

# **Investor Progress On Climate Risk**

*Results Achieved Since  
The 2003 Institutional Investor  
Summit On Climate Risk*

**May 10, 2005**

**A Publication of the Investor Network on Climate Risk**

*Commissioned by*



**Ceres**

*Prepared by*

**David Gardiner & Associates, LLC**

Ceres commissioned this report from David Gardiner & Associates, LLC.

Ceres is a coalition of investment funds, environmental organizations, and public interest groups. Ceres' mission is to move businesses, capital, and markets to advance lasting prosperity by valuing the health of the planet and its people. Ceres represents more than \$400 billion in assets. Investor members include state and city pension funds, socially responsible investment firms, religious groups, labor unions, and foundations. Ceres serves as Secretariat for the Investor Network on Climate Risk (INCR).

For more information, visit [www.ceres.org](http://www.ceres.org) and [www.incr.com](http://www.incr.com).

David Gardiner & Associates is an independent consulting firm that provides innovative environmental and sustainability services to clients in the private- and public-sectors.

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## Introduction

In November 2003, major pension funds and other leading institutional investors held a historic meeting at the United Nations in New York City to consider the portfolio risks posed by global climate change. The Institutional Investor Summit on Climate Risk brought together dozens of U.S. investment leaders to explore the connection between climate risk and their fiduciary responsibilities. It provided a forum for those responsible for endowments, pension funds and other portfolios to exchange views as peers, to consider the implications of climate risk for long-term asset allocation, and to discuss actions. Pension fund leaders representing more more than \$1 trillion and asset managers handling more than \$2 trillion of investments participated in the all-day gathering.

At the meeting's conclusion, ten leading U.S. institutional investors issued a 10-point "Call for Action" demanding tough new steps by U.S. corporations, Wall Street firms and the U.S. Securities and Exchange Commission to increase corporate disclosure of the risks that climate change poses for businesses and investors. Investors also announced the creation of the Investor Network on Climate Risk (INCR) to promote better understanding of the risks and opportunities among institutional investors and to coordinate implementation of the 10-point action plan.

Today – May 10, 2005 – a larger group of institutional investors are hosting a new Institutional Investor Summit on Climate Risk at the United Nations. The Summit comes as the severity of global warming and its potential financial consequences are clearer than ever. Among the new developments:

- On February 16, 2005, following approval by the Russian government, the Kyoto Protocol took effect. The international treaty mandates that dozens of participating industrialized countries, including all of Europe, Japan and Canada, cut emissions of carbon dioxide and other global warming pollutants. The treaty is a market signal to companies worldwide that climate change regulations are real and will become more and more prevalent in the coming years.
- Swiss Re, the world's second largest reinsurer, reported recently that it received a record \$49 billion in insurance claims from damage caused by hurricanes, typhoons and other natural disasters in 2004. The company attributed the high number of windstorms, including 13 hurricanes in the U.S. alone, to above-average sea-surface temperatures and the high year-round average temperatures measured in the last decade.
- Throughout 2004 and 2005, business publications including the *Financial Times*, *Wall Street Journal*, *Business Week*, *Fortune* and *McKinsey Quarterly* published prominent articles about climate risk and the need to develop prudent investment and corporate response strategies and solutions.
- In July 2004, eight state attorneys general and New York City filed the first-ever climate change lawsuit against a corporation when they sued five of the nation's largest electric power generating companies to require them to reduce their carbon dioxide emissions.

Each of these developments requires investors to pay even closer attention to the financial consequences of climate risk to their portfolios. Taken together, they pose an enormous challenge that cuts to the heart of their financial skills and legal responsibilities. Prudence, common sense, fiduciary responsibility and legal duty compel investors to examine these emerging issues with care and, where appropriate, to act. Today's Investor Summit will focus on these issues.

In preparation for this meeting, Ceres, an investor coalition that organized the first Summit and coordinates INCR, asked David Gardiner & Associates to assess the progress that investors have made in addressing these issues since the November 2003 Summit.

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## Executive Summary and Key Findings

This report reviews actions taken by investors since the Institutional Investor Summit on Climate Risk in November 2003. It assesses key indicators of progress by analyzing the 10 Call for Action topic areas and comparing those results with the baseline of climate risk activity in November 2003. The report finds that since November 2003, investors have:

- Met or exceeded objectives in six of the 10 topic areas identified in the Call for Action.
- Quadrupled the number of investors participating in the U.S.-based Investor Network on Climate Risk (INCR) and increased by 450 percent – from \$600 billion to \$2.7 trillion – the collective assets of INCR members.
- Quadrupled the number of investors and their assets participating in a European-based initiative known as the Carbon Disclosure Project.
- Changed their own policies, including \$450 million of new direct investment in clean technologies.
- Leveraged their clout as shareholders to persuade more than two dozen Fortune 500 companies in sectors with significant greenhouse gas emissions to boost their actions and disclosure about climate risks and to take steps for mitigating those risks.
- Filed a record 30 global warming shareholder resolutions with North American companies in 2004 and received record high voting support – as high as 37 percent – for those resolutions.
- Pressed the Securities and Exchange Commission for improved corporate disclosure.
- Urged Wall Street investment managers to improve their research and integration of climate risk issues in their financial analysis of companies and industry sectors.

The report also finds that with the increased awareness and corporate disclosure over the past 16 months, there is far greater acceptance that climate risk is embedded in virtually every major investment decision that companies and investors make. As a result, there is an increased recognition that investors and companies must move beyond efforts to simply promote climate risk disclosure and instead must answer a fundamental question: *What additional steps should investors and companies be taking to manage climate risk?*

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## Assessing Climate Risk Investor Activity since November 2003

### **Background**

In the years leading up to the first Institutional Investor Summit on Climate Risk in November 2003, there was a limited base of investor activity on climate change. Religious investors and socially responsible investment funds were providing virtually all of the leadership in filing shareholder resolutions to encourage more corporate disclosure on climate risk. Institutional investors, fund managers and financial analysts were paying little or no attention to the issue. Nor were mainstream business publications.

But the pendulum began swinging in 2003 after a handful of public pension funds began supporting shareholder resolutions, resulting in record high voting support at the 2003 corporate annual meetings. A total of 31 global warming resolutions were filed with U.S. and Canadian companies in 2003 and voting support reached as high as 27 percent at American Electric Power and 32 percent at ChevronTexaco. Still, no companies had yet agreed to prepare a climate risk report.

### **Investor Activity and Results since November 2003**

The Institutional Investor Summit on Climate Risk in November 2003 sparked a surge in investor activity. At the Summit, a group of ten investors issued an Investor Call for Action on Climate Risk, which broadened efforts to address this risk.<sup>1</sup> This report examines the extent to which these investors have followed through on the Call for Action, the most significant measure of their commitment to this issue.

The plan called upon the investment community, companies, and government to each take action to address climate risk. This report finds that investors engaged with all parties that they identified, and it specifically assesses progress investors have made with each group in achieving their objectives as outlined in the Call for Action. It ranks investor efforts with three grades:

- Not Yet Met Goal
- Met Goal
- Exceeded Goal

As the chart on the following page illustrates, investors made the most progress with investors and companies, and the least progress with government. This report offers detailed analyses of the progress made with investors, companies, and governments.

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1. The full text of the Investor Call for Action on Climate Risk can be viewed in Appendix B and at [http://www.incr.com/call\\_for\\_action\\_summary.htm](http://www.incr.com/call_for_action_summary.htm).

