



# Education Session on Climate Risk and Stewardship

New York State Teachers' Retirement System

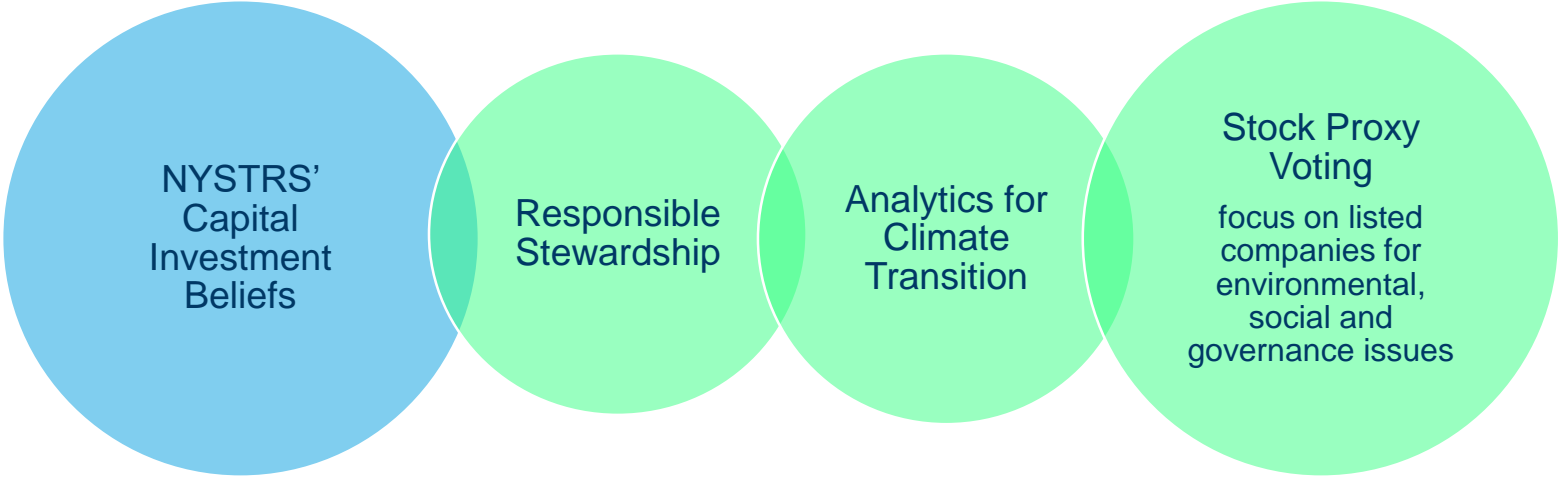
November 2021

This report has been prepared for the New York State Teachers' Retirement System (NYSTRS).

welcome to brighter

# Connected Objectives

## Focus on Stewardship



**We started with the objective to define Capital Investment Beliefs, including Responsible Stewardship. Next, Mercer's Analytics for Climate Transition (ACT) and NYSTRS' Stock Proxy Voting will help us focus on listed companies with ESG issues.**

