sfgov.org>; Kittler, Sophia (BOS) <sophia.kittler@sfgov.org>
Subject: Testimony to the GAO Committee on SFERS Fossil Fuel Divestment Resolution

September 5, 2017

Board of Supervisors Government Audit and Oversight Committee,

Please find attached my testimony regarding the GOA's hearing on September 6 regarding SFERS' fossil fuel divestment.

Thanks,
Patrick Monette-Shaw

Patrick Monette-Shaw

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September 5, 2017

Government Audit and Oversight Committee
San Francisco Board of Supervisors
The Honorable Jane Kim, Chair
The Honorable Aaron Peskin, Member
The Honorable London Breed, Member
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: **Testimony to the GAO Committee on SFERS Fossil Fuel Divestment Resolution**

Dear Chair Kim and GAO Committee Members,

I fully support agenda item 5 on the GAO's September 6 agenda, urging the San Francisco Employees' Retirement System (SFERS) to renew its commitment to divest from its fossil fuel investments.

Like many people, I remain very concerned about the effects of global warming on future generations of San Franciscans and people worldwide. And I'm dismayed that my pension fund (since I am now retired from City employment) is investing in companies that are clearly making global warming even worse.

SFERS' Staff Are Dragging Their Feet!

Unfortunately, as you know, SFERS' Staff has dragged their feet since October 2013, thwarting meaningful action by SFERS' Board of Trustees for now four years.

"Why didn't those nine highly-paid SFERS employees identify ongoing losses from fossil fuel investments that unpaid Makras uncovered? Why didn't SFERS' Staff proactively provide this information to all of SFERS' Trustees?"

I testified to SFERS' Trustees on August 9 that during SFERS' May 17 Board meeting Commissioner Makras — an unpaid Trustee doing his own due diligence — noted SFERS' current fossil fuel equity holdings include 86 investments. Of those, two-year returns involved 37 losers and 12 winners, and five-year returns involved 28 losers and 18 winners.

The City Controller's payroll database for the fiscal year ending June 30, 2017 shows SFERS' had nine staff employees in job class codes 1114, 1116, and 1119 (Senior Portfolio Manager, Managing Director, and CIO, respectively) who were paid a combined $2.5 ***million*** in FY 16-17. Why didn't those nine highly-paid employees perform their own due-diligence, identify ongoing losses from fossil fuel investments that unpaid Makras uncovered May 17, and bring a recommendation to this SFERS' Board to divest from those losses?

Why didn't SFERS' Staff proactively provide this information to ***all*** of SFERS' Trustees?

SFERS' Staff memo asserted Fiduciaries must minimize investment losses, and maximize investment returns.

Makras recommended doing what's right: Dump low-performing fossil fuel investment ROI.

The Staff memo also noted that California's constitution requires SFERS Board members discharge its duties exclusively to provide benefits to plan participants and beneficiaries, and to maximize ROI, by minimizing risk of losses. If SFERS' Board doesn't fully divest from the losers Makras identified on May 17, the Boasrd of Trustees will be failing its fiduciary duties to minimize these risks from even further investment losses.

"If SFERS' Board doesn't fully divest from the losers Makras identified, the Board of Trustees will be failing its fiduciary duties to minimize these risks from even further investment losses."

The SFERS staff recommendation to reject Commissioner Makras' May 17 motion for full divestment claims doing so would "exacerbate the potential losses from divestment." NEPC and SFERS staff now appear to be saying that the two-year and five-year return losses would be "exacerbated" by completely divesting from them. Does that mean — reading between the lines — that adding more losses on top of existing losses will just exacerbate the losses, not solve it? Why is NOT "exacerbating" a loss somehow preferable to getting rid of the underlying loss? Is this some sort of new math?

Robyn Purchai's article in the San Francisco Examiner on August 16 — "*With lives, livelihoods on the line, SF clings to coal, oil investments*" — was simply terrific, which documented a $120 million loss in the market value of SFERS' fossil fuel holdings over just a three-month period.

Why is holding on to an investment that has already lost $120 million to the pension fund NOT a current "risk."

Is Potential Trustee Nonfeasance Due to SFERS' Staff Interference: Failure to "Book" Losses?

Word has it that the reason the Retirement System's staff do not want to divest is that they would have to "bank" or "book" the already existing fossil fuel investment losses, and the reason they don't want to have to book those losses is because it would smirch their resumes as having managed portfolio's that involved investments losing substantial sums of pensioner's money! Better to hide the losses by keeping them on the books, than to sully their lily-white resumes.

This isn't about "political positions." It's about protecting the reputations of SFERS' investment managers and their resumes from having to book poorly-performing investments and massive losses.

SFERS' Trustees are required as fiduciaries to protect the pensioners from these sort of hundreds-of-million-dollar losses. This says to me that the Trustees are either engaging in nonfeasance, or they are engaging in breach of their fiduciary duties, given that SFERS' Staff appears to have potentially, and intentionally, withheld crucial information from SFERS' Trustees.

Either way, if SFERS' Trustees have not been provided documentation by SFERS' Staff on these losses over the past five- and ten-year periods, then it appears to me that SFERS' staff may be intentionally interfering with the Trustees' obligations to perform due diligence they are expected and required to perform as Trustees.

"If SFERS' Trustees have not been provided documentation by SFERS' Staff on these losses over the past five- and ten-year periods, then it appears to me that SFERS' staff may be intentionally interfering with the Trustees' obligations to perform due diligence."

Further Board of Supervisors Actions

It has already been four years since the Board of Supervisors "urged" SFERS to divest from its fossil fuel holdings. I'm afraid that "urging" SFERS again will simply lead to yet more delays.

First, I recommend that the GAO Committee pass a strong Recommendation to the full Board of Supervisors to adopt unanimously this new Resolution urging SFERS to renew its commitment to divestment. But I think the Board of Supervisors needs to take additional action.

I also recommend that the Board of Supervisors should launch an investigation, perhaps with the assistance of the Ethics Commission, into whether delays by SFERS Staff may be directly leading SFERS' Trustees into breaching its fiduciary duties, and potential nonfeasance. Such an investigation is long overdue, and sorely needed, now!

"The Board of Supervisors should launch an investigation, perhaps with the assistance of the Ethics Commission, into whether delays by SFERS Staff may be directly leading SFERS' Trustees into breaching its fiduciary duties."