## Progress on the Investor Call for Action on Climate Risk

	Not Yet Met Goal	Met Goal	Exceeded Goal
<b>Call Upon investors</b> to create and expand the Investor Network on Climate Risk (INCR).			✓
<b>Call Upon investment managers</b> to include in their examination the potential financial impact of climate change.		✓	
<b>Call Upon institutional investors</b> to adopt proxy voting guidelines which support the disclosure of the risks of climate change and to vote for shareholder resolutions requesting disclosure of this information.			✓
<b>Call Upon boards of directors</b> to seek data on climate change risk planning, reporting, and mitigation.		✓	
<b>Call Upon companies in sectors that are the major source of greenhouse gas emissions</b> to report on the impacts and costs of climate change.			✓
<b>Call Upon companies that are not sources of greenhouse gases</b> to analyze and report the potential impact of climate change.		✓	
<b>*Call Upon the SEC</b> to enforce corporate disclosure requirements under regulation S-K.	✓		
<b>*Call Upon the SEC</b> to re-interpret proxy rules under Section 14(a)-8 to recognize shareholders' right to vote on climate change resolutions.	✓		
<b>Call Upon the U.S. Congress and the Executive Branch</b> to assess the financial impact of climate change on the value of long-term investments.	✓		
<b>Call Upon state governments</b> to assess the impact of climate change.	✓		

\*INCR members sent letters to the SEC in spring 2004 encouraging the agency to support these two Call for Action items. INCR and Ceres staff met with SEC senior staff in 2004 and with an SEC Commissioner in April 2005, but no policy changes have been made to date.

## Detailed Analysis of Investor Progress

### I. Changing Views in the Investment Community

In the Call for Action, investors committed to three actions they would undertake along with other members of the investment community. They planned to:

- Create and expand an Investor Network on Climate Risk (INCR)
- Change investment policies of institutional investors, including themselves
- Urge investment managers to focus on climate risk

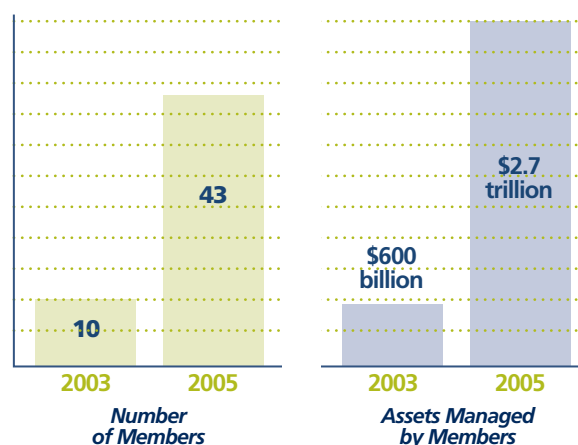
This report finds that they have exceeded their goals in the first two items and met their goal in the third. They have created INCR, educated other investors, surveyed investment managers about their capacity for assessing climate risk, and changed investor policies on the issue. They exceeded their goal of changing investor policies because of a dramatic increase in new investment in environmental technologies.

#### *Creating and Expanding the Investor Network on Climate Risk*

The ten founding investors created INCR to “further promote investor and corporate engagement and understanding of the range of risks posed by climate change.” This report examines whether investors have followed through in strengthening the network, engaging other investors, and increasing understanding of climate risk.

An important indicator of investor interest is the number of investors who are actively engaged in INCR. The number of participating institutional investors has quadrupled since the November 2003 launch, rising from ten initial participants to 43 today – a sign of rising concern among investors. The total assets represented by INCR have risen from \$600 billion in 2003 to \$2.7 trillion in 2005 – a 450% increase.<sup>2</sup> 2005 participating investors include:

- State and City Treasurers/Comptrollers
- Public Pension Funds
- Labor Pension Funds
- Foundations
- Religious Institutional Investors
- Asset Managers
- Insurance



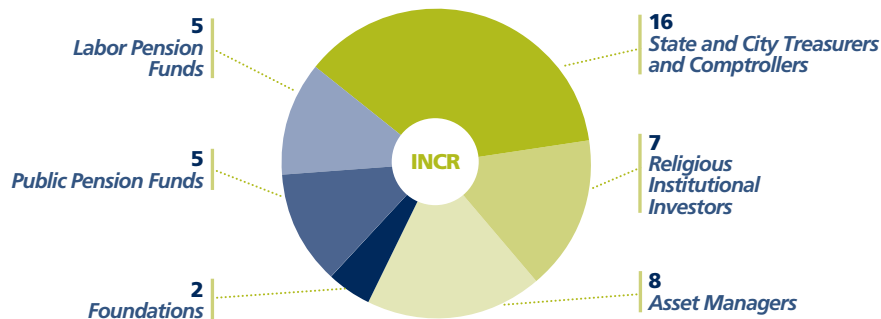
**Growth of INCR**

INCR is a project of Ceres, and Ceres President Mindy Lubber is the director of INCR. In 2005, Ceres created an INCR Steering Committee as an advisory body. Connecticut Treasurer Denise Nappier serves as the INCR Steering Committee Chair. The 18 members of the Steering Committee are:

- **Steve Abrecht**, Executive Director, National Industry Pension Fund, SEIU
- **Phil Angelides**, Treasurer, State of California
- **Randall Edwards**, Treasurer, State of Oregon
- **Jack Ehnes**, CEO, CalSTRS
- **Rob Feckner**, President, CalPERS
- **Alan Hevesi**, Comptroller, State of New York

2. Because INCR includes both investors and the investment managers who manage their assets, there is some potential for double-counting in these figures. For a list of INCR participating investors, see Appendix A.

- **Nancy Kopp**, Treasurer, State of Maryland
- **David Lemoine**, Treasurer, State of Maine
- **Lance Lindblom**, President, Nathan Cummings Foundation
- **Mindy Lubber**, President, Ceres
- **Richard Moore**, Treasurer, State of North Carolina
- **Denise L. Nappier**, Treasurer, State of Connecticut (Chair)
- **William Somplatsky-Jarman**, Presbyterian Church, USA
- **Jeb Spaulding**, Treasurer, State of Vermont
- **William C. Thompson, Jr.**, Comptroller, City of New York
- **Robert Vigil**, Treasurer, State of New Mexico
- **Steve Westly**, Controller, State of California
- **Timothy E. Wirth**, President, United Nations Foundation



**Participants in INCR (as of April 2005)**

### ***Increasing Education and Understanding***

A further indicator of investor concern about climate risk is the degree to which investors are actively engaged in learning about the issue and how to address it. Since the Summit, investors have sponsored four climate change conferences in the United States and Europe with over 600 participants.

First, pension fund trustees from California, Connecticut, Maine, New York, Vermont and the District of Columbia participated in a workshop at Harvard University designed to educate pension fund trustees about the connection between fiduciary responsibility and the risks to investments posed by global warming.<sup>3</sup> Working with faculty from Harvard's Kennedy School of Government, attorneys, pension fund leaders, and other experts, the trustees explored what they can do – consistent with their fiduciary duties – to address these financial risks and investment opportunities.

After hearing from experts, workshop participants concluded that climate change is a serious concern that presents risks and opportunities for their portfolios.<sup>4</sup> Fiduciaries have legal authority and may well have an obligation to address climate risk. Many pension funds are already acting to analyze the issue, raise awareness, and urge both disclosure and improved corporate strategies.

Second, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) hosted the *Institutional Investors Cleantech Conference* on March 29, 2005 in San Jose, California. The more than 350 participants collectively represented \$2.3 trillion in assets. The conference

3. Ceres and the Corporate Social Responsibility Initiative and the Energy Technology Innovation Project in the Belfer Center for Science & International Affairs at Harvard University's Kennedy School of Government co-sponsored the event.

4. For more information see workshop report, *Sustainability and Risk: Climate Change and Fiduciary Duty for the Twenty-First Century Trustee*, available at [www.ceres.org](http://www.ceres.org).

## **California Public Employees Retirement System & California State Teachers Retirement System Actions on Climate Risk**

Shortly after the 2003 Summit, California Treasurer Phil Angelides<sup>5</sup> proposed the “Green Wave” initiative, an effort to improve long-term financial returns for pensioners and taxpayers through investments in the environmental technology sector, while reducing risks to pension funds posed by corporate environmental liabilities. Treasurer Angelides called for CalPERS and CalSTRS – the first and third largest U.S. pension funds, respectively – to increase investment in environmental technologies, invest in stocks of environmentally responsible companies, conduct clean energy audits of their real estate portfolios, and encourage companies to improve their environmental performance reporting of environmental practices and liabilities.