# Refresher: Operationalizing “Responsible Stewardship”

## Capital Investment Beliefs

### ***We Believe:***

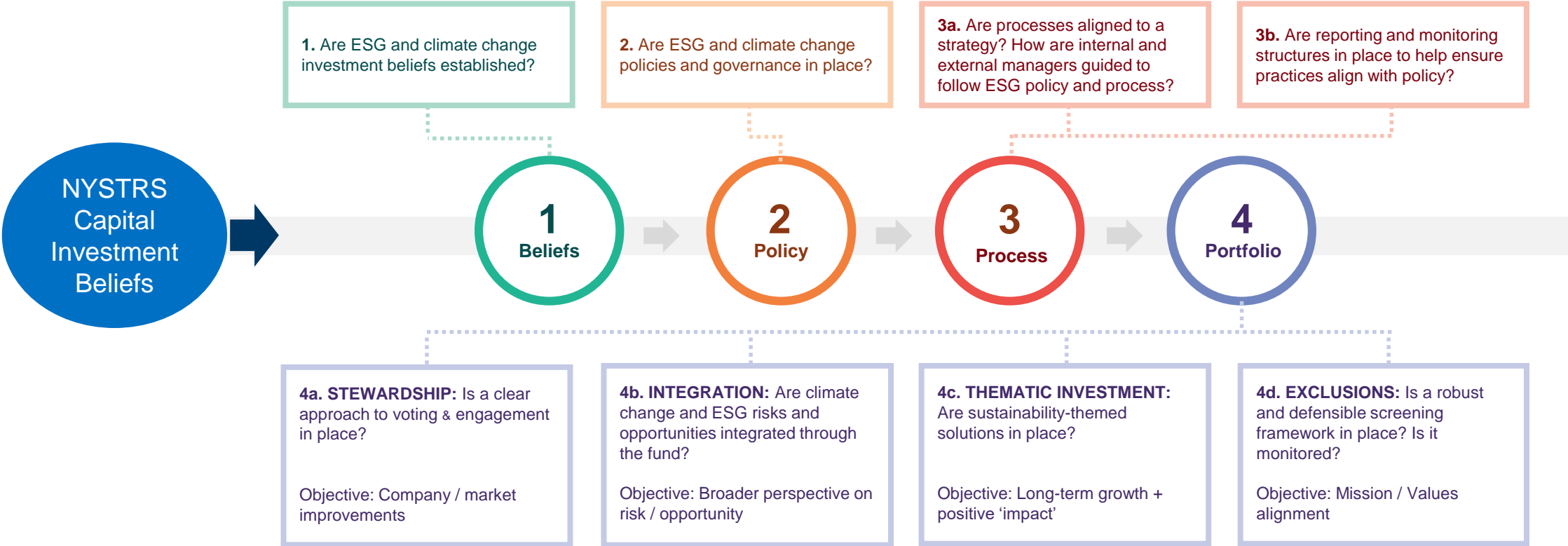
*As fiduciaries, we must be **responsible stewards** of the Fund, while acting for the exclusive benefit of NYSTRS’ members and beneficiaries.*

Responsible stewardship includes:

- Making prudent investment choices, consistent with our fiduciary duties under a disciplined risk-controlled strategy.
- Promoting responsible corporate governance, consistent with our Duty of Loyalty to act for the exclusive benefit of NYSTRS’ members and beneficiaries.
- Being active owners of public and private companies, including but not limited to:
  - Voting proxies.
  - Participating on Limited Partner Advisory Committees.
  - Capitalizing on the System’s assets to achieve investment goals and objectives in a responsible manner.
- Collaborating with other institutional investors to harness collective influence in engagement efforts.
- Actively participating with external organizations to help shape future rules and regulations related to sustainable investing. (e.g., Value Reporting Foundation efforts to advocate for uniform reporting and disclosure templates)

# Refresher: Sustainable Investment Pathway

## Mercer's Framework





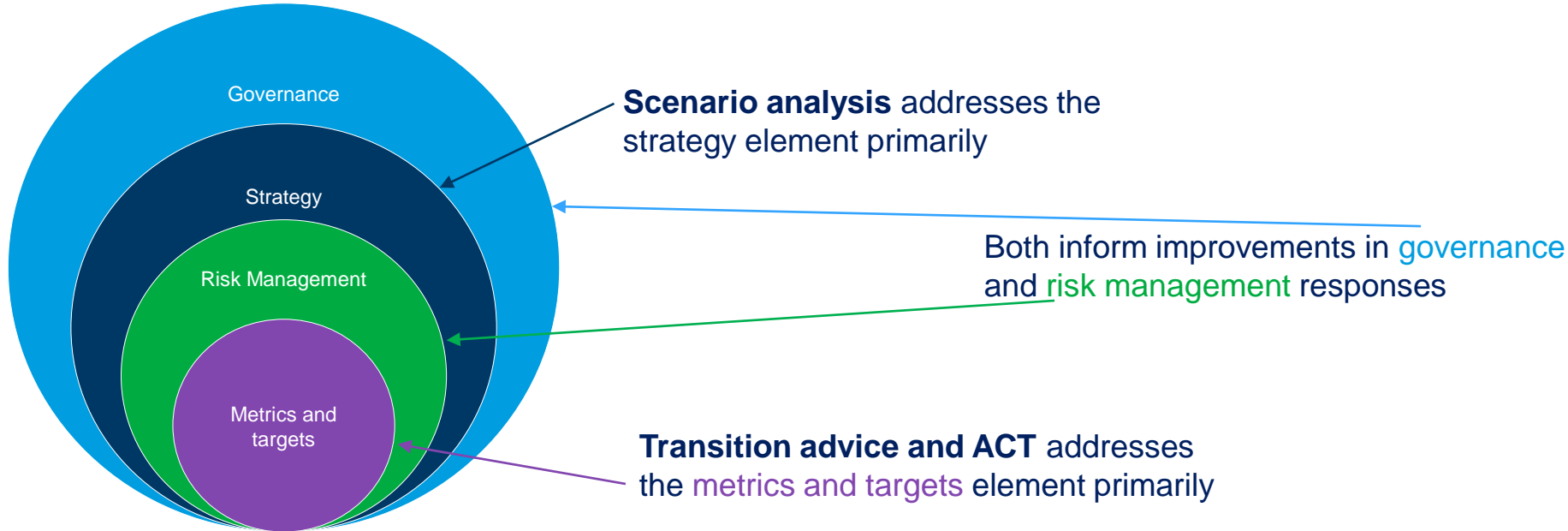
**Defining Emissions and Carbon Metrics**