Respectfully submitted,

[signed]

Patrick Monette-Shaw
Columnist
Westside Observer Newspaper

cc: Supervisor Malia Cohen, *Ex Officio* Member of SFERS' Board of Trustees
Angela Calvillo, Clerk of the Board of Supervisors
Lee Hepner, Legislative Aide to Supervisor Aaron Peskin
Sophia Kittler, Legislative Aide to Supervisor Malia Cohen
John Carroll, GAO Committee Clerk
SFERS Board of Trustees

SFERS
San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System
Office of the Executive Director

May 16, 2017

Supervisor Aaron Peskin
Board of Supervisors
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San Francisco, CA 94102

Angela Calvillo
Clerk of the Board
Board of Supervisors
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Erica Major
Assistant Committee Clerk, Government Audit and Oversight Committee
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San Francisco, CA 94102

Re: File No. 170305 – Resolution urging the Retirement Board to Renew its Commitment to Divest from Fossil Fuel Companies

Dear Supervisor Peskin, Ms. Calvillo and Ms. Major,

The Retirement System acknowledges receipt of notice of the above referenced proposed resolution urging the San Francisco Employees' Retirement System (SFERS) Board to renew its commitment to divest from fossil fuel companies and receipt of a set of interrogatories from Supervisor Peskin dated May 9, 2017.

To assist the Committee in its consideration of the proposed resolution, I am providing the department's response to the interrogatories posed by Supervisor Peskin.

1. **What actions have been taken by the Board and any of its committees relative to divestment from fossil fuel companies?**

<u>October 9, 2013:</u> Retirement Board considered BOS Resolution #126-13 and voted to direct staff to prepare an analysis and report regarding Level I and Level II engagement of fossil fuel companies under the Retirement Board's *Social Investment Policy and Procedures*.

February 19, 2014: Retirement staff presented its analysis and report regarding a Level I and Level II engagement of fossil fuel companies under the Retirement Board's *Social Investment Policy and Procedures* and the Board approved a Level I (active proxy voting) engagement of the fossil fuel companies.

April, May and June 2014: Retirement staff presented its report on SFERS' 2014 proxy season votes related to fossil fuels and greenhouse gas issues.

June 18, 2014: Retirement Board received various educational presentations, organized through Supervisor Avalos' office, on issues related to investment in fossil fuel companies, including the impact of divestment.

January 2015: SFERS joined the CERES' Investor Network on Climate Risk (INCR).

March 11, 2015: Retirement staff presented its analysis and report regarding Level II engagement of fossil fuel companies under the Retirement Board's *Social Investment Policy and Procedures* and the Board approved a Level II (active corporate engagement) engagement of fossil fuel companies. The Board also directed staff to bring an analysis and report on possible investment in a passive ex-fossil fuels index fund.

April 8, 2015: Retirement staff presented its preliminary analysis and report regarding possible investment in a passive ex-fossil fuels index fund and the Board directed staff to complete its due diligence and bring a recommendation to the Board at a later date. The Board also approved creation of a standing Environmental, Social and Governance (ESG) Committee to review and define the Board's values and policies related to ESG issues.

May and June 2015: Retirement staff provided 2015 proxy season vote updates to the Board related to fossil fuels and greenhouse gas issues.

July 8, 2015: Retirement staff presented its analysis and recommendation regarding investment in a passive ex-fossil fuels index fund and the Board approved staff's recommendation to invest $100 million in a passive ex-fossil fuels index fund. The Board also approved amending its existing proxy voting policy by adopting the *Policy on Environmental-related Shareholder Proposals* which created a first-level screen for support for resolutions that provides additional information related to environmental issues; that require corporate actions beyond reporting of environmental issues; and that establish special corporate committees to address broad corporate policies related to environmental issues.

December 9, 2015: Retirement staff presented information to the Board related to SB-185: Public Divestiture of Thermal Coal Companies that was signed by Governor Brown on October 8, 2015 which when fully implemented will prohibit both CalPERS and CalSTRS from owning publicly issued stock, corporate bonds or other debt instruments issued by a company that generates 50% or more of its revenue from the mining of thermal coal. Staff reported on SFERS' holdings in companies that have coal mining operations that could be potentially fall under the SB-185 restriction. Staff identified a total of 8 holdings with a market value of $21.1 million as of December 2015. The list provided to the Board included holdings that would not fit under the restrictions imposed by SB-185, namely, global mining firms - BHP Billiton, Rio Tinto, Vale and Glencore – which have multiple lines of business and for which thermal coal mining represents less than 10% of the firms' revenues.

The Retirement Board approved the prudent divestment from thermal coal companies and the reinvestment of the proceeds in renewables and directed staff to prepare an implementation plan for implementing the divestment from thermal coal companies.

January 2016: Retirement staff completed investment of $100 million in MSCI USA Ex-Fossil Fuels index as approved by the Retirement Board in July 2015.

May, June and July 2016: Retirement staff provided monthly 2016 proxy season vote updates to the Board related to fossil fuels and greenhouse gas issues (INCR sponsored resolutions).

July 13, 2016: Retirement staff presented its analysis and recommendation for implementing the Board's December 9, 2015 determination to divest from its thermal coal holdings. The Retirement Board referred this item to the ESG Committee for consideration and possible recommendation for action to the full Retirement Board.

September 14, 2016: Retirement staff's analysis and recommendation for implementing the Board's December 9, 2015 determination to divest from its thermal coal holdings was presented to the ESG Committee and was continued to its next meeting.

April 19, 2017: Retirement staff's analysis and recommendation for implementing the Board's December 9, 2015 determination to divest from its thermal coal holdings was again presented to the ESG Committee and the committee approved staff's recommendation to divest from certain thermal coal companies and forwarded it to the full Board with its recommendation to approve.

May 17, 2017: The ESG Committee recommendation and Retirement staff's analysis and recommendation for implementing the Board's December 9, 2015 determination to divest from its thermal coal holdings including the recommendation to divest from certain thermal coal companies will be heard by the full Board.

2. What actions has SFERS taken as part of Level 1 engagement with fossil fuel companies to actively vote its proxies shareholder resolution related to climate change?

July 8, 2015: The Board also approved amending its existing proxy voting policy by adopting the *Policy on Environmental-related Shareholder Proposals* which created a first-level screen for support for resolutions that provides additional information related to environmental issues; that require corporate actions beyond reporting of environmental issues; and that establish special corporate committees to address broad corporate policies related to environmental issues.

a. How many shareholder resolutions related to climate change has SFERS voted against?

Since the Board amended its proxy voting policy in July 2015, SFERS voted against one INCR-sponsored climate change resolution out of 57 climate risk resolutions voted during the 2016 proxy season.

b. Which of those resolutions were sponsored by members of the CERES' Investor Network on Climate Risk (INCR), which SFERS joined in January 2015?

During the 2016 proxy season, the only climate risk resolution sponsored by INCR members that SFERS voted against was a shareholder resolution to adjust executive compensation for reserves write-downs.

c. For which of those resolutions did the SFERS Retirement Board authorize the vote against the shareholder resolution related to climate change?

None; SFERS engages Institutional Shareholder Services Inc. to vote its proxies in accordance with the Proxy Voting Policy approved by the Retirement Board.