In response to Angelides’ call, CalPERS and CalSTRS have committed \$450 million to private equity investment in cutting-edge environmental technology.<sup>6</sup> These investments, including venture capital and project financing, are aimed at capturing long-term returns by capitalizing on worldwide demographic trends, public awareness, environmental crises, and policy attention that is driving growth in the clean technology industry.

In April 2004, CalPERS decided to invest up to \$500 million in the stocks of environmentally responsible companies.

Both CalPERS and CalSTRS have adopted a goal of reducing energy use by 20% in their real estate holdings, which will reduce greenhouse gas emissions. The two funds have almost \$16 billion invested in real estate and property, including nearly 160 million square feet of office and industrial space.

In a broad effort to improve reporting on climate change, CalPERS has also decided to join the Carbon Disclosure Project, to promote improved emissions disclosure in both the auto and electricity sectors, and to recognize best practices in environmental disclosure by corporations.

California State Controller Steve Westly<sup>7</sup> has also taken a leadership role in urging improved climate performance from the automobile industry. He has launched the Global Warming Auto Watch, an effort to urge auto companies to comply with the state’s new greenhouse gas emission standards for cars. CalPERS, CalSTRS, New York Common Retirement Fund, New York City Comptroller William Thompson, and Connecticut Treasurer Denise Nappier have announced their support of the plan.

At Westly’s urging, the two California funds announced their support for 2005 shareholder resolutions requesting increased disclosure on climate risk at Ford and General Motors.

5. Angelides is a trustee of both CalPERS and CalSTRS.

6. CalPERS and CalSTRS have committed \$200 million and \$250 million, respectively, to this effort.

7. Westly is a trustee of both CalPERS and CalSTRS.

highlighted investment opportunities presented by climate change and other environmental challenges. Speakers confirmed that large scale investors can play a key role in promoting broad market awareness and adoption of clean technologies while earning attractive risk-adjusted market returns.

Third, on March 30, 2005, at the request of CalPERS and CalSTRS, Ceres and INCR presented the *Climate Risk: What Investors Need to Know* conference. The event, suggested by California State Controller Steve Westly in a letter to the CalPERS Board of Administration, drew a diverse crowd of more than 200 investors, board members and financial consultants. The conference provided clear financial, legal and practical guidance on how fiduciaries should incorporate climate risk into their investment decisions. Retirement system attendees included trustees, CIOs, investment officers and other representatives from CalPERS, CalSTRS, Los Angeles, County of Los Angeles, New York City, New York State, Sacramento County, San Francisco, Sonoma County, State of Vermont, and the Washington State Investment Board. Participants learned that climate risk is a significant financial risk and that investors who ignore the issue do so at their peril.

## ***Expanding engagement with international investors***

INCR has begun reaching out to investors outside the United States who are also concerned about climate change. Investors from the California State Controller's Office and CalPERS spoke, as representatives of INCR, at an April 2005 climate risk meeting in Melbourne, Australia. Also, INCR joined with European-based investor groups – the Institutional Investors Group on Climate Change, the Carbon Disclosure Project, the Local Authority Pension Fund Forum and others – in a February 2005 meeting in Paris to consider how investors from different parts of the world could be most effective in addressing this challenge.

More than 50 participants discussed investor initiatives in Europe and in North America. The meeting constituted the first gathering of an ongoing collaboration, for investors to work internationally on actions to reduce exposure to risk. Participants found:

- Climate change is material to investment processes and financial analysis.
- Institutional investors need greater disclosure from companies in which they hold shares, in order to properly evaluate climate risk.
- Investors must create mechanisms to discuss their actions and develop strategies.
- There are significant opportunities to build capacity among financial analysts to better understand risk and opportunities.

### ***New York City Actions on Climate Risk***

The New York City Comptroller, William C. Thompson, Jr., a longtime leader in corporate governance and disclosure, has taken a strong role in addressing climate risk in the electricity sector – the source of nearly 40% of U.S. carbon dioxide emissions. In 2004, the New York City pension fund filed a shareholder resolution with Reliant Energy. New York City agreed to withdraw the resolution when Reliant agreed to expand its 10-K disclosure in its securities filings to include an assessment of environmental issues, amend the charter of its Board Audit Committee to include an annual formal review of those issues, and establish an area on the corporate website with information about environmental issues.

In 2005, New York City was a co-filer on shareholder resolutions at Progress Energy and Dominion Resources. The resolutions sought increased disclosure of climate risk. Progress Energy agreed to the shareholders' request, and will produce a report to shareholders on the issue. Dominion Resources opposed the request for increased disclosure, and insisted that shareholders vote on the proposal.

The New York City pension fund has also taken a lead role in increasing the capacity of fund managers – those who manage investments for pension funds or recommend stock purchases – to consider the financial risks of climate change. It took the lead role in authoring a request to fifty leading vendors of financial services regarding their capability to assess: regulatory, valuation and portfolio risk.

## ***Urging Investment Managers to Analyze Climate Risk***

The Call for Action issued at the 2003 Summit recommended:

*“Investment managers, who manage funds for institutional investors and who make recommendations for the buying or selling of stock, to include in their examination of corporations, sectors, and managed funds analyses of the potential financial impact of climate change.”*

The investors followed through on this pledge by sending an August 2004 letter to 50 top investment managers asking how climate risk is likely to affect the long-term financial performance of their assets, and requesting information describing their capacity to assess regulatory, valuation and portfolio risk.

The following investors signed the letter to investment managers:

- **William J. Boarman**, Chair, Negotiated Pension Plan Communications Workers of America/ITU
- **Alan Hevesi**, Comptroller, State of New York
- **Nancy Kopp**, Treasurer, State of Maryland
- **Dale McCormick**, Treasurer, State of Maine

- **Denise L. Nappier**, Treasurer, State of Connecticut
- **Jeb Spaulding**, Treasurer, State of Vermont
- **William C. Thompson, Jr.**, Comptroller, City of New York

The letter sent a strong signal to investment and fund managers that investors expect climate risk analysis to become a standard part of their portfolio management. The Investor Responsibility Research Center has analyzed the responses from the investment managers for INCR, and investors will follow up after the 2005 Summit to ensure that climate risk in their portfolios is analyzed and addressed.

Responses to the letter revealed that investment and fund managers are beginning to develop capacity to address climate risk or are engaging on the issue. For example:

- State Street Global Advisors has launched two funds with “eco-enhanced” investment strategies, and has also purchased a minority stake in Innovest Strategic Value Advisors, a firm with extensive research capacity on this issue.
- Barclays Global Investors has evaluated a considerable number of data and information sources as part of its ongoing research, and launched iShares, an exchange-traded fund that maximizes exposure to large capitalization companies that have positive social and environmental characteristics.
- JP Morgan, Loomis Sayles, Merrill Lynch, Morgan Stanley, PIMCO and Wellington Management indicated that climate risk is a typical part of the analysis they perform on selected industries.
- Barclays Global Investors, Franklin, Goldman Sachs, Loomis Sayles, JP Morgan, Morgan Stanley, Northern Trust, PIMCO, Prudential, State Street Global, and Wellington Management are all either engaged with investors in discussing this topic or are interested in doing so.

### ***Changing Institutional Investor Climate Policies***

The Call for Action also recommended:

*“Institutional investors – including mutual funds, pension funds, foundations, and endowments – to amend proxy voting guidelines to support the disclosure of potential financial risks of climate change and to vote for shareholder resolutions requesting disclosure of this information.”*

To evaluate progress, this report examines how investors have changed their policies on the issue. Since the 2003 Summit, several key investors announced new policies on global warming. In addition, there is an increased focus on the proxy approaches of mutual funds, which were legally required in 2004 to begin disclosing how they voted on shareholder resolutions.

### ***Redirecting Investor Climate Policies***

California Treasurer Phil Angelides, trustee of CalPERS and CalSTRS, publicly supported global warming shareholder campaign resolutions filed with oil and gas companies in the 2004 proxy season. In 2005, the funds have endorsed shareholder resolutions calling for increased climate disclosure from U.S.-based automakers and a group of the largest emitting electric utility companies. Moreover, CalPERS decided in April 2004 to invest up to \$500 million in the stocks of environmentally responsible companies through environmentally screened funds. In making the commitment, CalPERS investment officers noted “a moderately positive correlation” between environmental factors and stock price performance.