# Addressing Climate-Related Risks and Opportunities

## TCFD framework

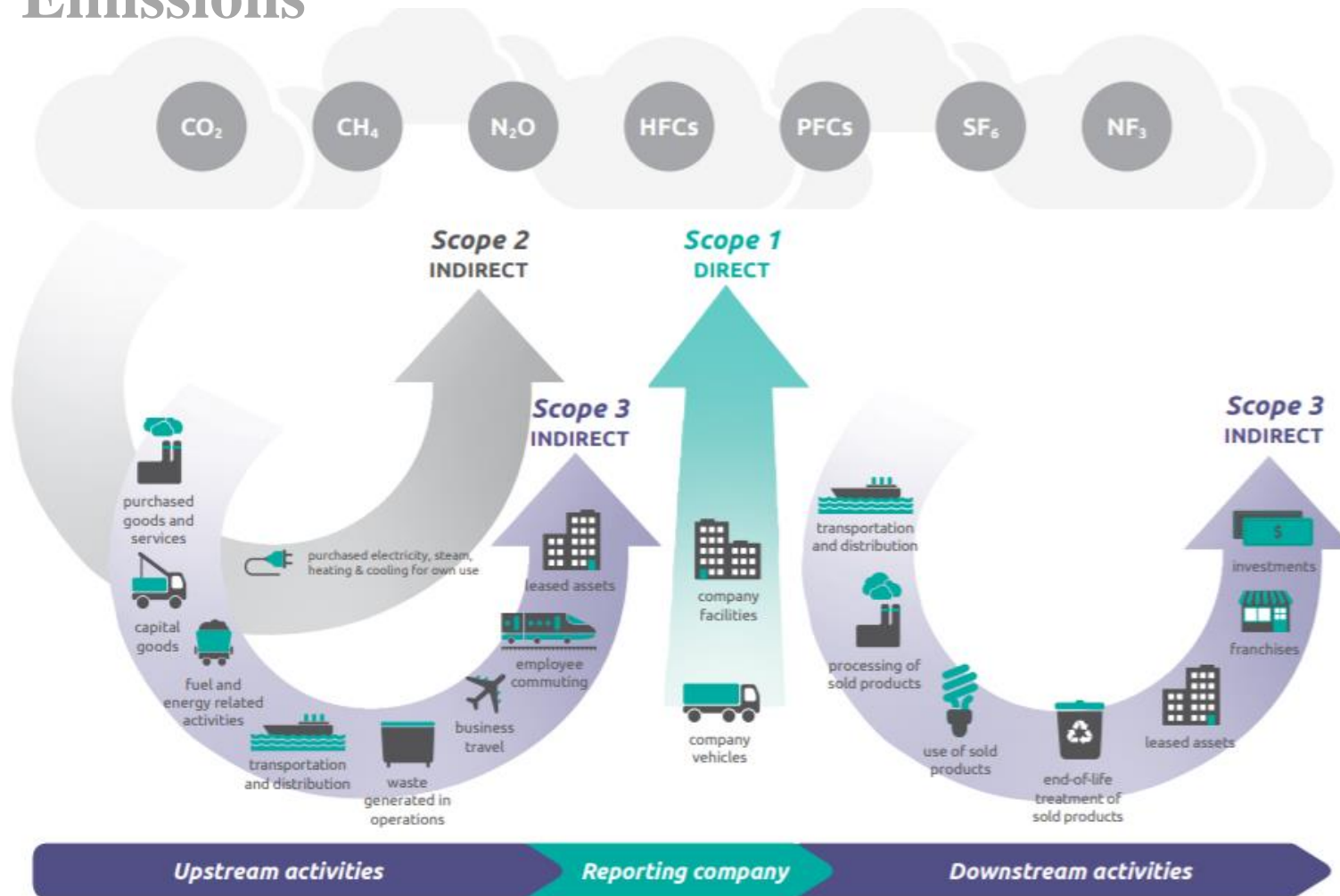
- The **Task Force on Climate-related Financial Disclosures (TCFD)** recommends a framework for disclosing how climate-related risks and opportunities are measured, monitored and managed by companies, asset managers and asset owners.