3. **What actions has SFERS taken to implement Level 2 active shareholder engagement with fossil fuel companies?**

As indicated above, SFERS joined CERES' Investor Network to engage and collaborate on environmental, social and governance issues. The CERES Investor Network on Climate Risk and Sustainability comprises more than 130 institutional investors, collectively managing more than $17 trillion in assets, advancing leading investment practices, corporate engagement strategies and policy solutions to build an equitable, sustainable global economy and planet. CERES works with investors specifically to better manage carbon risks and to ramp up global investments in clean energy. In addition, the CERES Investor Network members collaboratively pressure stock exchanges and capital market regulators to improve climate and sustainability risk disclosure.

SFERS is also a long-standing member of Council of Institutional Investors (CII) which includes more than 120 pension and other benefit funds with $3 trillion in combined assets under management. CII's primary focus is providing unbiased information about best practices in corporate governance which is an important risk factor for investment portfolios. CII provides members up-to-date information on governance trends and critical financial regulations and advocating for best practices on behalf of investors.

Through its affiliation with both CERES and CII, SFERS has frequent opportunities to sign onto letters to companies, regulators, legislators and world leaders to advocate for issues related to climate risk. For example, most recently through CII, SFERS has had the opportunity to sign on to a letter to members of the U.S House of Representatives to oppose provisions of the Financial CHOICE Act of 2017 which is currently being considered by the U.S. House of Representatives directly related to severely restricting access to shareholder proposals. In addition, through CERES, SFERS had the opportunity to sign onto a letter from global investors representing more than $10 trillion in assets to the governments of the G7 and G20 nations conveying our strong support for the Paris Agreement and urging governments to continue to support and fully implement the Agreement.

What is the status of the Retirement Board's March 2015 motion to "direct staff" to prepare an implementation plan and timeline to the Retirement Board for its consideration and approval?

SFERS had already joined the CERES Investor Network on Climate Risk and Sustainability (INCR) at the time of the March 2015 directive to staff. At the July 8, 2015 Retirement Board meeting, staff presented a recommendation to amend its existing proxy voting policy by adopting the *Policy on Environmental-related Shareholder Proposals* which created a first-level screen for support for resolutions that provides additional information related to environmental issues; that require corporate actions beyond reporting of environmental issues; and that establish special corporate committees to address broad corporate policies related to environmental issues. This recommendation was targeted at Level II engagement for climate risk shareholder proposals initiated through and in collaboration with INCR and/or its members. Included in this recommendation was staff's responsibility to report out to the Retirement Board its votes on each INCR-sponsored resolution during each proxy season. Retirement staff has provided proxy season vote updates to the Board related to INCR sponsored resolutions addressing fossil fuels and greenhouse gas issues during the 2016 and 2017 proxy seasons.

In addition, SFERS staff participated in the 2016 Investor Summit on Climate Risk at the United Nations along with over 500 other global investors shortly after the historic international climate agreement in Paris to begin mobilizing the trillions of dollars of assets under management to accelerate the shift to a global clean energy future and tackle the risks posed by climate change.

4. What steps have been taken to identify the "worst of the worst" fossil fuel companies?

The Retirement Board's consideration of the "worst of the worst" fossil fuel companies has focused on investment risk. At the time of the Retirement Board's consideration of thermal coal divestment in 2015, thermal coal companies had been a drag on SFERS investment performance for the previous decade. From 2008 to 2015, the coal industry had plummeted in stock value and led the Retirement Board to consider Level III engagement (investment restrictions) based on the "worst of the worst" criteria as reflected in the action that the Board took at its December 9, 2015 Board meeting. This action was taken at the same meeting in which Retirement staff briefed the Retirement Board on SB-185: Public Divestiture of Thermal Coal Companies that was signed by Governor Brown on October 8, 2015 which prohibits CalPERS and CalSTRS from investing in thermal coal companies.

The Retirement Board will be voting on the ESG Committee's recommendation for investment restrictions on certain thermal coal companies at its May 17, 2017 Retirement Board meeting.

What variables are being used to assess the corporate behavior of fossil fuel companies?

Mitigating considerations for Level III divestment from thermal coal companies have included whether the company is transitioning its business model to adapt to clean energy generation such as through a decrease in its reliance on thermal coal as a revenue source and whether companies have provided enhanced transparency on the impact of potential stranded thermal coal assets in their corporate business plans.

Additional mitigating considerations, as set forth in the SFERS *Policy on Environmental Related Shareholder Proposals*, include a company's adoption and implementation of policies to encourage sustainability and environmental initiatives such as the use of renewable energy.

5. What steps has SFERS taken to implement the Retirement Board's December 2015 motion to prudently divest from thermal coal companies held in the portfolio consistent with the Board's Social Investment Policy and to prudently reinvest in renewables?

The Retirement Board will be voting on the ESG Committee's recommendation for investment restrictions on certain thermal coal companies at its May 17, 2017 Retirement Board meeting. Previous steps leading up to this vote included:

<u>July 13, 2016</u>: Retirement staff presented its analysis and recommendation for implementing the Board's December 9, 2015 determination to divest from its thermal coal holdings. The Retirement Board referred this item to the ESG Committee for consideration and possible recommendation for action to the full Retirement Board.

<u>September 14, 2016</u>: Retirement staff's analysis and recommendation for implementing the Board's December 9, 2015 determination to divest from its thermal coal holdings was presented to the ESG Committee and was continued to its next meeting.

April 19, 2017: Retirement staff's analysis and recommendation for implementing the Board's December 9, 2015 determination to divest from its thermal coal holdings was again presented to the ESG Committee and the committee approved staff's recommendation to divest from certain thermal coal companies and forwarded it to the full Board with its recommendation to approve.

Even before this recommendation is officially approved by the Retirement Board, SFERS has invested in excess of $9 million in renewable energy companies in the Public Markets portfolio of the SFERS Trust since December 2015.

6. What initiative has SFERS taken to invest in a fossil-free index fund?

July 8, 2015: Retirement staff presented its analysis and recommendation regarding investment in a passive ex-fossil fuels index fund and the Board approved staff's recommendation to invest $100 million in a passive ex-fossil fuels index fund.

January 2016: Retirement staff completed investment of $100 million in MSCI USA Ex-Fossil Fuels index as approved by the Retirement Board in July 2015.

How much has been invested in that fund, and what are SFERS' specific plans to increase that investment?

SFERS invested $100 million in the MSCI USA Ex-Fossil Fuels index. Retirement staff is monitoring this investment's performance against other passive investment strategies through a complete business cycle (typically 3 – 5 years) before making a recommendation to the Board to increase, remain at the current level, or terminate this investment.

Representatives of SFERS will appear at the Government Audit and Oversight Committee hearing on this subject and be available to address any questions of the Committee members.