Under the leadership of State Treasurer Jeb Spaulding, Vermont amended the proxy guidelines for its three public pension funds, representing more than \$2 billion, to specifically endorse:

- Increased disclosure of corporate environmental practices, risks, and liabilities
- Reduction of greenhouse gases under a reasonable timeline
- Increased investment in renewable energy
- Corporate plans to reduce toxic emissions

Also, several major financial institutions have committed to reduce climate risk within their companies and in their investments. In September 2004, Bank of America committed to reduce its greenhouse gas emissions and those associated with its investment portfolio by 7% by 2008. This represents a very strong commitment

from a financial institution to set a cap on emissions from its investments. In January 2005, HSBC committed to become the first carbon-neutral bank.

### ***Vermont Actions on Climate Risk***

The State of Vermont administers three pension funds for state and local employees. The three pension plans are:

- Vermont State Retirement System
- Vermont State Teachers Retirement System
- Vermont Municipal Employees Retirement System

Before the 2003 Institutional Investor Summit on Climate Risk, the funds had little guidance with respect to the financial risks of climate or other environmental issues. After participating in the Summit, State Treasurer Jeb Spaulding moved to amend the proxy voting guidelines at all three funds.

Treasurer Spaulding noted that he is a part of a pension fund board and is not the sole fiduciary for the pension funds. He has acted on climate risk in the interests of both the beneficiaries of the Vermont state plan and the community of Vermont.

He studied climate change and became convinced that it was a serious concern, which could adversely affect the beneficiaries of Vermont's pension funds. Avoiding companies or sectors with excessive exposure, or encouraging companies to lower their risk, could help the beneficiaries of the funds. In addition, he pointed out that the pension benefits of the teachers and state employees are dependent on a healthy local economy, which could be damaged if global warming adversely affects the ski industry and the maple industry. Thus, working to protect Vermont and the world from damage provides collateral benefits to the plan beneficiaries.

Vermont's pension funds created clear proxy guidelines on a range of issues, in part because their fund managers were not voting consistently with Vermont's interests. Among other things, the revised proxy guidelines used by all three state pension funds now ask Vermont fund managers to generally vote for shareholder proposals which:

- Seek greater disclosure of a company's environmental practices and environmental risks and liabilities.
- Call for a reduction of greenhouse gases under a reasonable timeline.
- Seek an increased investment in renewable energy.
- Call on a company to establish a plan to reduce toxic emissions.

In addition, Treasurer Spaulding has joined with six other pension fund trustees in sending a letter to a group of investment managers asking how their firms evaluate climate, especially regulatory, valuation, and portfolio risk.

Treasurer Spaulding is also exploring whether the pension funds could allocate a small percentage of their large cap portfolios to invest in environmentally proactive companies. Vermont's pension consultants have issued a Request for Information (RFI) from investment managers who specialize in environmental sustainability strategies. Treasurer Jeb Spaulding said, "The objective of this initiative is to reduce environmental and associated financial risk to our portfolios, to enhance long-term investment returns, and to encourage environmentally responsible corporate management."

### ***Going Beyond the Call – Investing in Clean Technology***

Perhaps the most significant area in which investors have surpassed their pledge at the 2003 Summit to shift investment policies is the commitments of new funds to clean technologies. California's two large pension funds have led these efforts, especially in the energy field, which produces as much as 80% of U.S. greenhouse gases. CalPERS and CalSTRS have committed \$450 million to private equity investment in cutting-edge environmental technology.<sup>8</sup> According to the funds, these investments, including venture capital and project

8. CalPERS and CalSTRS have committed \$200 million and \$250 million, respectively, to this effort.

### **Connecticut Actions on Climate Risk**

Connecticut has taken several steps to improve its own governance of investment decisions, before engaging specifically in this issue. In consultation with its investment advisory committee, State Treasurer Denise Nappier created a corporate governance policy unit to develop proxy voting guidelines and oversee its approach to becoming a more active and engaged shareholder. The first task was to adopt proxy voting guidelines on a range of issues. Only after these changes were made did the state begin to vote its proxies and file shareholder resolutions.

Connecticut's efforts have met with success in changing corporate approaches to climate change. In 2003, Treasurer Nappier filed a shareholder resolution with American Electric Power (AEP), which received 27% of the vote. Connecticut refiled in 2004, and then withdrew its resolution when the company agreed to issue a special report to its shareholders on climate.

In agreeing to the report, the company made a revolutionary statement acknowledging the importance of climate change to investors. AEP said, "Power plants, owned and operated by AEP, emitted more carbon dioxide, sulfur dioxide, nitrogen oxide and mercury than the power plants of any other electric utility company in the United States. ...[C]ommitments to reduce carbon dioxide are emerging. And we believe it is important for shareholders to understand how the company may be affected by regulatory, competitive, legal, and physical impacts of climate change, and be aware of any costs associated with the company's actions and response."

AEP has since issued a strong report that begins to analyze the choices the company faces on possible climate regulations. The report quantifies the potential impacts of three possible scenarios that the company may face. The report reaches several key conclusions, including:

- **Emissions Policies Present Critical Economic Issues.** "Among the most significant economic drivers for coal-based generators are current and future environmental policies, particularly air quality policies and programs."
- **Carbon Dioxide Limits are Likely.** The report says, "...mandatory carbon constraints in the long-term appear probable" and "...initial mandatory reductions of greenhouse gas emissions are likely in the next decade..."
- **Emissions Limits are Achievable.** The report says, "...AEP could meet a reasonable constraint at significant but manageable costs – provided the program was efficiently designed."
- **Policy Uncertainty is a Major Problem.** Current climate policy is uncertain, and the report states, "The central challenge the company faces is that of making decisions about large investments in long-lived assets in a setting of uncertain public policy and rapidly evolving technology."

financing, are aimed at capturing long-term returns by capitalizing on worldwide demographic trends, public awareness, environmental crises, and policy attention that is driving growth in the clean technology industry.

### **Shining a Spotlight on Mutual Funds**

In addition, investors are continuing to shine a spotlight on the need to reform proxy guidelines and voting practices on climate change. A recent Ceres study, authored by the the Investor Responsibility Research Center, examined the proxy voting practices of mutual funds.<sup>9</sup> It found that only 2% of the assets held in the nation's one hundred largest funds voted in favor of any global warming proposals in 2004. Only three funds – American Century, Columbia Funds and the Janus Funds – voted in favor of these proposals. Significant shifts in the proxy policies of funds will be necessary if investors wish to make more progress; the study revealed that Fidelity, Vanguard and American Funds, which alone manage about 70 percent of the assets held in the 100 largest funds, are among the 25 investment management companies that either voted against or abstained on all global warming proposals that came before them in 2004.

9. See *Unexamined Risk: How Mutual Funds Vote on Global Warming Shareholder Resolutions*, December 2004, available at [www.ceres.org](http://www.ceres.org).

## II. Making Progress with Companies

At the 2003 Summit, investors committed to focus attention on improving corporate governance on climate risk. They called on corporate boards of directors, as well as companies that are sources of greenhouse gas emissions and those that are not, to analyze the issue and report to shareholders.

This report finds that shareholders have met their goal in this area, especially by mounting a very effective and expanding shareholder effort. This work is aimed largely at companies in sectors with significant emissions, has prompted rapid changes at major corporations. In addition, investors have opened discussions on climate risk with a wide range of companies.

### ***Urging Action for Boards and Companies with Significant Emissions***

Since November 2003, investors have called on corporate boards and companies in sectors with significant emissions, such as automobiles, electricity generation, and oil and gas, to disclose more information about the financial risks of climate change and their plans to mitigate those risks. Thus, a key indicator of investor progress is the extent to which investors have followed through with these companies to increase disclosure.

This report finds that U.S. investors have conducted a major effort aimed at increasing disclosure from companies in high emitting sectors. Shareholders have increased the number of resolutions that they have filed with companies, increased the levels of support, and exercised new forms of leadership, including the filing of resolutions by public pension funds and foundations. More importantly, in 2004 and 2005, investors have won significant commitments to increase corporate climate change disclosure and to shift corporate policy. In addition, European-based investors have begun to drive efforts to expand corporate disclosure through the Carbon Disclosure Project.

