News and Analysis

News | **Pension Plans**

San Francisco pension resists calls for fossil fuel divestment

The $24bn system instead agreed to create a separate $1bn "low carbon" equity account, and identify and engage with the "worst" greenhouse gas emitters

Dietrich Knauth | 25 Jan 2018

The $24bn **San Francisco Employees Retirement System** (SFERS) resisted calls from activists to divest from fossil fuels, instead approving a more limited plan to identify and engage with the worst sources of greenhouse gas emissions.

SFERS held a special board meeting January 24 to consider divestment, which was supported by board member **Victor Makras** and opposed by the system's investment staff and consultant **NEPC**.

In May, Makras made a motion to divest all fossil fuel holdings in its public markets accounts within 180 days. NEPC estimated that the divestment would cover about $500m in assets, or about 4.5% of SFERS' public equity potfolio.

Investment staff countered with a proposal that would create a separate $1bn "carbon constrained" passive account strategy that aims to reduce carbon emissions by 50% compared to the *S&P 500 Index*, and take a

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phased approach to identifying and engaging with the "worst of the worst" companies in carbon emissions. The approved plan would also hire a director of socially responsible investing and partner with other pension plans, including the **California State Teachers' Retirement System** (CalSTRS), **NYC Retirement Systems** and **New York State Common**, on carbon emission reduction efforts.

SFERS board approved the investment staff's proposal at the meeting, drawing criticism from activist groups in attendance.

San Francisco's investment team prepared a 164-page report in response to the divestment resolution, saying that divestment would not do anything to reduce fossil fuels. The plan also outlined the benefits of stewardship and the combined effect institutional investors can have on public companies.

"This cannot be emphasized enough: divestment does not reduce fossil fuels," Executive Director **William Coaker** wrote in a 164-page report. "Staff is concerned that fossil fuels are causing global warming. However, divestment does not reduce the amount of fossil fuels; it simply changes ownership."

NEPC also pointed to the costs of divestment, as well as the risks of removing assets that have performed well as a hedge in high inflationary periods.

"It is NEPC's opinion that divestment is the least efficient of these tools and a potentially costly option for SFERS," NEPC wrote in a memo. "Removing a significant portion of the investable universe of securities that active money managers can invest in is, by definition, a restriction on diversification of the SFERS portfolio."

One of the activist groups that had supported divestment, **350 Bay Area**, said that it would continue to fight for divestment.

"Sadly the San Francisco Board just asked staff to study risky assets and develop engagement plans with fossil fuel companies, rather than taking action on divesting," 350 Bay Area spokesman **Jed Holtzman** said in a

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statement. "Given past performances, it's very unlikely anything meaningful will arise from today. The fight continues to divest San Francisco."

Activists were hoping that San Francisco would follow in the footsteps of New York City, whose pension systems recently announced a plan to divest from companies that own fossil fuel reserves (*MMR*, **1/10/2018**). The $189bn system would become the first major U.S. pension plan to fully divest from ownership in fossil fuel reserves.

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San Francisco City & County Employees' Retirement System (SFERS)

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