Best regards,

Jay Huish
Executive Director
San Francisco Employees' Retirement System

cc: President London Breed
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May 15, 2017

Government Audit and Oversight Sub-Committee, Board of Supervisors
The Honorable Jane Kim, Chair
The Honorable Aaron Peskin, Member
The Honorable London Breed, Member
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

Re: **Testimony Regarding SFERS' Divestment From Fossil Fuel Investments**

Dear Chair Kim and Members of the Government Audit and Oversight Sub-Committee,.

I commend the GAO Committee for authoring a new Resolution urging SFERS' Board of Directors — who are actually Trustees of the Retirement System — to follow up on divestment from SFERS investments in fossil fuels.

It is very sad that here we are fully four years after the Board of Supervisors unanimously passed its initial Resolution on April 23, 2013 urging SFERS to divest from publicly-traded fossil fuel companies without any meaningful changes. Endless foot-dragging at SFERS — particularly foot-dragging by SFERS' ESG committee and SFERS' Staff — is troubling. The divestment should not have taken fully four years!

I noted with interest that the Board of Supervisors 2013 Resolution had reported that SFERS then held $583.7 million in investments fossil fuel corporations, and that the Board's resolution had urged SFERS to divest those holdings within five years. Four years have slipped by without any divestment in fossil fuel corporations at all.

The new Resolution that GAO will consider on May 17 noted not only that SFERS has failed since March 2015 to present an actual implementation plan and a timeline for divestment, but also that a Board of Supervisors Rules Committee meeting held in October 2015 had expressed concern about SFERS failure to protect retirees and Plan beneficiaries from "stranded asset risk" posed by these fossil fuel investments, as if SFERS Trustees were totally unconcerned about their Fiduciary obligations to prevent losses to our Pension Fund from stranded assets.

That SFERS Executive Director Jay Huish brazenly stated during SFERS July 2016 meeting that SFERS staff had "chosen to ignore part of the motion" passed by SFERS Board in December 2015 because the staff believed the motion was imprudent, is the height of hubris. It is **NOT** the prerogative of SFERS staff to simply ignore — and usurp — directives passed by motion of SFERS Board of Trustees. Where did SFERS Staff and Mr. Husih obtain that level of outright hubris?

Robyn Purchia's May 10, 2017 *San Francisco Examiner* article, "*Retirement Board bets employees' future on dirty, dying coal industry,*" revealed that SFERS Trustee "Al" Casciato said " 'I don't believe the ESG Committee should exist,' new commissioner Al Casciato told me." This is one clue that the Retirement System's Trustees may ***still*** not take fossil fuel divestment — and Resolutions from the Board of Supervisors — seriously. It's clear Casciato has no understanding of the role of ESG considerations, or that ESG factors in responsible investment decisions is among his core duties as a Trustee and Fidiuciary to Plan participants

Purchia's article noted that 90 percent of SFERS' coal investments were losers in 2015, suggesting that SFERS Trustees know full well that SFERS investments in fossil fuels continue to lose return on investments, contributing further to the risk of stranded assets they are supposed to be Fiduciaries of.

Although SFERS Board meeting agenda for May 17 includes a Staff recommendation action item to divest some fossil fuel assets, its Trustees appear to be making only marginal progress towards divestment. As you will see in the attached file, page 10 lists only approximately $48.1 million in coal company holdings, nowhere near the $587.7 million the Board of Supervisors had identified in April 2013. That's an unexplained variance of $535.6 million. Why the discrepancy?

And of those $48.1 million identified on page 10, just nine companies are recommended on page 9 in that background file for Level III "investment restrictions," and nine other companies will continue to be at Level II of "shareholder engagement" (meaning no divestment, and no investment restrictions) for that second set of nine companies.

Notably, if you compare the nine companies recommended on page 9 for Level III (investment restrictions / divestment), only three of them are actually listed on page 10 (Alpha Natural Resources, Could Peak Energy, and Consol Coal Resources), but the remaining six companies recommended for Level III are not listed on page 10. The three companies commended for Level III that appear on page 10 have a combined market value of a piddly $443,257 — just 0.92% of the potential $48.1 million reported as "coal company holdings," which suggests that the remaining $47.7 million will continue to be just Level II "shareholder engagement." I smell a rat, and further foot-dragging by SFERS Trustees and SFERS Staff.

More disturbing, on May 22, SFERS Board will hold on off-site "retreat" to hear "*Common Ground Governance*" recommendations from its contractor, Funston Advisory Services, that recommends, in part, that SFERS Trustees could "determine whether further **investment decisions can prudently be delegated to [SFERS] staff** to allow the Board to increase its focus on 'other important matters'." ["Improvement Recommendation 1(j)"]

Delegating investment decisions over fossil fuel investments, or fossil fuel divestments, should ***not*** be delegated to SFERS Staff members. Doing so would end the pretense that SFERS Board members are actual Trustees and fiduciaries of the Pension Fund, and doing so would all but guarantee that SFERS will never divest from its fossil fuel investments.

I recommend that the GAO Committee and the Board of Supervisors consider:

1. Requiring SFERS to provide an explanation of the variance between the $583.7 million in fossil fuel investments the Board of Supervisors had identified in its April 2013 Resolution and the meager $48.1 million SFERS reported in its May 17, 2017 recommendation to SFERS Trustees of just $48.1 million in coal company holdings. SFERS should be required to document this $535.6 million unexplained variance.
2. Requiring SFERS to set a date-certain date on which it will actually require investment managers to move towards Level III divestment from fossil fuel companies, rather than allowing the investment managers to divest in "reasonable periods of time." That phrase should be modified by stipulating "in a reasonable period of time, ***but no later than*** 'X' date." Otherwise "reasonable periods of time" — undefined — may lead to another five-year, or another decade, delay.
3. Requiring SFERS to discontinue using any and all Level II "shareholder engagement" as a subterfuge and pretext to hold on to these stranded investments, further dragging down the Pension Fund's net assets.

Unless, and until, the Board of Supervisors consider these additional requirements, the Board of Supervisors will be complicit the stranded investments and the probability that annual employer-share of contributions to the Pension system will be poured down the drain, possibly increase the City's employer share of contributions, and increase burdens on taxpayers and the General Fund.

Respectfully submitted,

Patrick Monette-Shaw
Columnist
Westside Observer Newspaper

cc: The Honorable Malia Cohen, *Ex Officio* SFERS Trustee appointed by the Board of Supervisors
Erica Major, GAO Committee Clerk
SFERS Board of Trustees
Lee Hepner, Legislative Aide to Supervisor Aaron Peskin
Barbara Lopez, Legislative Aide to Supervisor Jane Kim

Attachments:
1. Printer-friendly version of this testimony.
2. SFERS Proposal to Prudently Divest From Fossil Fuel Investment, May 17, 2017

SFERS
San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

RETIREMENT BOARD CALENDAR SHEET
Retirement Board Meeting of May 17, 2017

To: The Retirement Board

Through: Jay Huish, Executive Director — William J. Coaker, Jr. – CFA, MBA, Chief Investment Officer

From: Robert L. Shaw, CFA, Managing Director, Public Markets

Date: May 17, 2016

Re: Update and Possible Action related to Divestiture of Thermal Coal Companies.