### ***Increased Filings of Shareholder Resolutions***

The number of global warming shareholder resolutions that are filed with companies each year is a key indicator of progress. The number of filings has increased in each year since the Summit (see chart on next page), and filings by mainstream investors have also increased. The global warming shareholder campaign is coordinated by Ceres and the Interfaith Center on Corporate Responsibility.

In 2004, shareholders filed a total of 33 resolutions, 25 with U.S. companies and five with Canadian companies. The 2004 filings reflected increased attention to the oil and gas industry, including an expansion of such proxy measures to smaller independents. State, city, religious and other institutional shareholders filed 13 resolutions requesting risk disclosure and plans to reduce greenhouse gas emissions with ten oil and gas companies, five of which faced questions on the issue for the first time.

In 2005, according to the Investor Responsibility Research Center, shareholders filed 33 climate change shareholder resolutions with U.S. companies and eight with Canadian companies, for a total of 41 resolutions.

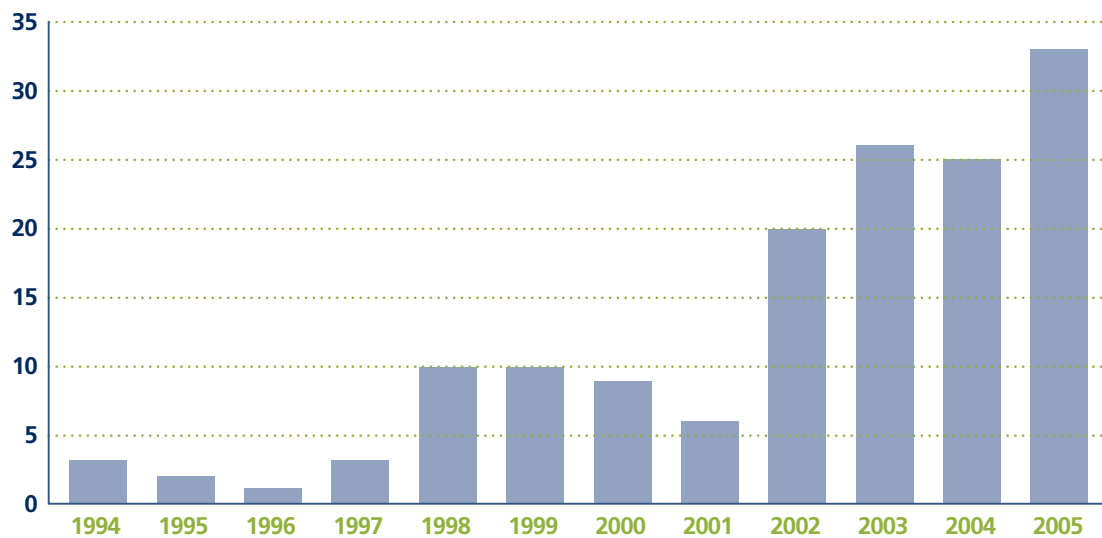
### ***Increased Climate Risk Disclosure – What Investors are Seeking***

In general, investors have used resolutions to ask for increased disclosure on:

- **Emissions Data** – A company’s historical, current, and future emissions of greenhouse gases not only from the company’s operations and production, but also from the end use of the company’s products, both of which can indicate a risk to the company from future climate regulations.
- **Corporate Climate Actions** – A company should disclose both corporate governance actions, such as establishing corporate climate policies or creating an independent committee of the board to assess possible impacts on the company, and specific actions the company is taking to reduce emissions, such as establishment of a voluntary emissions reduction target.
- **Quantified Scenario Analysis** – Companies should analyze and quantify the effect on the firm and on shareholder value of a limited number of plausible greenhouse gas regulatory scenarios, so that investors can use the quantified results of these scenarios to assess the financial issues facing the company.
- **Strategic Analysis and Plan** – Companies should disclose management’s strategic analysis of climate change, including its implications for competitiveness and its plan for meeting any strategic challenges it may identify. Companies should also disclose their view of the most cost-effective strategies to reduce greenhouse gases, and their current position on the science and policy of climate change.

### ***Votes in Support of Resolutions Increase***

Another indicator of investor interest and engagement on climate change is the number of votes cast in support of shareholder resolutions. The 2004 proxy season saw record vote totals at several leading oil and gas companies: 37% of Apache shareholders, 31% of Anadarko shareholders, and 27% of Marathon shareholders supported these resolutions. This increased support indicates growing investor concern about global warming, and the vote totals are particularly surprising because 2004 was the first year such resolutions had been filed at these firms.



**Number of U.S. Shareholder Resolutions on Climate Change, 1994–2005**

## ***New Forms of Investor Leadership***

During the 2004 shareholder season, institutional investors exercised new leadership as shareholders by filing resolutions at some key companies. New York State Comptroller Alan Hevesi and Maine State Treasurer Dale McCormick joined in filing resolutions in the oil and gas sector, as did the Nathan Cummings Foundation, which represented the first time a foundation has filed a global warming shareholder resolution. Treasurer McCormick also spoke at the ExxonMobil annual shareholders meeting – a first for a state treasurer on an environmental resolution.

## ***Investors Change Corporate Behavior on Climate Change***

For many investors, the key to addressing risk lies in changing corporate behavior on climate change—another good indicator of the progress investors have made. In particular, investors have sought increased corporate disclosure of risk and plans to mitigate that risk. The Call for Action issued at the Summit requested:

*“Companies in sectors that are the major source of greenhouse gas emissions – including automobile manufacturing, electricity generation, and oil and gas production and refining – to prepare reports for shareholders detailing how the companies may be affected by regulatory, competitive, legal, and physical impacts of climate change and the costs of failing to respond to these issues.”*

In November 2003, there was little corporate disclosure of climate risk. But the 2004 and 2005 proxy seasons have seen major commitments in sectors with significant greenhouse gas emissions – automobile, electricity, and oil and gas – to increase disclosure.

## ***Changing Corporate Global Warming Policies and Practices***

But investors have also gone beyond improvements in disclosure, and have begun to change corporate policies and practices on climate change. In particular, investors are working with companies to proactively address this issue by investing in technologies that will reduce emissions, and to support government policies that will provide certainty for investors.

In just the past year, investors have successfully worked with companies to assure change in corporate climate policies at some of the country's largest oil and gas companies – ChevronTexaco, Valero, Apache and Anadarko, among them – and at three major electric power companies – American Electric Power, Cinergy and Duke Energy. In 2005, Cinergy and Duke Energy, after discussions with investors, both took the unprecedented step of calling for a mandatory national policy to limit greenhouse gas emissions. The companies argued that greenhouse limits are inevitable and that prompt action to address the issue would help all power sector companies as they make investments in long-lived capital assets. Many of these policy changes occurred as a result of extensive dialogues that shareholders undertook with the companies.

Examples of changed corporate climate policies in 2004 and 2005 include:

- **ChevronTexaco** announced a goal of reducing 2003 levels of greenhouse gas emissions by 900,000 metric tons in 2004. The company also promised to set a long-term goal in the near future, and already factors the costs of future carbon controls into their capital decision making.
- **Valero** agreed to reduce its emissions by 5% by 2008 and committed to reducing emissions related to the combustion of its gasoline by an additional two million tons per year. This is the first time an oil company or refiner has taken responsibility for the emissions related to its end product, which are typically far higher than operational emissions.
- **Ford Motor Co.** agreed in spring 2005 to issue a first-of-its-kind report that will examine the business implications of reducing greenhouse gas emissions from motor vehicle fleets, especially in North America. The report will also include projections on future greenhouse gas emissions from its vehicles, as well as its manufacturing facilities.
- **American Electric Power** participates in the Chicago Climate Exchange, a voluntary emissions trading program. As part of that effort, it has committed to reduce its emissions 4% by 2006, from a baseline average of 1998–2001 emissions.