**Mercer applies the TCFD framework to help clients understand, manage and monitor their exposure to climate risks and opportunities, and disclose according to regulator expectations**

# Evolving Disclosure and Data Coverage

## Emissions



The concerns about the quality of these data include: 1) reporting is voluntary, which lowers data availability and introduces a potential self-reporting bias; 2) no single reporting standard has been adopted, which leads to incomparability of GHG emissions between companies; and 3) reported data are not perfectly consistent across data providers. **Despite these drawbacks, the reported data are the best quality information currently available.**<sup>1</sup>

A key challenge for global institutional investors is gaining access to ESG-related metrics from private market investments, which include private equity, private debt, real estate, infrastructure, and natural resources (among other potential asset classes). By nature, these assets are not typically required to disclose much information publicly -- and while investment managers are increasingly enhancing their capabilities, ESG reporting remains relatively atypical in these asset classes.

Source: [https://www.ghgprotocol.org/sites/default/files/ghgp/standards/Scope3\\_Calculation\\_Guidance\\_0.pdf](https://www.ghgprotocol.org/sites/default/files/ghgp/standards/Scope3_Calculation_Guidance_0.pdf).

<sup>1</sup> Green Data or Greenwashing? Do Corporate Carbon Emissions Data Enable Investors to Mitigate Climate Change? (Vitali Kalesnik, Marco Wilkens, and Jonas Zink, Research Affiliates, LLC, University of Augsburg, November 2020)



**Portfolio Key Highlights**



# Carbon Metrics

Different methodologies can be used to calculate a portfolio's exposure to carbon intensive companies (direct and indirect carbon emissions) and their potential emissions (fossil fuel reserves). The metrics used in this analysis reflect a combination of recommendations from the Task Force on Climate-related Financial Disclosures (TCFD) and Mercer's experience in working with clients.

**Weighted Average Carbon Intensity (WACI)** is recommended by the TCFD as the primary tracking metric because it can be applied across asset classes and is a fairly straightforward calculation. It measures the efficiency of an investment's carbon emissions, which serves to contextualize the emissions rather than focusing on the binary "existence" of emissions.

**Absolute Emissions** measures an investor's share of total emissions produced by the underlying issuers, expressed in tons of greenhouse gas emissions. It may be used to communicate a portfolio's total carbon footprint.