Background:

This item was presented and considered at April 19, ESG Committee of the Retirement Board. The ESG Committee voted to forward staff's recommendation to divest from certain thermal coal companies to the full Board with the Committee's recommendation for the Retirement Board to approve the recommended divestment.

History of the Retirement Board Actions related to the 2013 Board of Supervisor's Resolution asking the Board to Divest from the Top 200 Fossil Fuel Companies:

At the May 8, 2013 Retirement Board meeting, the Board received Supervisor Avalos' letter urging the Retirement Board to consider Board of Supervisors (BOS) Resolution #126-13 asking the Board to divest from the top 200 fossil fuel companies under the Retirement Board's *Social Investment Policy and Procedures*.

At the October 9, 2013 Retirement Board meeting, the Board considered BOS Resolution #126-13 and voted to direct staff to prepare an analysis and report regarding Level I and Level II engagement of fossil fuel companies under the Retirement Board's *Social Investment Policy and Procedures*.

At the February 19, 2014 special Retirement Board meeting, staff presented its analysis and report regarding a Level I and Level II engagement of fossil fuel companies under the Retirement Board's *Social Investment Policy and Procedures* and the Board approved a Level I (active proxy voting) engagement of the fossil fuel companies.

At the April 9, 2014 Retirement Board meeting, staff presented its report on SFERS' 2014 proxy season votes related to fossil fuels and greenhouse gas issues. Staff provided monthly 2014 proxy season vote updates to the Board at its regular meetings in May and June related to fossil fuels and greenhouse gas issues.

At a special Retirement Board meeting on June 18, 2014, the Retirement Board received various educational presentations, organized through Supervisor Avalos' office, on issues related to investment in fossil fuel companies, including the impact of divestment.

At the March 11, 2015 Retirement Board meeting, staff presented its analysis and report regarding Level II engagement of fossil fuel companies under the Retirement Board's *Social Investment Policy and Procedures* and the Board approved a Level II (active corporate engagement) engagement of fossil fuel companies. The Board also directed staff to bring an analysis and report on possible investment in a passive ex-fossil fuels index fund.

At the April 8, 2015 Retirement Board meeting, staff presented its preliminary analysis and report regarding possible investment in a passive ex-fossil fuels index fund and the Board directed staff to complete its due diligence and bring a recommendation to the Board at a later date. The Board also approved creation of a standing Environmental, Social and Governance (ESG) Committee to review and define the Board's values and policies related to ESG issues.

At the May and June 2015 Retirement Board meetings, staff provided monthly 2015 proxy season vote updates to the Board related to fossil fuels and greenhouse gas issues.

At the July 8, 2015 Retirement Board meeting, staff presented its analysis and recommendation regarding investment in a passive ex-fossil fuels index fund and the Board approved staff's recommendation to invest $100 million in a passive ex-fossil fuels index fund – this $100 million investment in MSCI USA Ex-Fossil Fuels index was completed in January 2016. The Board also approved amending its existing proxy voting policy by adopting the *Policy on Environmental-related Shareholder Proposals* which created a first-level screen for support for resolutions that provides additional information related to environmental issues; that require corporate actions beyond reporting of environmental issues; and that establish special corporate committees to address broad corporate policies related to environmental issues.

At the December 9, 2015 Retirement Board meeting, staff presented information to the Board related to SB-185: Public Divestiture of Thermal Coal Companies that was signed by Governor Brown on October 8, 2015 which when fully implemented will prohibit both CalPERS and CalSTRS from owning publicly issued stock, corporate bonds or other debt instruments issued by a company that generates 50% or more of its revenue from the mining of thermal coal. Staff reported on SFERS' holdings in companies that have coal mining operations that could be potentially fall under the SB-185 restriction. Staff identified a total of 8 holdings with a market value of $21.1 million as of December 2015. The list provided to the Board included holdings that would not fit under the restrictions imposed by SB-185, namely, global mining firms - BHP Billiton, Rio Tinto, Vale and Glencore – which have multiple lines of business and for which thermal coal mining represents less than 10% of the firms' revenues.

At its December 9, 2015 meeting, the Board approved the prudent divestment from thermal coal companies and the reinvestment of the proceeds in renewables and directed staff to prepare an implementation plan for implementing the divestment from thermal coal companies. Staff stated that they would come back to the Board with a plan for implementing the divestment from thermal coal companies.

At the May and June 2016 Retirement Board meetings, staff provided monthly 2016 proxy season vote updates to the Board related to fossil fuels and greenhouse gas issues (INCR sponsored resolutions).

At the July 13, 2016 Retirement Board meeting, staff presented its analysis and recommendation for implementing the Board's December 9, 2015 determination to divest from its thermal coal holdings. The Retirement Board referred this item to the ESG Committee for consideration and possible recommendation for action to the full Retirement Board.

This item was presented to the ESG Committee at its September 14, 2016 committee meeting as a discussion item and continued to its next meeting. It is brought back to the ESG Committee for its action on the staff recommendation on April 19, 2017.

SFERS' Public Market Holdings in Thermal Coal Companies

As of March 31, 2017, SFERS holds interests in ten companies that are actively involved in the mining of thermal coal with a market value of $48.1 million (see Appendix A):

1. Alpha Natural Resources (U.S.) - active in both thermal (more than 50% of revenues) and metallurgical coal;
2. Anglo American PLC (U.K.) - a global mining company that is active in metals (32% of revenues), iron and steel (24% of revenues), diamonds (26% of revenues), other (5%) and thermal coal (13% of revenues);
3. BHP Billiton LTD (U.K.) - a global mining company active in iron ore (34% of revenues), base metals (27% or revenues), petroleum (22% of revenues) and coal (15% of revenues) with other activities accounting for roughly 2% of revenues. Using data from the most recent company information (fiscal 2016), thermal coal mining revenues are 5.7% of its total revenues;
4. Black Hills Corporation (U.S.) - primary line of business is as an electric and gas utility in and around Rapid City, South Dakota with the mining of thermal coal less than 4% of revenues;
5. China Resource Power Holdings (Hong Kong) – a power company operating power plants and coal mines in mainland China with thermal coal representing approximately 4.4% of revenues;
6. CLP Holdings (Hong Kong) – a utility company with operations across Asia, India and Australia which owns and operates several thermal coal mines in Australia - based on available estimates of the amount of coal (metric tonnes) mined each year, Staff estimates that thermal coal mining is approximately 10% of revenues;
7. Consol Energy (U.S.) is an energy company active in oil and gas (43%) and coal (57%). Staff estimates that the majority of the coal revenues are from thermal coal mining;
8. Glencore (U.K.) - active in a three lines of business – metals & mining (378%), energy products (50%) and agriculture (13%) – based on data obtained from Glencore's financial statements, Staff estimates that revenues from coal mining account for 44% of total revenue and 20% of industrial revenue;

9. Rio Tinto (U.K.) - a global mining company active in four main business lines – aluminum (27%), cooper and diamonds (13%) and energy and minerals (19%). . Based on business line data provided by Rio Tinto, Staff estimates that thermal coal is 4% of revenues; and
10. Vale (Brazil) - focused on three primary business lines: ferrous minerals (74% of revenues), base metals (22%) and coal (3%) with other business accounting for roughly1% of revenues). Based on business line data available in Vale's published reports, Staff estimates that thermal coal is 1.5% of revenues.