- **Cinergy** agreed to cut its emissions by 5% by 2012, and will be investing \$21 million to ensure that the goal is met. Cinergy also advocated for an end to the regulatory uncertainty on climate change.
- **Duke Energy** called for mandatory national, economy-wide policy to reduce greenhouse gas emissions, such as a tax on emissions.

### ***A Case Study in Disclosure: Electric Power***

As a result of investor engagement led by Ceres, Connecticut Treasurer Denise Nappier, and members of the Interfaith Center on Corporate Responsibility, power companies AEP, Cinergy, and TXU issued climate change disclosure reports in 2004, and DTE Energy, FirstEnergy, Progress Energy, and Southern will issue reports in 2005 or shortly thereafter. Investors have asked that the reports assess the impacts of and potential responses to a number of policy scenarios to limit carbon dioxide and other pollutants responsible for smog, soot, toxic contamination, acid rain, and global warming. These commitments to disclosure are significant and establish a precedent that other companies in high-emitting sectors will need to follow. In addition, because of the significant issues raised in the AEP, Cinergy and TXU reports, it seems likely that the reports will open the door to more meaningful discussions with these companies about their strategies for addressing climate.

Among the key points contained in the AEP, Cinergy, and TXU disclosure reports were:

- The companies are concerned about financial risks from regulatory uncertainty:

*AEP called uncertainty its biggest challenge, saying in its report: "The central challenge the company faces is that of making decisions about large investments in long-lived assets in a setting of uncertain public policy and rapidly evolving technology."*

*Cinergy said "uncertainties are particularly challenging" and are causing "higher costs and rates to customers than are necessary." It also said "prompt adoption of a clear, long-term federal environmental policy would benefit all."*

- The companies are concerned they will be penalized for early voluntary emissions reductions:

*TXU said any investments in voluntary reductions are unwarranted because there are no mandatory requirements in place which would justify passing some of the extra costs through to customers.*

*While conceding that some of the investments may prove untenable once regulations are clearer, Cinergy and AEP both outlined diverse portfolios of strategies they are pursuing to reduce their emissions, including efficiency improvements, carbon sequestration projects, investments in renewable fuels and support for a new clean-coal technology known as Integrated Gasification Combined Cycle.*

- AEP and Cinergy said well-constructed national carbon regulations could be implemented without causing significant harm to the U.S. economy:

*AEP said: "[A]nalyzes prepared for this report suggest that AEP could meet a reasonable constraint at significant but manageable costs – provided that the program was efficiently designed."*

*Cinergy said "a well constructed policy that gradually and predictably reduces emissions can be managed without undue disruption to the company or economy, though even the best plan will have rate impacts on customers."*

### ***European Investor Promotion of Expanded Disclosure***

European-based investors are working to seek improved corporate climate disclosure. Investors in the United Kingdom have launched the Carbon Disclosure Project (CDP) to accomplish that goal. CDP has sent three rounds of questionnaires on behalf of its investor participants to corporations in the Financial Times 500 list of the world's largest companies. It has compiled and published the results of the first two questionnaires, and will do so for the third in September 2005.

Investor participation in this questionnaire has quadrupled since 2003:

- 35 institutional investors with assets of \$4.5 trillion participated in the first questionnaire in May 2002.
- 95 institutional investors with assets of \$10 trillion participated in the second round in November 2003.
- 143 institutional investors with assets of \$20 trillion participated in February 2005.

Among the findings of the first two reports are:

- The response rate to the request for disclosure increased from 47% of companies in the first survey to 59% in the second survey.
- 80% of respondents to the first survey acknowledged the importance of climate change as a business risk, and more than a third of them are taking concrete action.
- The percentage of companies in high-impact sectors that are now measuring and reporting emissions has increased from 51% to 65%.

### ***Climate Focus on Companies that are Not Sources of Greenhouse Gases***

At the November 2003 Summit, investors committed to focusing attention on climate risk in sectors that are not sources of greenhouse gases. Such companies may face direct threats from the physical impacts of climate change, or indirect effects such as increased energy prices. Investors have followed through on their commitment to raise awareness among these companies by focusing on two sectors – insurance and buildings.

In 2003, investors began an effort to engage insurance companies in climate change issues by filing a resolution with Marsh & McLennan (MMC), the world's largest risk advisor and insurance broker. The company agreed to a dialogue with investors that continued through 2004. As a risk advisor to more than 70% of the Fortune 500, MMC is a critical company to engage on this topic. In 2004, shareholders expanded their focus on the insurance industry by filing resolutions with American International Group and Chubb. The two companies agreed to dialogue with investors, who withdrew the resolutions.

In 2005, investors also began to approach the buildings sector about climate impacts, especially regarding energy management. Investors, led by the Nathan Cummings Foundation, filed resolutions with six building companies, including Centex Corporation, Lennar Corporation, Ryland Homes, Health Care Property Investors, Liberty Property Trust, and Simon Property Group.

### ***New York State Actions on Climate Risk***

Under the leadership of State Comptroller Alan Hevesi, the New York State Common Retirement Fund has actively engaged with companies on this issue. In 2004, New York joined with other investors to file a shareholder resolution at Devon Energy, an oil and gas company, and the company agreed to increase its disclosure of climate risk. In 2005, New York joined in filing a shareholder resolution at Apache. Shareholders withdrew the resolution when the company agreed to report on:

- The annual greenhouse gas emission intensity from its projects in the United Kingdom and Canada (participants in the Kyoto Protocol), as well as from facilities in Australia and the United States. Reporting will begin in 2006, based on 2005 calendar year data.
- Its greenhouse gas projects, initiatives, and issues annually to Apache's board of directors.
- The progress of all major greenhouse gas projects and initiatives worldwide on its website.

Comptroller Hevesi has also begun to explore economic opportunities that might be created as governments begin to reduce greenhouse gas emissions. In March 2005, his office completed a study of the economic potential in New York of increasing electricity produced from renewable sources, such as biomass, fuel cells, solar, and wind. It found that increasing renewable electricity from its current level of 20% to 25% by 2013 would create 43,000 jobs in the state. In addition to reducing emissions of greenhouse gases and other pollutants, the study found that increased renewable energy would yield other economic benefits. These include increasing income to farmers who could lease land to install wind turbines or could begin cultivating energy-producing crops and expanding the state and local tax base.

### III. Making Progress with Government

Investors made clear in their 2003 Call for Action that government plays an important role in helping investors consider climate risk. Investors called on the Securities and Exchange Commission (SEC), the U.S. Congress and Executive Branch, and state governments all to help address climate risk. While investors have met their commitment to engage with each of these parties, there has been limited progress in getting governmental assistance.

#### *Increasing Corporate Climate Disclosure through the SEC<sup>10</sup>*

At the 2003 Summit, the ten founding members of INCR called upon the SEC to enforce corporate disclosure requirements for climate change and other environmental risks, and ensure that shareholders have the right to vote on resolutions asking companies to report on the risks. In March and April 2004, the investors wrote two letters to SEC Chairman William Donaldson urging him to eliminate any doubt that publicly traded companies should disclose climate risk to shareholders in their securities filings.<sup>11</sup>

Fifteen institutional investors – including eight state treasurers and comptrollers, four labor pension fund leaders, and the New York City Comptroller, collectively managing assets of nearly \$900 billion – signed the letters to Chairman Donaldson.<sup>12</sup> The pension fund leaders said that global warming poses material financial risk to many of their portfolio companies and that those risks should be analyzed as a matter of routine corporate financial disclosure. While some companies have voluntarily started to make progress toward such risk disclosure, other companies – including some of the United States’ largest emitters of the greenhouse gases that create global warming – have refused to do so citing ambiguous SEC rules governing the acknowledgment of such material dangers to shareholder wealth.

But the investors noted that climate risk clearly meets the SEC’s guidelines for the Management’s Discussion and Analysis of Financial Conditions and Results of Operations (MD&A) section of a company’s financial filings, which stipulates: “Specific known trends, events or uncertainties that are reasonably likely to have a material effect on a company’s financial condition or operating performance must be discussed in the MD&A.” Global warming and the growing efforts to address it through limiting carbon dioxide emissions present such a trend and uncertainty, say the investors, particularly to companies that are heavy emitters of greenhouse gas emissions, such as electric power, auto, and oil and gas companies.