# NYSTRS' Portfolio

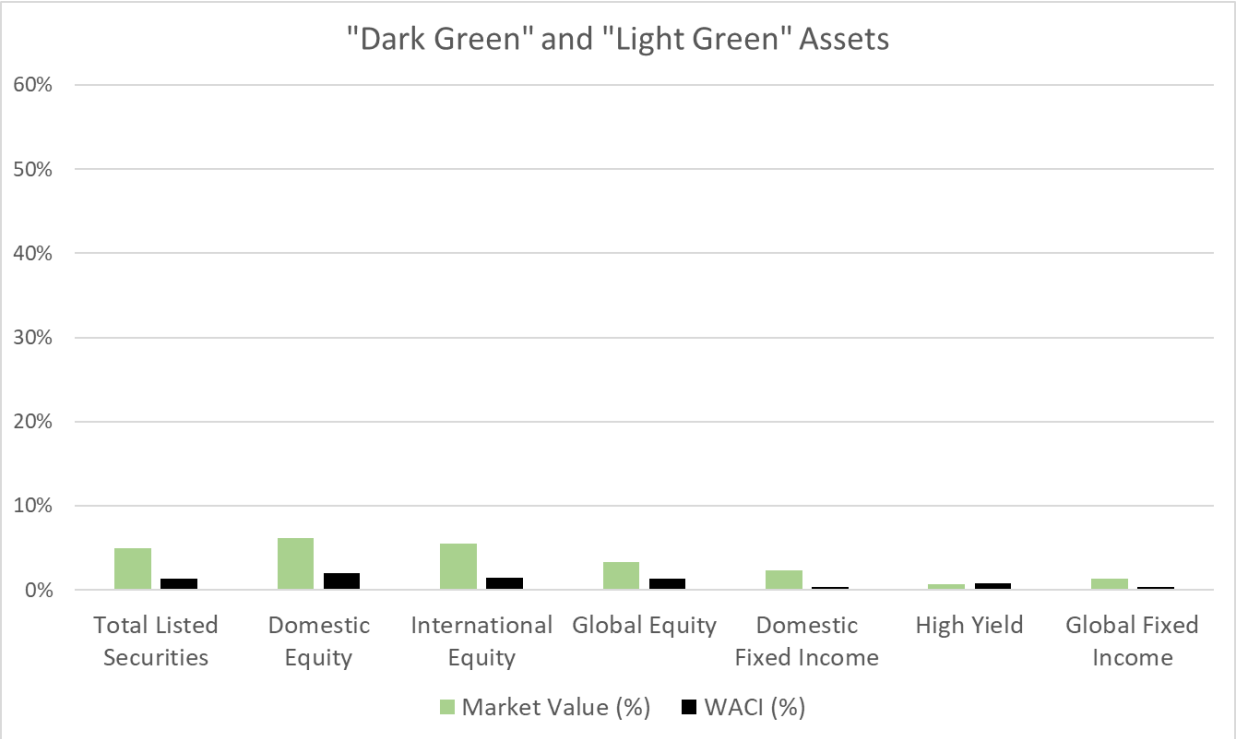
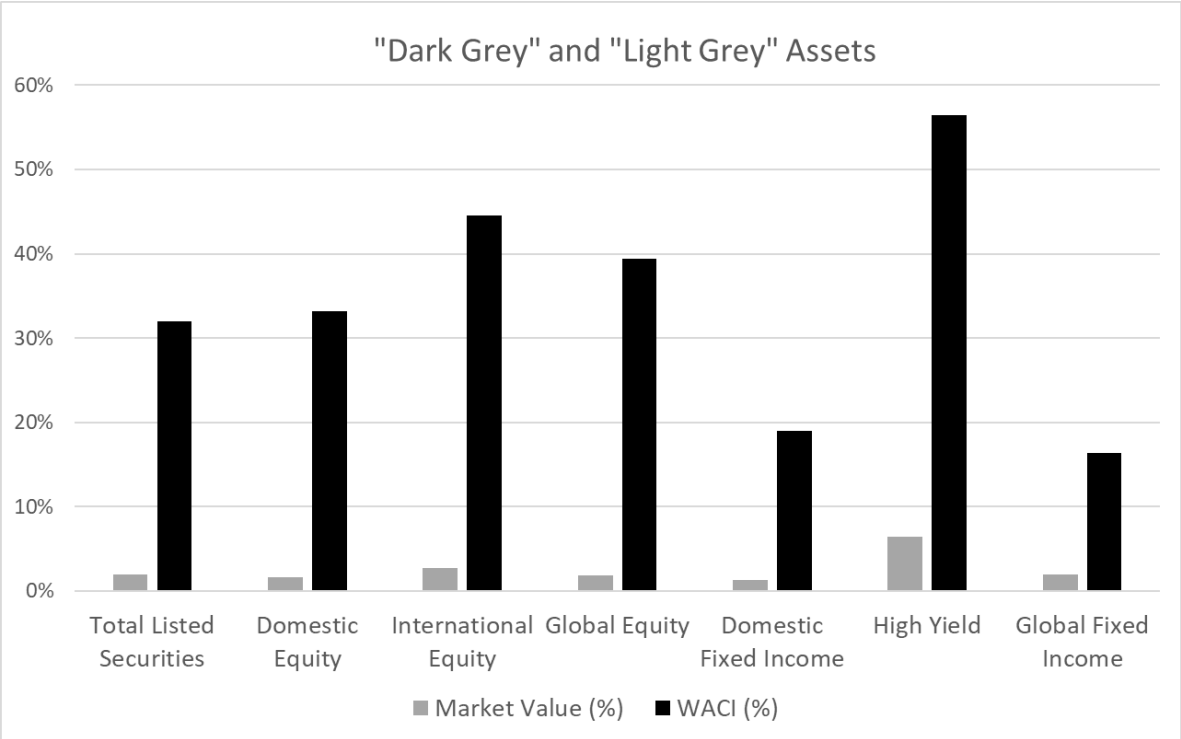
## Key Highlights