Public Market US Coal Companies not currently owned by SFERS

Staff has completed the analysis for publicly traded US companies active in the coal mining industry which are not currently owned by SFERS. This list consists of:

1. Alliance Resource - generates more than 80% of its revenues from Thermal Coal mining;
2. Arch Coal - mines a mix of thermal coal (more than 50% of revenues) and metallurgical coal;
3. Cloud Peak Energy - operating in the Powder River Basin (Wyoming), produces only thermal coal;
4. CNXCoal Resources LP - formed when Consol Energy spun-off a portion of its thermal coal operations in 2015 - thermal coal represents more than 95% of revenues;
5. Hallador Energy - thermal Coal mining in the Appalachian mountain region represents close to 100% of revenues;
6. NACCO Industries – a diversified company with operations in household appliances, hotels and specialty retail – thermal coal operations are less than 15% of revenues;
7. Peabody Energy - active in both metallurgical and thermal coal – with thermal coal representing more than 75% of revenues;
8. Warrior Energy was formed in 2016 when the company acquired the metallurgical coal mining assets of Walter Energy. More than 90% of the company's revenues are from metallurgical coal mining activities; and
9. Westmoreland Coal - more than 80% of the company's revenues are from thermal coal mining activities.

Non-US Coal Companies.

Staff has completed preliminary due diligence on the seven non-US coal companies currently in SFERS' Public Markets portfolio: Anglo American, BHP Billiton, China Resource Power Holdings, CLP Holdings, Glencore, Rio Tinto and Vale. The universe of non-US coal companies not owned by SFERS will require additional analysis by Staff to determine each company's involvement in thermal coal mining.

SFERS Environmental, Social and Governance Investment Policy and Procedures

The SFERS *Environmental, Social and Governance Investment Policies and Procedures* provide that adequate recognition must be given to the environmental, social and governance consequences of corporate actions and investment decisions to achieve maximum long term investment return from

Trust assets. But the policy recognizes that in no event may the policy take precedent over the fiduciary responsibility of producing investment returns for the exclusive benefit of the members and beneficiaries. Environmental, social and governance concerns addressed through the policy will follow the order of action outlined in the policy except where the Board determines that action contemplated in an earlier step has been initiated prior to consideration of action under the policy and found to be ineffective or non-relevant.

The *SFERS Environmental, Social and Governance Investment Policies and Procedures* outline three levels of action that the Board can direct staff to implement to engage companies on social issues of concern:

Level I – Shareholder Voting: SFERS' shareholder voting rights will be exercised reflecting specific Board social investment considerations and directions or by authorization under procedures which reflect the Retirement Board's directions on social issues.

Level II – Promoting Social Rights and Interests: SFERS will proactively promote social interests individually or in concert with other shareholders to assure proper recognition of social interests with the goal of influencing corporate activities or policies. Activities at this level may include direct communication with the company and/or initiation of shareholder resolutions, individually or in concert with other shareholders.

Level III – Investment Restrictions: In the event that Level I and Level II engagement has not provided the Board's desired results and alternatives to the restricted holdings are available which do not compromise investment return and risk, the Board may direct staff to restrict investment activities in specific areas to promote the interest of the SFERS Trust members and beneficiaries. Under Level III engagement, staff would provide directions to the investment managers that could include restricting purchase of additional shares of the targeted securities and directing the managers to research alternative securities to replace the targeted holdings that would provide comparable investment return with comparable risk.

All thermal coal-producing companies are currently included in the Board's March 11, 2015 decision to engage the fossil fuel companies at Level II of the Board's *Environmental, Social and Governance Investment Policy and Procedures*.

Fiduciary Duty to SFERS Members and Beneficiaries

California Constitution Article XVI Section 17 provides that Retirement Board members "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. A Retirement Board's duty to its participants and their beneficiaries shall take precedence over any other duty." CA Constitution, Art. XVI, §17(b). Further, Board "members shall diversify investments of the system so as to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so." CA Constitution, Art. XVI, §17(d). See also San Francisco Charter §12.100, §12.103. These duties require the Board to weigh potential risks and returns, choosing an investment mix most likely to fulfill the System's obligations to ensure it provides the promised benefits to its members and beneficiaries.

The Retirement Board and SFERS staff are also required to invest the SFERS Trust "with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with these matters would use in the conduct of an enterprise of a like character and with like aims." California Constitution, Art. XVI, §17(c). The prudence requirements are generally satisfied if, in the analysis, the Retirement Board and staff are guided principally by economic and business factors. Whether an investment benefits a social goal may be a secondary consideration.

The Employee Retirement Income Security Act of 1974 ("ERISA") contains similar provisions and, in that context, the Department of Labor ("DOL") has issued guidance relating to fiduciary implications of certain socially responsible investments. The DOL has stated that ERISA fiduciaries may never subordinate the economic interests of the plan when making investment decisions. Fiduciaries risk violating the exclusive purpose rule if they attempt to exercise their fiduciary authority in an attempt to further legislative, regulatory or public policy issues. At the same time, a recent DOL Interpretive Bulletin issued in October 2015 (IB 2015-1) confirms the DOL's consistent view that fiduciaries may take considerations associated with economically targeted investment (investments selected for the economic benefits they create apart from their investment return to the employee benefit plan), including ESG factors, into account as "tie-breakers" when investments are otherwise equal with respect to return and risk over the appropriate time horizon. (*See* IB 2015-1, p. 6.)

In addition, an "important purpose" of IB 2015-1 is to clarify that ESG factors "may have a <u>direct relationship</u> to the economic value of [a] plan's investment." (Emphasis added.) When they do, these factors are more than just collateral considerations or tie-breakers, but rather are "proper components of the fiduciary's primary analysis of the economic merits of competing investment choices...." (IB 2015-1, p. 6.)