Investors signing letters to Donaldson were:

- **California** State Treasurer Phil Angelides
- **CalSTRS** CEO Jack Ehnes
- **Connecticut** State Treasurer Denise L. Nappier
- **Maine** State Treasurer Dale McCormick
- **Maryland** State Treasurer Nancy Kopp
- **New Mexico** State Treasurer Robert Vigil
- **New York City** Comptroller William C. Thompson, Jr.
- **New York** State Comptroller Alan Hevesi
- **Oregon** State Treasurer Randall Edwards
- **Vermont** State Treasurer Jeb Spaulding
- **American Federation of State, County and Municipal Employees (AFCSME) Employees Pension Plan** Chairman Gerald McEntee (and President, AFCSME)
- **CWA/ITU Negotiated Pension Plan** Chair William Boarman

10. This report addresses the two items in the Call for Action that pertained to the SEC in one section, because investors presented the issues to the SEC in that manner.

11. Copies of the two letters to SEC Chairman Donaldson can be found at [http://ceres.org/newsroom/press/invest\\_sec\\_disclosure.htm](http://ceres.org/newsroom/press/invest_sec_disclosure.htm).

12. This includes an October 2004 letter to Chairman Donaldson from CalSTRS CEO Jack Ehnes. The letter references the earlier letters and the 2003 Summit, and it requests that the SEC review its disclosure requirements on material risks related to climate change and strengthen them to include information on climate risk.

### ***The Nathan Cummings Foundation: Actions on Climate Risk***

The Nathan Cummings Foundation (NCF) is the first and only foundation to have filed a global warming resolution and is one of only a handful of foundations actively involved in both voting its proxies and filing resolutions. Because climate is one focus of the Foundation's Environment Program as well as a possible source of risk in its investment portfolio, it has filed resolutions in each of the last three years. Its efforts demonstrate the positive results that a foundation can achieve as an active shareholder.

In 2004, NCF served as a co-filer of a climate resolution at Anadarko Petroleum and the primary filer of a resolution at Valero Energy. Both resolutions asked the companies to report on their response to rising pressure to reduce GHG emissions.

In 2005, NCF was an active co-filer of resolutions at Anadarko and Apache which were withdrawn. The Foundation also served as the primary filer of resolutions at XTO Energy and Vintage Petroleum. NCF has also spearheaded a campaign to get Real Estate Investment Trusts (REITs) and homebuilders to report on their responses to rising pressure to both reduce greenhouse gas emissions and increase energy efficiency. The Foundation filed resolutions at Lennar, Ryland and Centex Homes.

NCF's efforts have yielded dialogue with companies and changes in their climate change policies.

In response to the Foundation's resolution, the oil company Valero agreed to take several actions, including:

- Reduce projected 2008 emissions by 5%.
- Reduce emissions related to the combustion of its gasoline by an additional 2 million tons a year. This marked the first time the an oil company or refiner took responsibility for its end product emissions.
- Complete a baseline emissions inventory and post the results on their website.
- Conduct an emissions inventory on an annual basis.
- List on their website the ways in which the company is attempting to reduce its greenhouse emissions.

NCF's resolution led XTO Energy to:

- Create a committee to address issues relating to greenhouse emissions, including monitoring the science of climate change and making recommendations to help develop emission reduction programs.
- Acknowledge on its website that climate change is an important issue and disclose the actions it is currently taking to address this issue.
- Disclose on its website its emissions baseline.
- Update emissions data on an annual basis.
- Continue its participation in voluntary programs to reduce emissions, such as the Natural Gas STAR Program, and help to formulate a plan for the reduction of methane emissions from current operations.
- Include a short section in its proxy statement indicating that they received a proposal regarding climate change and that it was withdrawn due to the company's actions in this area.
- Continue to discuss these issues with the NCF and other concerned investors.

- **International Brotherhood of Teamsters** General Secretary-Treasurer C. Thomas Keegel
- **Service Employees International Union (SEIU) Pension Fund** Executive Director of Benefits Steve Abrecht
- **Nathan Cummings Foundation** President and CEO Lance E. Lindblom

In addition, investors issued a response to a July 2004 General Accountability Office (GAO) study of environmental disclosure in corporate SEC filings.<sup>13</sup> Investors issued their criticism through a letter from Mindy Lubber, President of Ceres, the Secretariat to the Investor Network on Climate Risk. In the letter, the investors criticized the report for failing to indicate the extent to which companies are complying with existing SEC disclosure requirements – the key goal of the study. Moreover, the letter indicates that the study misrepresents the results of its survey of experts, in which the GAO implies that experts were evenly divided, when they were not. The letter notes, for example, that “86% of respondents answered ‘probably yes’ or ‘definitely yes’ when asked ‘Do SEC’s limited monitoring and enforcement activities contribute to inadequate disclosure of environmental information?’”<sup>14</sup>

### ***Investor Progress with National and State Governments***

Since November 2003, investors have followed through on their call to engage with national and state policy makers regarding the importance of addressing climate risk. Among the steps they have taken:

- Maine Treasurer Dale McCormick spoke on July 15, 2004 at a Congressional Symposium at the Capitol Building hosted by Senator Jon Corzine, and she participated in the implementation of Maine’s state action plan on climate change.
- Bank of America President Eugene M. McQuade spoke at a May 6, 2004 press event where Massachusetts Governor Mitt Romney unveiled the Massachusetts state climate action plan.
- CalPERS and CalSTRS supported a California state law regulating carbon dioxide emissions, arguing that it would reduce financial risks to the U.S. auto industry by helping carmakers stay competitive in developing low emission vehicles.

The INCR Secretariat, Ceres, has engaged with staff members of the SEC, the U.S. Congress, the Executive Branch, and state and regional government agencies on a regular basis since November 2003, urging them to address the financial risks to investors posed by climate change. Ceres has especially engaged with state government officials with responsibility for overseeing insurance companies. Most regulation of insurance companies occurs at the state level, and state officials should be aware of the risks that physical damage from climate change presents to insurance companies.

13. *Environmental Disclosure: SEC Should Explore Ways to Improve Tracking and Transparency of Information*, Government Accountability Office, GAO-04-808, July 14, 2004.

14. Full text of the response to the GAO study can be found at [http://incr.com/wc\\_lead\\_forum.htm](http://incr.com/wc_lead_forum.htm)

## Appendix A

### *Participants in the Investor Network on Climate Risk (as of April 2005)*

1. AFL-CIO
2. AFSCME
3. Boston Common Asset Management
4. Bullitt Foundation
5. California State Controller
6. California State Treasurer
7. California Public Employees' Retirement System (CalPERS)
8. California State Teachers' Retirement System (CalSTRS)
9. Calvert Group
10. Christian Brothers Investment Services
11. Communications Workers of America/ITU Negotiated Pension Plan
12. Connecticut State Treasurer
13. Domini Social Investments
14. Ethical Funds
15. Evangelical Lutheran Church of America
16. F & C Asset Management
17. Interfaith Center on Corporate Responsibility Investor Members
18. International Brotherhood of Teamsters Affiliates Pension Plan
19. Iowa State Treasurer
20. Kentucky State Treasurer
21. Maine State Treasurer
22. Maryland State Treasurer
23. Massachusetts State Treasurer
24. Nathan Cummings Foundation
25. New Jersey State Treasurer
26. New Mexico State Treasurer
27. New York City Comptroller
28. New York City Employees Retirement System
29. New York State Common Retirement Fund
30. New York State Comptroller
31. New York State Teachers' Retirement System
32. North Carolina State Treasurer
33. Oregon State Treasurer
34. Presbyterian Church, U.S.A.
35. Service Employees International Union
36. State Street Global Advisors
37. Trillium Asset Management Corporation
38. Tri-State Coalition for Responsible Investment
39. United Church of Christ Pension Boards
40. United Methodist Church
41. Vermont State Treasurer
42. Walden Asset Management
43. Washington, D.C. Office of Finance and Treasury

## Appendix B

### *Investor Call for Action on Climate Risk*

*Signed by:*

State Treasurers:

- Phil Angelides, Treasurer, State of California
- Randall Edwards, Treasurer, State of Oregon
- Nancy Kopp, State Treasurer, State of Maryland
- 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

State and City Comptrollers:

- Alan Hevesi, Comptroller, State of New York
- William Thompson, Comptroller, New York City

Labor Pension Funds:

- Steve Abrecht, Executive Director, National Industry Pension Fund, Service Employees International Union (SEIU)
- William J. Boarman, Chairman of the Board of Trustees, CWA/ITU Negotiated Pension Plan
- Gerald McEntee, President, American Federation of State, County and Municipal Employees (AFSCME)
- Tom Keegel, General Secretary-Treasurer, International Brotherhood of Teamsters; Trustee, Teamsters Affiliates Pension Plan

Foundations:

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

### **Background**

Investors need information on the financial risks posed by climate change and faced by companies in which they invest. This information is not currently readily available. Investors are seeking analysis and disclosure of the potential of this financial risk.