- Methodology: ACT for listed securities (corporate metrics); ACT for sovereign debt (sovereign metrics)
- ACT covers 96.3% of the NYSTRS' \$103B public securities assessed
  - Listed equities have the highest data coverage in our model
  - Over 46% of listed equities received an ACT score in the green range (i.e. dark, light or green/in-between)
- Transition capacity based on ACT scores highlights engagement opportunities in listed equities
  - 2% of listed equities received an ACT score in the elevated transition risk categories of dark grey and light grey, and these holdings contribute 37.9% of the total listed securities' Weighted Average Carbon Intensity (WACI): 171.5 T CO<sub>2</sub>e/\$M Revenue

Asset allocations as of 4/30/21 and are subject to change. Analytics for Climate Transition (ACT) is Mercer approach to weight absolute emissions and weighted average carbon intensity (WACI) to individual investments. The reader should not assume that an investment in the securities identified was or will be profitable. This does not constitute an offer to purchase or sell any individual securities.

# Portfolio Market Value (%) and WACI (%)

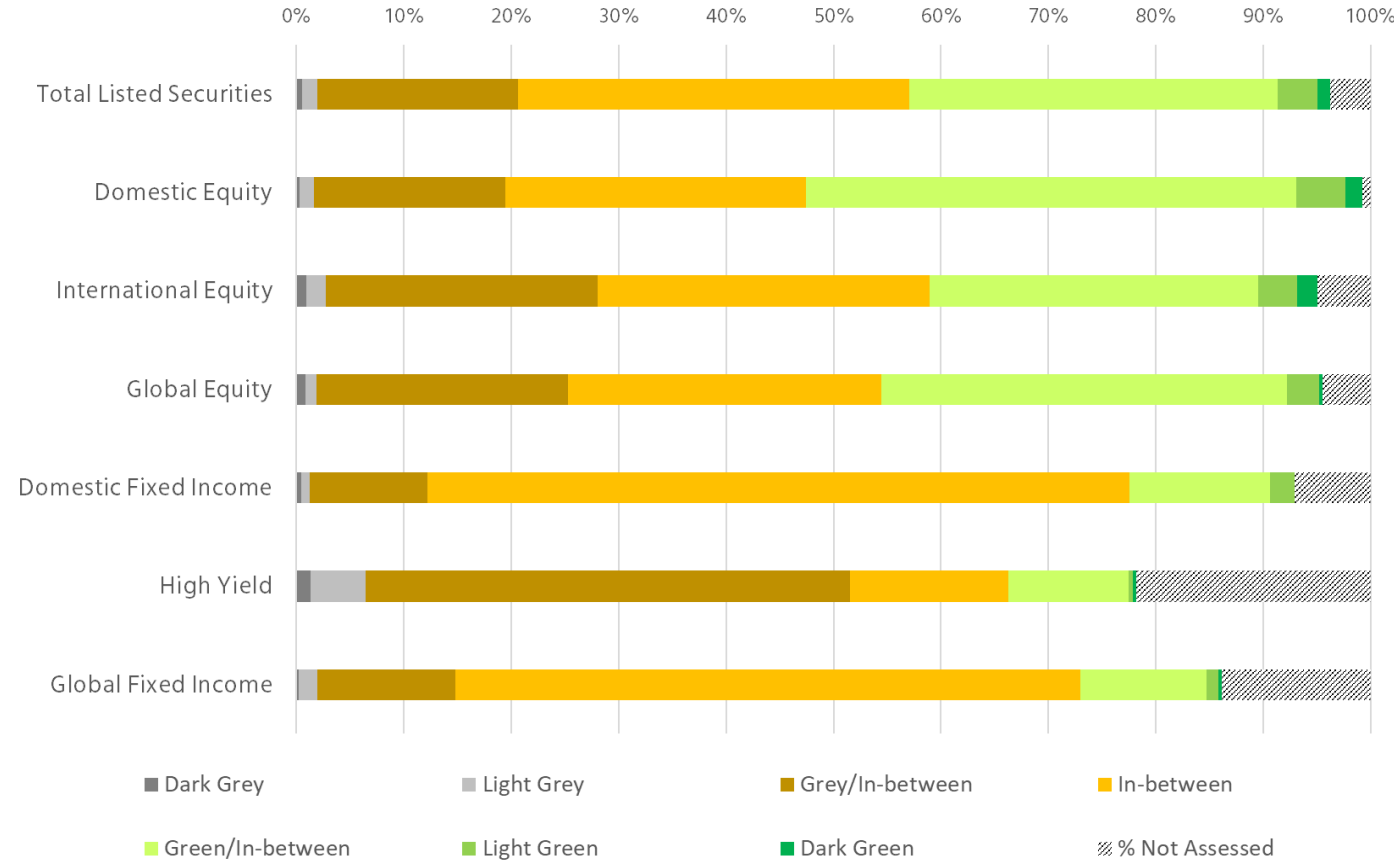
Light and Dark “Grey” assets tend to contribute significantly more to portfolio WACI than Light & Dark “Green” assets



Source: Mercer. Issuer-level metrics data provided by MSCI and ISS where available. Asset allocations as of 6/30/21 and are subject to change. Coverage based on market value, excluding currencies, derivatives, and other liabilities. The funds described do not represent all of the funds purchased, sold or recommended. It should not be assumed that an investment in the funds identified was or will be profitable. Analytics for Climate Transition (ACT) is Mercer’s approach to weight absolute emissions and weighted average carbon intensity (WACI) to individual investments. The reader should not assume that an investment in the securities identified was or will be profitable. This does not constitute an offer to purchase or sell any individual securities.