In discharging investment duties, it is the DOL's view that fiduciaries must, among other things, consider the role of the particular investment in the plan's investment portfolio, taking into account factors such as diversification, liquidity, and risk/return characteristics. Because every investment necessarily causes a plan to forgo other investment opportunities, fiduciaries also must consider expected return on alternative investments with similar risks available to the plan. This does not preclude consideration of collateral benefits, such as favoring an investment that supports a particular policy or objective, when evaluating a particular investment opportunity.

Fiduciaries are prohibited from subordinating the interests of the participants and beneficiaries in their retirement income to unrelated objectives. A decision to make an investment, or to designate an investment alternative, may not be influenced by non-economic factors unless the investment ultimately chosen, when judged solely on the basis of its economic value, would be equal to, or superior to, available alternative investments. The DOL also suggests that when fiduciaries rely on non-economic factors, they should maintain written records demonstrating their quantitative and qualitative analyses in order to prove the alternatives were of equal value.

These DOL rules apply directly only to plans that are subject to ERISA. SFERS, as a governmental plan, is not subject to ERISA. However, because the ERISA provisions are similar to the language in the California Constitution and the Charter, the views of the DOL may be looked to for guidance on fiduciary obligations.

Investment Performance of Thermal Coal

MSCI has developed a global equity benchmark that excludes coal companies. The table below shows performance both with and without coal companies:

	Annualized Performance as of 03/31/2017			
	3 Months	1 Year	3 Years	5 Years
MSCI ACWI (ex Coal)	6.90	14.84	5.24	8.58
MSCI ACWI	6.91	15.04	5.08	8.37
Difference	(0.01)	(0.20)	0.16	0.21

Over the past 3 and 5 years, the ownership of companies involved in the coal mining industry, as represented by those companies included in the Index, has subtracted value.

The Investment Case for Thermal Coal

The economics for thermal coal are not favorable.

End User Demand. Overall power generation in the United States has been stable for more than a decade. The average annual usage since 2001 has been 4.0 trillion kilowatthours with a standard deviation of 0.1[1]. It is unlikely that prices for thermal coal will increase from a marked increase in end user demand for electric power generation unless significant levels of current supply or competing products (such as natural gas) are removed from the market.

Substitute for Coal. Natural gas is the most prevalent substitute for thermal coal and many newer power plants are capable of using either fuel, which allows the end-user to alter their fuel mix based on market prices. There has also been a significant increase in market supply of natural gas. From the 1970s until 2010, annual supply was stable around 20 trillion cubic feet ("Tcf"). As of 2015, the annual production was 27 Tcf – a 35% increase and is expected to increase as new domestic sources are brought on line. In many regional markets, natural gas is now priced below thermal coal. In addition, recent research indicates that both utility scaled solar and wind power generation are becoming cost competitive with thermal coal.[2]

End user demand is stable with no signs of significant growth. Natural gas is a ready and price competitive substitute and there is an abundant and growing domestic supply. Both wind and solar power generation capabilities are being developed that may replace thermal coal in some markets.

Market Environment

Staff believes that the thermal coal mining industry will face significant financial and environmental hurdles going forward, which will limit the potential for positive investment returns. These hurdles include:

1. Bankruptcy - Alpha Natural Resources, Arch Coal, Peabody Energy and Walter Energy have all filed for bankruptcy within the last 12 months;

[1] Data obtained from the US Energy Information Agency.
[2] Lazard – Levelized Cost of Energy – 2015.

2. Asset Impairments - many companies (Rio Tinto, Vale, etc.) have reported impairment charges on their financial statements to note the decline in the value of reserves and other assets related to the companies' coal operations;
3. Regulatory Uncertainty – last month, President Trump signed an executive order targeting the US Clean Power Plan (signed into law in 2015) which sought to cut greenhouse gas emissions from coal-fired power plants which would have very likely resulted in reduced coal utilization in favor of natural gas and other substitutes; and
4. Coal Substitution Options - a broad set of fuels (natural gas, solar and wind) have become or are becoming price competitive with thermal coal, which may limit the ability of many thermal coal companies to return to profitability.

Mitigating Considerations

A number of corporations, specifically those for which thermal coal does not represent a majority of revenues, have been selling their thermal coal mines. Staff believes this indicates a desire by management to reduce exposure to an energy source that may become uncompetitive and unable to produce the returns on capital sought. These companies are:

1. Anglo American PLC. The firm recently sold two thermal coal mines. The two mines were sold to Batchfire Resources and Australian Pacific Coal. Anglo is also in negotiations to sell its 1/3rd interest in a thermal coal mine located in Columbia.

2. BHP Billiton. In February 2016, BHP announced the sale of the San Juan (New Mexico) thermal coal mine. The mine was sold to Westmoreland Coal.

3. Rio Tinto. In late 2015, Rio Tinto sold its 40% interest in Bengalla, an Australian thermal coal mine. In January 2016, the firm sold a second Australian thermal coal mine and is currently finalizing the sale of the Blair Athol thermal coal mine. These sales are expected to cut Rio Tinto's revenues from thermal coal by more than 50% (based on reported 2015 production). In early 2017, Rio Tinto announced that it was exiting the Thermal Coal business – pending approval from regulatory agencies in Australia.

4. Vale. In November and December 2015, Vale sold its joint-venture interests in two Australian thermal coal mines, which reduced Vale's production of thermal coal by roughly 20%. In 2017, Vale announced that it was selling a minority stake in its Mozambique coal mines to Mitsui.

Staff Recommendation
In consideration of the information provided in this memorandum, including the mitigating considerations presented above, staff recommends that:

A. Investment restrictions be approved (Level III of the *SFERS Environmental, Social and Governance Investment Policy and Procedures*) for the following US companies that derive significant revenues from the mining of thermal coal:

1. Alpha Natural Resources
2. Alliance Resource
3. Arch Coal
4. Cloud Peak Energy
5. Consol Coal Resources LP
6. Consol Energy
7. Hallador Energy
8. Peabody Energy
9. Westmoreland Coal

and

B. Staff continue shareholder engagement (Level II of the *SFERS Environmental, Social and Governance Investment Policy and Procedures*) for the following companies:

1. Anglo American PLC
2. BHP Billiton LTD
3. Black Hills Corp.
4. China Resource Power Holdings
5. CLP Holdings
6. Glencore
7. NACCO
8. Rio Tinto
9. Vale

Should the Retirement Board approve the recommended investment restrictions, staff will direct all SFERS public market investment managers that:

a. Managers are no longer authorized to purchase the restricted securities listed in section A above; and
b. Managers must develop, in a reasonable period of time, a plan to prudently divest from the restricted securities.