### **Principles**

As investors, we have come to understand: Climate change is one of the greatest challenges of the 21st century. How we address risks posed by climate change to our physical world will impact our economic and environmental future.

Climate risk has become embedded, to a greater or lesser extent, in every business and investment portfolio in the United States. In order for investors to exercise appropriate judgment and for fiduciaries to act responsibly, disclosure of the potential economic risks posed by climate change is essential.

Financial markets need to better understand and acknowledge the economic challenges and opportunities that climate change will compel.

Corporations need to understand regulatory, statutory and legal efforts, internationally and domestically, aimed at regulating the emission of carbon dioxide and other greenhouse gases.

Investors are currently hampered in their ability to assess and respond to the financial risks of global warming because existing rules on disclosure relating to material liabilities are not adequately enforced, fund management firms generally are not conducting sufficiently thorough analysis, and many companies are failing to adequately disclose relevant information related to potential dangers to their long-term revenues and assets.

Investors need the assistance of their financial managers, regulatory bodies, and public policy makers, as well as the companies themselves, in making this information available and clear.

## 10-Point Call for Action

We therefore call upon:

1. The Securities and Exchange Commission (SEC) to enforce corporate disclosure requirements under regulation S-K on material risks such as climate change and to strengthen current disclosure requirements – as requested by investors and others in recent petition to the SEC (File # 4-463). Current SEC disclosure regulations require registrants to disclose trends and uncertainties that are likely to have a reasonable impact on a company's operations. Studies show that many companies are failing to adequately disclose climate change-related risks to their shareholders in accordance with these rules. Furthermore, strengthening the current accounting rules governing the estimation and disclosure of environmental liabilities would lead to better transparency.<sup>15</sup>
2. The Securities and Exchange Commission to re-interpret or change its proxy rules under Section 14(a)-8 relating to "ordinary business" to recognize that shareholders should have the right to vote on resolutions asking their companies to report on financial risks that may be faced due to climate change.<sup>16</sup>
3. Boards of directors of companies under the principle of "duty of care" to ask corporate management to provide them with information and data on the potential financial risk to companies from climate change, and plans to mitigate any risk, and to report this information to shareholders.
4. Companies in sectors that are the major source of greenhouse gas emissions – including automobile manufacturing, electricity generation, and oil and gas production and refining – to prepare reports for shareholders detailing how the companies may be affected by regulatory, competitive, legal, and physical impacts of climate change and the costs of failing to respond to these issues.
5. Companies that are not sources of greenhouse gases, but whose operations may be affected by climate change, to analyze the potential impact of climate change on the companies and report the results of that analysis to shareholders.
6. Investment managers, who manage funds for institutional investors and who make recommendations for the buying or selling of stock, to include in their examination of corporations, sectors, and managed funds analyses of the potential financial impact of climate change.
7. Institutional investors – including mutual funds, pension funds, foundations, endowments – to adopt proxy voting guidelines which support the disclosure of the potential financial risks of climate change and to vote for shareholder resolutions requesting disclosure of this information.
8. The U.S. Congress and the Executive Branch, when developing policies to address greenhouse gas emissions, to assess the financial impact of climate change on the value of long-term investments.
9. State Governments, (and their regional organizations), to assess the potential financial impact of climate change on their states, and businesses that operate in them.
10. Finally, to follow through on the Institutional Investor Summit on Climate Risk and this Call for Action, and to further promote investor and corporate engagement and understanding of the range of risks posed by climate change, we will support the creation of an Investor Network on Climate Risk (INCR). We have asked CERES, a US-based coalition of investment funds and public interest groups, to serve as secretariat to INCR ([www.INCR.com](http://www.INCR.com))

We believe that climate change may emerge as one of the most important financial risks of our time, with consequences that could affect us and our beneficiaries long into the future. We pledge to work together to deepen our understanding of climate change and will exercise our duty as pension trustees, fiduciaries, and investment professionals in response to the risks posed by climate change.

15. Studies include: *CERES, Corporate Governance and Climate Change: Making the Connection*, prepared by Douglas G. Cogan of the Investor Responsibility Research Center, June 2003; Michelle Chan-Fishel, *Second Survey of Climate Change Disclosure in SEC Filings of Automobile, Insurance, Oil & Gas, Petrochemical and Utilities Companies*, Friends of the Earth, Washington, DC, November 2003. See also: Rose Foundation petition, filed September 20, 2002. SEC File # 4-463. The petition may be viewed at [http://www.rosefdn.org/images/SEC\\_Enviro\\_Disclosure\\_Pet.pdf](http://www.rosefdn.org/images/SEC_Enviro_Disclosure_Pet.pdf). SEC Rule S-K, Item 303, provides guidance to companies about how to report information about material events and uncertainties, such as climate change. Specifically, it requires companies to disclose instances where "a trend, demand, commitment, event or uncertainty is both presently known to management and reasonably likely to have material effects on the registrant's financial condition or results of operation," Securities and Exchange Commission Release 33-6835, 54FR22427, May 24, 1989.

16. A shareholder filed a shareholder resolution with Cinergy Corp. for its 2003 proxy statement requesting a report on the "economic risks associated with the Company's past, present, and future emissions of carbon dioxide" The company requested permission from the SEC to omit this resolution from its proxy. On February 5, 2003 the SEC issued its "no action letter" to Cinergy stating: "There appears to be some basis that Cinergy may exclude the proposal under rule 14a-8(i)(7), as relating to its ordinary business operations (i.e. evaluation of risks and benefits)."

## **About Ceres**

Ceres is a national coalition of investment funds, environmental organizations, and other public interest groups. Our mission is to move businesses, capital, and markets to advance lasting prosperity by valuing the health of the planet and its people. Ceres represents more than \$400 billion in assets. Investor members include state and municipal pension funds, socially responsible investment firms, religious groups, union funds, and foundations. Since its founding in 1989, Ceres has persuaded dozens of companies to endorse the Ceres Principles. Ceres co-founded the Global Reporting Initiative (GRI) with the United Nations Environment Programme and is secretariat for the Investor Network on Climate Risk. Ceres is currently bringing together the sustainability and corporate governance movements to improve corporate and public policies on climate change and other social, environmental and governance issues.

Ceres serves as the Secretariat for the Investor Network on Climate Risk (INCR). INCR includes investor members with assets of \$2.7 trillion. The network was launched at the Institutional Investor Summit on Climate Risk at United Nations Headquarters in 2003. The purpose of INCR is to promote better understanding of the risks of climate change among institutional investors.

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## **About David Gardiner & Associates**

David Gardiner & Associates, LLC (DGA) provides innovative environmental and sustainability services to clients in the private- and public-sectors. It helps organizational leaders turn knowledge into action and make critical decisions by providing thorough research, clear analysis, and astute implementation guidance.

The firm has core expertise in climate change, clean air, clean energy, corporate responsibility, investor services, business and non-profit management, and sustainable development. Through integration of environmental, social and economic concerns, DGA focuses on key sectors where sustainability issues have a significant impact, including electricity, transportation, land use, and investor and financial markets.

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