# NYSTRS' ACT Analysis

## Transition Assessment by Weight (%)



Across NYSTRS' listed equity portfolios, those with the highest proportion of:

- **Grey assets** are select EM and energy companies
- **Green assets** are US large-cap and other domestic stock indices
- **In-between** assets with mixed transition capacity are the bulk of all portfolios

Source: Mercer. Issuer-level metrics data provided by MSCI and ISS where available. Asset allocations as of 6/30/21 and are subject to change. Coverage based on market value, excluding currencies, derivatives, and other liabilities. The funds described do not represent all of the funds purchased, sold or recommended. It should not be assumed that an investment in the funds identified was or will be profitable. Analytics for Climate Transition (ACT) is Mercer's approach to weight absolute emissions and weighted average carbon intensity (WACI) to individual investments. The reader should not assume that an investment in the securities identified was or will be profitable. This does not constitute an offer to purchase or sell any individual securities.

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As always, the decision to invest in ESG-themed options, like all options, must be in the best financial interest of the plan and its participants. Under a recently proposed ERISA rule, ESG thematic investing may be subject to greater scrutiny; for example, its inclusion in an ERISA plan may trigger a heightened level of review of various objective criteria across all investment options. Active ownership efforts should be considered in light of the cost versus benefit to the plan of engaging in such efforts, as described in a recently proposed ERISA rule. Clients are encouraged to consult with ERISA counsel regarding these recently proposed rules.

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