Appendix A

San Francisco Employees' Retirement System
Public Equities: Coal Company Holdings

Security Description	October-15	April-16	June-16	August-16	March-17
			Market Value		
RIO TINTO	$9,836,759	$13,285,487	$18,206,266	$16,875,355	$9,970,098
CHINA RESOURCE POWER	9,662,420	7,777,614	6,841,745	8,502,053	5,764,797
BHP BILLITON	3,400,863	3,798,360	8,847,119	6,555,289	12,869,707
GLENCORE	769,487	3,624,053	3,485,238	5,616,222	3,980,966
VALE	4,483,508	2,586,278	2,232,471	1,859,618	3,192,285
ANGLO AMERICAN	1,996,460	1,301,766	920,093	1,199,680	2,124,265
CLP HOLDINGS	788,216	837,077	921,571	928,130	1,829,602
BLACK HILLS	169,844	266,717	277,502	149,859	169,033
CONSOL ENERGY	278,654	-	-	-	379,161
ALPHA NATURAL RESOURCES	-	-	-	-	2,926
Total	$31,386,210	$33,477,352	$41,732,005	$41,686,206	$40,282,840

San Francisco Employees' Retirement System
Fixed-Income: Coal Company Holdings

Security Description	October-15	April-16	June-16	August-16	March-17
			Market Value		
VALE	$167,019	$2,058,729	$2,702,534	$2,159,892	$2,271,910
ANGLO AMERICAN	0	1,433,386	1,420,563	1,721,115	1,076,592
GLENCORE	1,133,933	1,272,633	3,925,710	1,460,000	4,421,143
ALPHA NATURAL RESOURCES	509,527	525,055	661,772	43,365	64,096
CLOUD PEAK ENERGY	156,960	-	-	-	-
SUNCOKE ENERGY PARTNERS	318,164	-	-	-	-
Total	$2,285,604	$5,289,803	$8,710,579	$5,384,372	$7,833,741

Total (Equities + Fixed-Income)	$33,671,814	$38,767,156	$50,442,584	$47,070,578	$48,116,581

File No. 170305
Received via Email
5/9/2017

Member, Board of Supervisors
District 3

City and County of San Francisco

AARON PESKIN
佩斯金 市參事

May 9, 2017

Executive Director Jay Huish
San Francisco Employees' Retirement System
1145 Market Street, 5th Floor
San Francisco, CA 94103

Executive Director Huish:

At the March 21 regular meeting of the Board of Supervisors, I introduced a Resolution urging the Retirement Board of the SF Employees' Retirement System (SFERS) to renew its commitment to divest from publicly-traded fossil fuel companies, pursuant to its various commitments to do so since October 2013, and to provide an update on public and private equity fossil fuel holdings. Supervisors Fewer and Ronen have signed on as co-sponsors, and the item is scheduled to be heard at the Government Audit and Oversight Committee on May 17, 2017.

The below set of interrogatories are designed to help further the conversation and acquire information in advance of the aforementioned public hearing. Please respond to the following by May 16, 2017:

1. What actions have been taken by the Board and any of its committees relative to divestment from fossil fuel companies?

2. What actions has SFERS taken as part of Level 1 engagement with fossil fuel companies to actively vote its proxies shareholder resolutions related to climate change?

   a. How many shareholder resolutions related to climate change has SFERS voted against?
   b. Which of those resolutions were sponsored by members of the CERES' Investor network on Climate RISK (INCR), which SFERS joined in January 2015?
   c. For which of those resolutions did the SFERS Retirement Board authorize the vote against the shareholder resolution related to climate change?

City Hall • 1 Dr. Carlton B. Goodlett Place • Room 244 • San Francisco, California 94102-4689 • (415) 554-7450
Fax (415) 554-7454 • TDD/TTY (415) 554-5227 • E-mail: Aaron.Peskin@sfgov.org

3. What actions has SFERS taken to implement Level 2 active shareholder engagement with fossil fuel companies? What is the status of the Retirement Board's March 2015 motion to "direct staff to prepare an implementation plan and timeline to the Retirement Board for its consideration and approval?"

4. What steps have been taken to identify the "worst of the worst" fossil fuel companies? What variables are being used to assess the corporate behavior of fossil fuel companies?

5. What steps has SFERS taken to implement the Retirement Board's December 2015 motion to prudently divest from thermal coal companies held in the portfolio consistent with the Board's Social Investment Policy and to prudently reinvest in renewables?"

6. What initiative has SFERS taken to invest in a fossil fuel-free index fund? How much has been invested in that fund, and what are SFERS' specific plans to increase that investment?

Thank you for your prompt attention to this increasingly urgent matter. I look forward to reviewing your responses in advance of this item's consideration at the Government Audit and Oversight Committee.

Sincerely,

Aaron Peskin

Cc: Supervisor Sandra Lee Fewer
Supervisor Hillary Ronen
Erica Major, Deputy Clerk of the Board

BOARD of SUPERVISORS

City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
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TDD/TTY No. 554-5227

MEMORANDUM

TO: Jay Huish, Executive Director, San Francisco Employees' Retirement System

FROM: Erica Major, Assistant Clerk, Government Audit and Oversight Committee, Board of Supervisors

DATE: April 6, 2017

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Government Audit and Oversight Committee has received the following proposed legislation, introduced by Supervisor Peskin referred to Committee on April 4, 2017:

File No. 170305

Resolution urging the Retirement Board of the Employees' Retirement System to renew its commitment to divest from publicly-traded fossil fuel companies, pursuant to its commitments to do so since October 2013, and to provide an update on public and private equity fossil fuel holdings.

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Darlene Armanino, San Francisco Employees' Retirement System

Print Form

Introduction Form

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By a Member of the Board of Supervisors or the Mayor

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BY

I hereby submit the following item for introduction (select only one):

☒ 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)

☐ 2. Request for next printed agenda Without Reference to Committee.

☐ 3. Request for hearing on a subject matter at Committee.

☐ 4. Request for letter beginning "Supervisor [ ] inquires"

☐ 5. City Attorney request.

☐ 6. Call File No. [ ] from Committee.

☐ 7. Budget Analyst request (attach written motion).

☐ 8. Substitute Legislation File No. [ ]

☐ 9. Reactivate File No. [ ]

☐ 10. Question(s) submitted for Mayoral Appearance before the BOS on [ ]

ase check the appropriate boxes. The proposed legislation should be forwarded to the following:

☐ Small Business Commission ☐ Youth Commission ☐ Ethics Commission

☐ Planning Commission ☐ Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative Form.

Sponsor(s):

Peskin; Fewer

Subject:

Urging the Retirement Board to Renew Its Commitment to Divest from Fossil Fuel Companies

The text is listed below or attached:

Resolution urging the Retirement Board of the Employees' Retirement System to renew its commitment to divest from publicly-traded fossil fuel companies, pursuant to its commitments to do so since October 2013, and to provide an update on public and private equity fossil fuel holdings.

Signature of Sponsoring Supervisor:

For Clerk's Use Only: