Making Washingtonians' Money Matter

How our State Pension is Failing on Climate

350 WA

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Authors

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The 350 Washington Network unites 350.org local groups across the state to grow the global, people-powered movement for climate justice. We organize for widespread systemic change that guarantees a healthy planet for all living beings. We do this by working collaboratively to advance socially equitable and scientifically sound solutions to the climate crisis at the scale and speed necessary to mitigate harm.

The 350 WA Network is made up of 350 Bellingham, 350 Eastside, 350 Everett, Kitsap Environmental Coalition, Olympic Climate Action, 350 Seattle, 350 Spokane, 350 Tacoma, 350 Wenatchee, 350 West Sound Climate Action, Vashon Climate Action Group, and 350 Yakima.

Endorsements

The following organizations endorse the Making Washingtonians' Money Matter report and recommendations:

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Executive Summary

This report looks at how the Washington State Investment Board (WSIB) uses its proxy voting power to protect its members from climate-related financial risk. The report does so by analyzing WSIB's 2022 proxy voting record in four sectors that are key to decarbonizing the global economy: the banking and insurance sectors, the fossil fuel industry, and major utility companies.

For each sector, we have reviewed WSIB's voting record on key climate resolutions and corporate director elections in 2022. In doing so, we are able to assess how WSIB is doing on addressing climate-related financial risk. Unfortunately, WSIB is falling behind many of its peers on this front. WSIB's voting record lags behind that of the New York State Common Retirement Fund, Massachusetts Pension Reserves Investment Management Board (PRIM), Connecticut Retirement Plans and Trust Funds (CRPTF), and the State Employees Retirement System of Illinois (SERS) to name a few.

In the banking and insurance sectors, WSIB voted against shareholder resolutions that encouraged companies to align their business models with what the International Energy Agency and others have determined is required to give us a fifty percent chance of limiting global warming to no more than 1.5°C, the aspirational goal of the Paris Agreement.

In the fossil fuel sector, WSIB opposed key climate resolutions and voted in favor of management-backed directors at every US supermajor — ignoring the fact that companies such as ExxonMobil and Chevron are failing to steward their companies through the energy transition, as they fight climate action and spend tens of billions of dollars investing in new oil and gas fields.

At major utility company, Dominion Energy, WSIB voted against a resolution that called on the company to publish medium-term climate targets, in spite of the fact that expert groups, such as the United Nations High-Level Expert Group on Net Zero Commitments for Non-State Entities, have stated that such targets are essential if corporate climate targets are to be deemed credible.

After reviewing WSIB's proxy voting record in 2022, this report concludes that the Washington State Investment Board has a fiduciary duty to protect its members' savings from financial risk, but, when it comes to the threat of climate-related financial risk, WSIB is failing in that responsibility.

The report then makes a series of nine recommendations that the Washington State Investment Board should implement in order to protect its members' savings from climate-related financial risk. Those recommendations include updating their proxy voting guidelines; supporting critical climate resolutions in 2023; opposing directors who are failing to steward their company through the energy transition in line with a 1.5°C pathway; engaging with State Street Global Advisors, ISS and Glass Lewis on climate change; joining the Net Zero Asset Owners Alliance, divesting from fossil fuels, and ensuring that private markets investments align with 1.5°C pathway.

We look forward to working with State Treasurer Pellicotti, WSIB staff, board, and members to ensure that our state pension fund is protecting its members' savings from climate-related financial risk.

Introduction

Washington State likes to position itself as a climate leader. Our elected officials have passed a host of climate laws in recent years. Our Governor is one of the most outspoken climate champions in the country. Our largest cities are doing their bit — Seattle, Spokane, Bellingham, Vancouver, and Yakima are just a few of the local jurisdictions that have pledged to limit emissions in line with the goals of the Paris Agreement.

Yet in one key domain, Washington State is falling far behind its peers — our state pension fund, the Washington State Investment Board, is failing to use its power to address the climate crisis, and putting its members' savings at risk as a result.

As a fiduciary, WSIB has a responsibility to act in the long-term interests of its beneficiaries, including taking a holistic approach to the management of climate risks. The threats posed by climate change to the financial system as a whole are systemic, portfolio-wide, and unable to be diversified. Comprehensive management of climate risk therefore necessarily encompasses strategies that impact climate outcomes. Simply stated, such a strategy can be met by denying capital to major polluters and by exercising proxy votes from a universal owner perspective.

The Washington State Investment Board (WSIB) manages more than $192 billion of state retirement plans, insurance funds, and other public assets — money that it manages on behalf of 552,000 retirement plan beneficiaries and public trust stakeholders.[1] WSIB invests its members' savings across the economy, holding shares in thousands of companies, including in many corporations that are continuing to increase climate-related financial risk across the economy through their business decisions.

As a major investor in fossil fuel companies, utilities, banks, and insurance companies, WSIB has the opportunity to protect the economy from climate-related financial risk in a variety of key ways, including supporting shareholder resolutions that move companies toward Paris-alignment and against corporate directors who are failing to steward their companies through the energy transition.

This report will look at how the Washington State Investment Board utilized these two key levers for mitigating climate-related financial risk in 2022. But first we'll look at what climate-related financial risk is and how it threatens the hard-earned savings of WSIB members.

1. Washington State investment Board letter to the Security and Exchange Commission, July 16, 2022, available at https://www.sec.gov/comments/s7-10-22/s71022-20131577-301944.pdf, accessed 1/27/2023

Climate-related Financial Risk

Climate change poses risks to our economy in two key ways: physical risks and transition risks.

Physical Risk: Physical risks are direct threats to our infrastructure and systems. When climate-induced droughts reduce farmers yields, wildfires destroy homes and wipe our real estate markets, and floods sweep away entire towns, assets worth billions can be destroyed. Furthermore, when an extreme weather event, such as a hurricane hits, economic activity in an entire area of the country can ground to a halt for weeks at a time. In economic terms, this is what is known as the physical risks of climate change.

Transition Risk: Transition risks are risks that come from our necessary transition off fossil fuels and to clean energy. As we transition away from fossil fuels, the sharemarket value of fossil fuel companies could depreciate rapidly and these companies could be left with trillions of dollars of worthless stranded assets. If this happens, it would impact the entire economy, with those heavily invested in the fossil fuel sector being the most negatively impacted.

	Temperature rise scenario, by mid-century			
	Well-below 2°C increase	2.0°C increase	2.6°C increase	3.2°C increase
	Paris target	*The likely range of global temperature gains*		*Severe case*
Simulating for economic loss impacts from rising temperatures in % GDP, relative to a world without climate change (0°C)				
World	−4.2%	−11.0%	−13.9%	−18.1%
OECD	−3.1%	−7.6%	−8.1%	−10.6%
North America	−3.1%	−6.9%	−7.4%	−9.5%
South America	−4.1%	−10.8%	−13.0%	−17.0%
Europe	−2.8%	−7.7%	−8.0%	−10.5%
Middle East & Africa	−4.7%	−14.0%	−21.5%	−27.6%
Asia	−5.5%	−14.9%	−20.4%	−26.5%
Advanced Asia	−3.3%	−9.5%	−11.7%	−15.4%
ASEAN	−4.2%	−17.0%	−29.0%	−37.4%
Oceania	−4.3%	−11.2%	−12.3%	−16.3%

Note: Temperature increases are from pre-industrial times to mid-century, and relate to increasing emissions and/or increasing climate sensitivity (reaction of temperatures to emissions) from left to right.
Source: Swiss Re Institute

Taken together, the physical and transition risks posed by climate change create a real danger to the WSIB retirement system.

In 2021, the global financial giant, Swiss Re, conducted a rigorous analysis of how 48 economies would be impacted by climate change under four different temperature increase scenarios.[2] In the most severe scenario they assessed — a 3.2°C increase in temperatures by 2050 — global GDP is likely to shrink by as much as eighteen percent, shaving some $23 trillion from the global economy. Even if global warming is limited to 2°C, a goal that would require urgent and emergency action across the economy, GDP is likely to decrease by eleven percent, wiping trillions from the marketplace.

Fiduciaries have an obligation to act on climate to protect their members' savings from these potential climate-related losses. As the authors of the SwissRe report put it: "Climate change poses the biggest long-term threat to the global economy."

In order to mitigate climate-related financial risk WSIB should be using its proxy voting power to move us toward a net-zero economy and place us on a 1.5°C pathway. That's not currently happening.

2. SwissRe Institute, The Economics of Climate Change: no action not an option, April 2021

Assessing WSIB on Climate

WSIB has many tools it can use to mitigate climate-related financial risk. Two of the most important are its proxy votes on shareholder resolutions and director appointments. This report shall analyze how WSIB used its proxy voting powers to mitigate climate risk in 2022. We'll do that by reviewing WSIB's voting record in four sectors that are key to decarbonizing the economy: banking, insurance, utilities, and fossil fuel companies.

Banks

Background: In 2021, the International Energy Agency (IEA) released the most comprehensive study ever undertaken to determine what needs to happen to give us a fifty percent chance of limiting global warming to 1.5°C, the aspirational goal of the Paris Agreement.[3]

The IEA concluded that, "There is no need for investment in new fossil fuel supply in our net zero pathway." In other words, if we want to curtail global warming to 1.5°C — and thus slow the rate of species extinction, prevent millions of early deaths and protect our economy — we should not invest a single dollar more in expanding the fossil fuel industry. To be clear, ending financing for the expansion of the fossil fuel industry does not mean ending fossil fuel use overnight. Investments would continue to be made into existing infrastructure. Ending financing for expansion simply means ending additional investment in new oil and gas fields, or the development of new coal mines.

In spite of the IEA's warnings, US banks are continuing to fund upstream fossil fuel expansion. Last year, the six largest US banks (JPMorgan Chase, Citigroup, Bank of America, Wells Fargo, Morgan Stanley and Goldman Sachs) provided more than $64 billion to the companies most aggressively expanding their upstream coal, oil and gas operations.[4]

In 2022, shareholders took action to address the role of US banks in the climate crisis by introducing a series of climate resolutions that, if passed and implemented, would help place the banking sector on a pathway toward Paris-alignment, reduce climate-related financial risk and protect WSIB's members' savings.

3. International Energy Agency, Net Zero by 2050: Roadmap for the Global Energy Sector, Flagship Report, 2021
4. Rainforest Action Network et al., Banking on Climate Chaos: Fossil Fuel Finance Report 2022, March 2022

Unfortunately, with very few exceptions, the Washington State Investment Board chose to oppose these critical climate resolutions. This matters, as the Washington State Investment Board is a significant shareholder in the US banking sector, holding approximately $1,974,500,000 in investments in the six banks analyzed as of June 30, 2021.[5]

WSIB 2022 Proxy Voting Record at US Banks[6]

	ALIGN BUSINESS MODEL WITH LIMITING GLOBAL WARMING TO 1.5°C	USE ABSOLUTE EMISSIONS METRICS WHEN SETTING CLIMATE GOALS	RESPECT INDIGENOUS' PEOPLES RIGHT TO FREE, PRIOR AND INFORMED CONSENT	DIRECTOR VOTES
CHASE	✗	✗	No Resolution	✗
citi	✗	No Resolution	✗	✗
BANK OF AMERICA	✗	No Resolution	No Resolution	✗
WELLS FARGO	✓	No Resolution	✗	✗
Morgan Stanley	✗	No Resolution	No Resolution	✗
Goldman Sachs	✗	No Resolution	No Resolution	✗

5. Investments calculated from WSIB's investment records, accessed March, 2023 and available online at: https://www.sib.wa.gov/docs/reports/annual/ho22.pdf

6. All WSIB's proxy voting records used for this report were retrieved from WSIB Proxy Voting Report for January 1 - June 30, 2022; accessed January, 2023 and available online at: www.sib.wa.gov/docs/reports/proxy/pr_june2022.pdf

The Resolutions:

1 Align business model with IEA's 1.5°C pathway:[7]

At the six largest US banks, shareholders introduced resolutions calling on the banks to adopt policies to ensure their lending and underwriting was consistent with what the International Energy Agency and the United Nations Environmental Program Finance Initiative has stated is necessary to give the world a fifty percent chance of limiting global warming to 1.5°C.

With the exception of the vote at Wells Fargo, WSIB voted against these critical resolutions at every US bank. This stands in contrast to a number of WSIB's peers. The Massachusetts Pension Reserves Investment Management Board (PRIM), Connecticut Retirement Plans and Trust Funds (CRPTF), Vermont Pension Investment Commission (VPIC), the State Employees Retirement System of Illinois (SERS), the Rhode Island Treasury, the New York State Common Retirement Fund, and the Seattle City Employees' Retirement System (SCERS) all supported these resolutions.

2 Use absolute emissions metrics when setting climate goals:[8]

In 2022, the United Nations High-Level Expert Group published guidance for the best practices for companies to reach net zero by 2050. One of the recommendations was that companies should focus on reducing absolute emissions across rather than emissions intensity.[9]

In contrast to this advice, when JPMorgan Chase released its climate targets for its oil and gas portfolio, it committed only to reducing the carbon intensity of its financed emissions by fifteen percent by 2030. This is important for a simple reason: reductions in "carbon intensity" and reductions in "actual greenhouse gas emissions" are different things.

7. JPMorgan Chase, 2022 Proxy Statement, p92; Citigroup 2022 Proxy Statement, p124; Bank of America, 2022 Proxy Statement, p93; Wells Fargo, 2022 Proxy Statement, p122; Morgan Stanley, 2022 Proxy Statement, p91, Goldman Sachs, 2022 Proxy Statement, p79

8. JPMorgan Chase, 2022 Proxy Statement, p102

9. United Nations High-Level Experts Group, Integrity Matters: Net Zero Commitments by Business, Financial Institutions, Cities and Regions, Nov 8, 2022

Here's how it works: Imagine you are the CEO of an oil firm. Your company owns 1,000 oil wells; it doesn't own any windmills. Now Chase gives you a $10 billion loan. You use that loan to buy 400 new oil wells and 200 windmills. You now own 400 additional oil wells. This means you are digging up and burning more oil than ever before — and your overall contributions to climate change have gone up significantly as a result. But because you are now also profiting from wind power, the "carbon intensity" of your company has gone down.

In 2022, shareholders at JPMorgan Chase introduced a resolution calling for the bank to set absolute emissions contraction targets, rather than intensity targets. **But WSIB chose to oppose this shareholder resolution** — a decision that, given the threats posed by climate to the economy, was arguably a failure of WSIB's fiduciary duty.

3 Produce a report on how effective the bank is at respecting Indigenous rights in its financing:[10]

In recent years, numerous fossil fuel projects have highlighted the failures of energy companies and their financiers to properly secure consent for projects that impact Indigenous Peoples' lands and waters. In 2016, thousands traveled to the Standing Rock Sioux reservation to support the tribe's opposition to the Dakota Access Pipeline. When police dogs attacked unarmed water protectors, the fight made national headlines. There were hundreds of protests at the branches of banks financing the pipeline, thousands of people closed their bank accounts and cities, including Seattle and San Francisco, committed to ending their business with the banks financing the pipeline — demonstrating a material risk to the banks. As the Financial Times reported, the controversy was so great that the banks that funded the Dakota Access pipeline experienced "significant decreases in depositor growth" for a sustained period of time.[11]

Given this, it would be appropriate for WSIB to support an analysis of how banks plan to mitigate this risk by ensuring their clients are engaging in internationally recognized standards around Free, Prior and Informed Consent for Indigenous Peoples impacted by energy projects.[12]

Unfortunately, WSIB voted against these resolutions at both Citigroup and Wells Fargo.

10. Citigroup 2022 Proxy Statement, p122; Wells Fargo, 2022 Proxy Statement, p120

11. Financial Times, An Environmental Run on the Bank, July 20, 2018

12. United Nations, Declaration on the Rights of Indigenous Peoples, (2007)

Director Votes:

If a corporation is failing to transition its business in line with the goals of the Paris Agreement, the people most responsible are the company directors. To that end, a growing number of institutional investors, including Connecticut, Vermont, Illinois, Massachusetts, and CalSTRS and CalPERS, have put in place policies to ensure they are not just rubber stamping approval of directors who are unable, or unwilling, to support their company in the energy transition. Since implementing these policies, these peers of WSIB have routinely voted against corporate directors, including at banking institutions.[13]

By comparison, the Washington State Investment Board voted almost unanimously in favor of corporate directors across the banking sector in 2022 — in spite of the fact that no bank has a legitimate plan in place to align its business with a 1.5°C or even 2°C pathway.

Insurance Companies:

Background: At the 2021 Insurance Development Forum, United Nations Secretary-General, António Guterres, told those in the audience that, “We need net zero commitments to cover your underwriting portfolios, and this should include the underwriting of coal - and all fossil fuels.” Guterres was largely echoing what the International Energy Agency, the Intergovernmental Panel on Climate Change (IPCC) and others have already said: to limit global warming to 1.5°C, there can be no new oil and gas fields in development.

Unfortunately, major US insurance companies haven’t gotten the message. While many of their global peers — including Allianz, AXA, Aviva, Swiss Re,, and Munich Re — have implemented policies restricting insurance for oil and gas expansion, US companies including Chubb, Travelers and The Hartford have taken only very weak steps toward addressing their fossil fuel exposure.[14]

13. Climate Finance Action, Compare Your State, www.climatefinanceaction.org/comparison, accessed 1/20/2023

14. 2022 Scorecard on Insurance, Fossil Fuels and the Climate Emergency, Insure our Future

Given the threat that the climate emergency poses to the economy, it's vital that shareholders intervene to push the US insurance industry in the right direction. As new fossil fuel projects cannot legally be built without insurance, WSIB voting for policies that restrict underwriting of new fossil fuels at US companies could have an outsized influence in limiting global warming and protecting WSIB's members hard-earned savings. Unfortunately, that's not what happened in 2022.

WSIB 2022 Proxy Voting Record at Insurance Companies

	POLICY RESTRICTING UNDERWRITING OF NEW FOSSIL FUELS IN LINE WITH A 1.5°C PATHWAY	ISSUE A REPORT ON HOW COMPANY PLANS TO LIMIT EMISSIONS IN WITH THE PARIS AGREEMENT 1.5°C GOAL	DIRECTOR VOTES
CHUBB	✗	✓	✗
TRAVELERS	✗	✓	✗
THE HARTFORD	✗	No Resolution	✗
BERKSHIRE HATHAWAY INC.	No Resolution	✓	✗

The Resolutions:

1 Policy restricting underwriting of new fossil fuel projects in line with a 1.5C pathway:[15]

These shareholder resolutions, introduced at three of the world's largest providers of insurance to new fossil fuel projects — Chubb, Travelers and The Hartford — were similar to the resolutions introduced at US banks. The resolutions called for the companies to adopt policies that would ensure that their underwriting practices do not support new fossil fuel supplies, in alignment with the IEA's Net Zero Emissions by 2050 Scenario.

WSIB voted against these resolutions at every US insurance company. This stands in contrast to a number of WSIB's institutional peers that supported the resolutions, including Connecticut Retirement Plans and Trust Funds; Massachusetts Pension Reserves Investment Management; Rhode Island Office of the General Treasurer; New York State Common Retirement Fund; the University of California; the Illinois State Treasurer; the NYC Board of Education Retirement System, Teachers Retirement System, and City Employee Retirement System; the Vermont Pension Investment Committee; and the Seattle City Employees' Retirement System.

15. Chubb 2022 Proxy Statement, p46; Travelers 2022 Proxy Statement, p75; The Hartford 2022 Proxy Statement p70

2

Issue a report on how company plans to limit insured and financed emissions in alignment with the Paris Agreement 1.5°C goal:[16]

These resolutions called for a report on how the companies in question intend to meet the Paris Agreement goal of limiting global warming to 1.5°C, including how the company intends to measure, disclose and reduce emissions related to its underwriting and investments. While important, these resolutions did not call for any concrete policy changes within the company, or call on the company to wind down its underwriting of the expansion of the coal, oil, and gas industries — without which it will be impossible for these companies to align their business practices with a 1.5°C pathway.

While these resolutions are insufficient to ensure that a company is on the right track, they are a first step and WSIB should be commended for voting in favor of these resolutions.

Director Votes:

If a corporation is failing to transition its business in line with the goals of the Paris Agreement, the people most responsible are the company directors. To that end, a growing number of institutional investors, including Connecticut, Vermont, Illinois, Massachusetts, and CalSTRS and CalPERS, have put in place policies to ensure they are not just rubber stamping approval of directors who are unable, or unwilling, to support their company in the energy transition.

Since implementing these policies, these peers of WSIB have routinely voted against corporate directors, including at banking institutions.

By comparison, the Washington State Investment Board voted almost unanimously in favor of corporate directors across the banking sector in 2022 — in spite of the fact that no bank has a legitimate plan in place to align its business with a 1.5°C or even 2°C pathway.

16. Chubb 2022 Proxy Statement, p49; Travelers 2022 Proxy Statement, p72; Berkshire Hathaway 2022 Proxy Statement, p13

Fossil Fuel Companies

Background: Nobody is to blame for the climate crisis as much as fossil fuel companies. In the late 1970s, Exxon's top executives were told by Exxon's top scientists that fossil fuels were causing global warming and that, if the world stayed hooked to fossil fuels, the consequences would be catastrophic. Rather than share this information with the public, Exxon buried it and spent the next forty years bankrolling climate denial, funding politicians to do their bidding and fighting climate action at every turn.

Even today, fossil fuel companies continue to fight climate action. In 2018, BP and Shell spent $32 million to defeat a modest carbon tax at the ballot in Washington State — breaking the state's record for the most spending in a single election by some $13 million. In the same year, fossil fuel companies spent $40 million to defeat a Colorado ballot initiative that would have protected residents' health, safety and environment by requiring all fracking wells to be at least 2,500 feet from schools, homes, streams, canals and other occupied areas.[17]

Furthermore, no fossil fuel company has anywhere close to a legitimate plan to transition their business in line with the goals of the Paris Agreement or to stop spending billions of dollars searching for new coal, oil and gas reserves.[18]

17. *The Intercept*, The Fossil Fuel Industry Spent $100 Million To Kill Green Ballot Initiatives in Three States - And Won, 11/07/2018

18. Oil Change International, Big Oil Reality Check: Updated Assessment of Oil and Gas Company Climate Plans, May, 2018

WSIB 2022 Proxy Voting Record at Fossil Fuel Companies

	ISSUE A REPORT ON HOW COMPANY PLANS TO LIMIT EMISSIONS IN WITH THE PARIS AGREEMENT 1.5°C GOAL	REPORT ON HOW THE COMPANY COULD YIELD PROFITS WITHIN A 1.5° PATHWAY BY SUBSTANTIALLY REDUCING ITS DEPENDENCE ON FOSSIL FUELS	DIRECTOR VOTES
ExxonMobil	✓	✗	✗
Chevron	✓	No Resolution	✗
ConocoPhillips	✓	No Resolution	✗
Phillips 66	✓	No Resolution	✗

The Resolutions:

1 Issue a report on how company plans to limit emissions in line with the Paris Agreement 1.5°C goal:[19]

Similar to the resolutions introduced at insurance companies, these resolutions called for a report on how the companies intend to meet the Paris Agreement goal of limiting global warming to 1.5°C.

Importantly, these resolutions did not explicitly mention the need to move away from fossil fuels. They also did not mention the necessity of ending development of new oil and gas reserves; instead, they called for a report on how the company will reduce Scope 3 emissions

Although these resolutions are insufficient to ensure that US fossil fuel companies are on the right track, WSIB should be commended for voting in favor of these resolutions.

19. ExxonMobil, 2022 Proxy Statement, p71; Chevron 2022 Proxy Statement, p90; ConocoPhillips, 2022 Proxy Statement, p126; Phillips66, 2022 Proxy Statement, p94;

2 Report on how company could yield profits within a 1.5°C pathway by reducing its dependence on fossil fuels:[20]

This resolution — introduced only at ExxonMobil — called for the company to produce a report to show how the company could continue to make profits as it reduced its emissions in line with the 1.5°C goal by "substantially reducing its dependence on fossil fuels" (It should be noted that this is the only way that ExxonMobil and other oil and gas firms can possibly reduce emissions in line with a 1.5°C or even 2°C pathway.)

This resolution's explicit naming of what needs to happen for ExxonMobil to align itself with the Paris Agreement goals (reducing dependency on fossil fuels) makes it a stronger resolution than the ones previously analyzed. **Unfortunately, WSIB chose to vote against this resolution.**

Director Votes:

In the history of corporate governance, never has a set of directors so deserved to be held accountable as those in charge of American fossil fuel companies. American fossil fuel companies have spent forty years fighting climate action, and are continuing to do so. Across the country, the gas industry is waging war against municipalities that are trying to protect their residents by ensuring all new homes are built with renewable energy systems.[21] [22] In Washington State, when cities like Seattle and Bellingham moved to ensure that new buildings would be heated and powered by renewable energy, gas companies went on a $1 million PR blitz to try and kill the legislation. In January 2023, a New York Times investigation revealed how the gas industry has been paying scientists who have a history of lobbying for the tobacco industry to testify against the demonstrable air pollution hazards of gas stoves — a direct continuation of the industry's decades old "denial" strategy.[23]

The decisions that American fossil fuel companies have made — and are continuing to make — under the stewardship of their existing leadership have both greatly exacerbated climate-related financial risk, and needlessly endangered hundreds of millions of lives. It's essential that investors act to install new leadership, more capable of stewarding an oil and gas firm through the energy transition.

Yet, in 2022, WSIB voted in favor of every director across the US fossil fuel sector.

20. ExxonMobil, 2022 Proxy Statement, Item 7 - Report on Low Carbon Business Planning, p73
21. The Guardian, Revealed: How the Gas Industry is Waging War Against Climate Action, Aug 20, 2020
22. The Seattle Times, Natural Gas Industry's $1 million PR Campaign Sets Up a Fight Over the Northwest's Energy Future, Dec 22, 2019
23. The New York Times, In the Fight Over Gas Stoves, Meet the Industry's Go-To Scientist, Jan 29, 2023

Utilities

Background: Utilities play a key role in addressing the climate crisis by deciding what kinds of energy will power our electricity grid and heat and power our homes. Historically, many utilities have not addressed the climate crisis with the urgency it requires and have demonstrated significant inertia in transitioning from fossil fuels to renewable energy sources.

	ISSUE A REPORT ON HOW COMPANY PLANS TO LIMIT EMISSIONS IN WITH THE PARIS AGREEMENT 1.5°C GOAL	REPORT ON HOW THE COMPANY COULD YIELD PROFITS WITHIN A 1.5° PATHWAY BY SUBSTANTIALLY REDUCING ITS DEPENDENCE ON FOSSIL FUELS	DIRECTOR VOTES
Dominion Energy	✗	✓	✗
DUKE ENERGY	No Resolution	No Resolution	✗
Southern Company	No Resolution	No Resolution	✗

The Resolutions:

1 Report regarding medium-term targets for Scope 3 emissions:[24]

Dominion Energy has committed to achieving net zero emissions by 2050. It has not, however, published medium-term targets (i.e: 2030 reduction targets). The company has even stated that it believes that such medium-term targets are “unnecessary.”[25] This flies in the face of what numerous expert groups, such as the UN’s High-Level Expert Group on the Net-Zero Commitments of Non-State Entities, have stated is required for net zero commitments to be credible. “Non-state actors should have short-term targets of five years or less, with the first target set for 2025,” concluded the UN High-Level Experts Group in a report released at COP27.[26]

In 2022, shareholders filed a resolution that called for Dominion Energy to publish medium-term climate targets. WSIB opposed this resolution.

24. Dominion Energy 2022 Proxy Statement, p79
25. Dominion Energy 2022 Proxy Statement, p80
26. United Nations High-Level Expert Group on Net-Zero Emissions Commitments by Non-State Entities, Integrity Matters: Net Zero Commitments by Business, Financial Institutions, Cities, and Regions, Nov, 2022, p17

2 Report on the risk of natural gas stranded assets:[27]

There was also a resolution introduced at Dominion Energy that called for a report on the risk of stranded assets as a result of the world transiting away from fossil fuels. WSIB should be commended for supporting this resolution.

Director Votes:

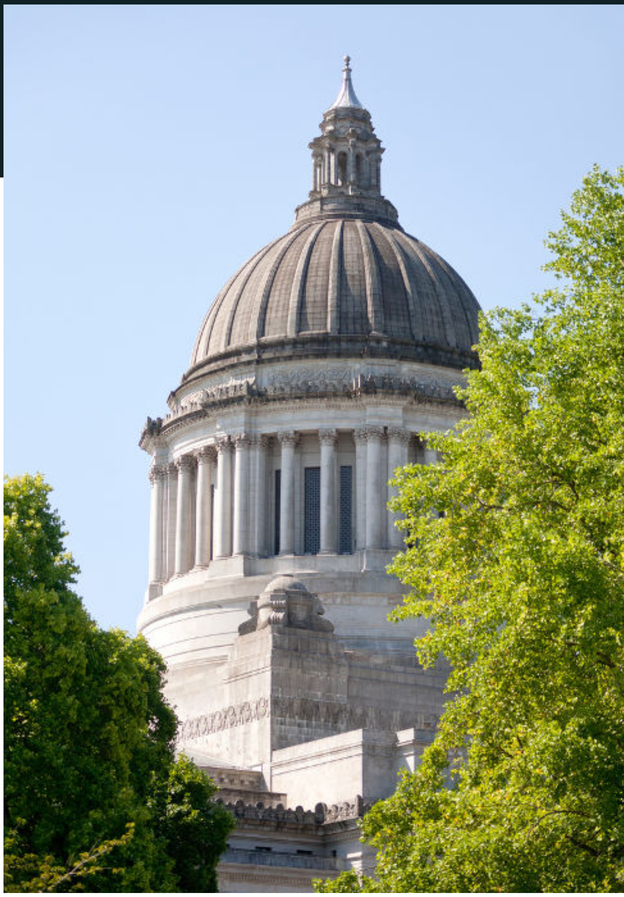
In spite of the fact that none of the utility companies analyzed in this report are on track to meet their net zero commitments, WSIB voted unanimously in favor of every corporate director put forward by company management.

27. Dominion Energy 2022 Proxy Statement, p80

Conclusion and Recommendations

Conclusion: The Washington State Investment Board has a responsibility to protect its members' hard-earned savings. Unfortunately, when it comes to using its proxy voting power to mitigate climate-related financial risk, WSIB is failing in that duty. In 2022, WSIB voted against the majority of shareholder resolutions that would have protected against climate-related financial risk. WSIB also voted in favor of virtually every director at the companies most responsible for fueling the climate crisis.

Starting in 2023, WSIB needs to do better.



Recommendations:

In order to help mitigate climate-related financial risk and to protect its members' savings and returns, we recommend that WSIB takes the following actions.

Recommendation #1: Ensure a Better Proxy Voting Record in 2023

In 2023, reworked versions of the 1.5°C degree alignment resolutions will be introduced at US banks and insurance companies. These resolutions will call on banks and insurance companies to publish a plan for a time-bound phase-out for the financing of upstream oil and gas.

New York City and New York State are introducing resolutions calling for banks to release absolute emissions targets at JPMorgan Chase, Bank of America, Morgan Stanley, and GoldmanSachs, as well as Royal Bank of Canada. As You Sow will introduce a resolution calling for public transition plans from US banks, and there will be a resolution regarding Indigenous People's rights to Free, Prior and Informed Consent filed at Citigroup, Royal Bank of Canada and Chubb.[28]

WSIB must vote in favor of these resolutions, as well as other climate resolutions that explicitly call for a fossil fuel phaseout in line with the goals of the Paris Agreement.

Recommendation #2: Ensure a Better Director Voting Record in 2023

In December 2022, WSIB adopted a new director voting policy, including stating that "we may vote against relevant members of the board due to failure to implement a strong governance framework related to climate change risk". WSIB should strengthen this policy by committing to vote against corporate directors that are responsible for climate risk oversight that are failing to steward their company through the energy transition in line with a 1.5°C pathway (not merely those who are failing to adequately disclose climate-related risks), and cast director votes on this basis in the upcoming proxy season.

Recommendation #3: Update WSIB's Proxy Voting Guidelines on Climate

WSIB's current proxy voting guidelines are insufficient to ensure that WSIB is protecting its members' savings from climate-related financial risk. Currently, WSIB's proxy voting guidelines state that WSIB supports "resolutions requesting that a company disclose information on the impact of climate change and GHG emissions on its operations and investments." This is a good step but disclosing information is insufficient.

28. The text of the fossil fuel phaseout and transition plan resolutions can be viewed online at https://www.iccr.org/2023-climate-finance-resolutions. The text of the absolute emissions resolutions can be accessed online at https://comptroller.nyc.gov/newsroom/absolute-ghg-emissions-reduction-proposal/

In 2023, WSIB should establish proxy voting guidelines that recognize climate change as both a business and a systemic risk that the institution seeks to manage and mitigate directly and through its voting, service providers and asset managers. Accordingly, WSIB's proxy voting guidelines should explicitly state support for shareholder resolutions that call for emissions reduction target setting, and the adoption of specific climate policies that would help reduce an issuer's greenhouse gas emissions and financed emissions.

WSIB's proxy voting guidelines should also state a commitment to use all relevant types of votes in ways that promote the emissions targets required for keeping temperatures below 1.5°C, as established for each company's industry by the IEA, IPCC and other global experts, with a presumption to vote in favor of such measures. In addition to voting on relevant shareholder resolutions and director elections, WSIB could communicate needs for stronger climate accountability through other proxy voting opportunities, such as auditor approval or executive compensation.

WSIB should also commit to timely public communication of voting policy, engagement plans and escalation deadlines, voting pre-declarations, and votes cast - with rationale. Rationales should reflect expectations about operational alignment with science-based 1.5°C pathways, not elements of climate risk-related disclosures.

Recommendation #4: Engage State Street Global Advisors and other contracted Asset Managers

WSIB can play a key role in advancing climate action, not only by ensuring it's voting its own shares in line with a 1.5°C pathway, but by pushing its vendors to do the same. In particular, WSIB is one of State Street Global Advisors main clients and therefore can play a significant role in encouraging State Street to align their voting, engagements and recommendations with WSIB's (updated) proxy voting guidelines on climate.

Recommendation #5: Engage ISS and Glass Lewis

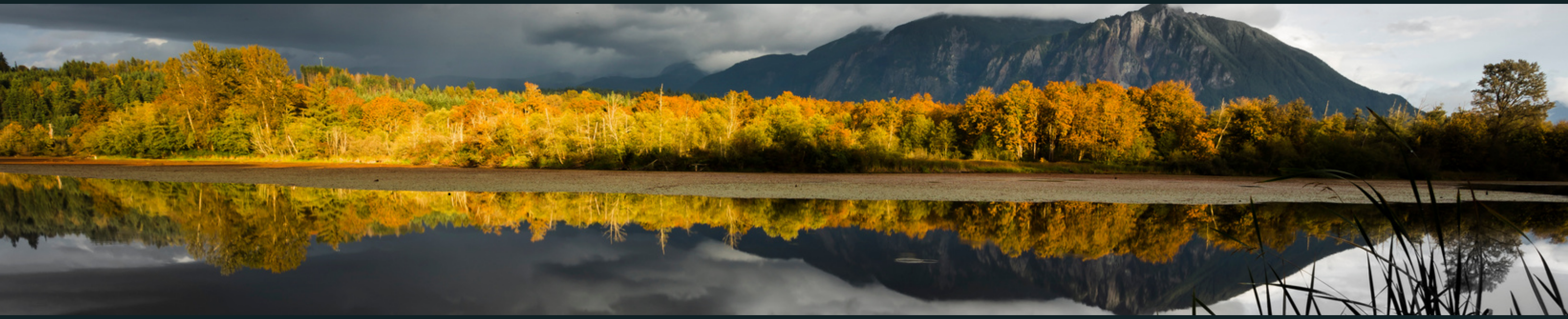
In 2022, the benchmark voting recommendations of the two largest proxy advisors, ISS and Glass-Lewis, recommended voting against many of the critical climate resolutions outlined in this report, helping to depress the vote for these key resolutions.

WSIB should engage with ISS and Glass-Lewis and urge them to align their voting, engagements and recommendations with the guidelines championed in recommendation #3.

Recommendation #6: Join the Net Zero Asset Owners Alliance

The Net Zero Asset Owners Alliance (NZAOA), a member of the Glasgow Finance Alliance for Net Zero, is the world's largest network of asset owners that are committed to achieving net zero by 2050. By committing to the NZAOA, asset owners commit to reducing the emissions footprint of their portfolio by at least 40% by 2030. Current members of the NZAOA represent more than $11 trillion in assets, and include CalPERS.

WSIB should protect against climate-related financial risk by joining the largest asset owner alliance committed to mitigating climate-related financial risk: the Net Zero Asset Owners Alliance.



Recommendation #7: Support Legislative Efforts to Rein in Climate-Related Financial Risk

In January 2023, Representative Duerr introduced HB 1283, a bill that, among other things, seeks to require WSIB to report on the climate-related financial risk, the social responsibility, and the establishment and use of proxy voting and corporate governance policies in its private and public portfolios by no later than Jan 1st, 2024.[29]

State Treasurer Mike Pelliccotti and WSIB board members should support this and other legislative efforts that seek to support WSIB in addressing climate-related financial risk.

29. HB 1283, Sponsors Duerr, Berry, Ramel, Macri, Doglio, Reed, Pollet, bill accessed in January 2023 and available online at https://app.leg.wa.gov/billsummary?BillNumber=1283&Year=2023

Recommendation #8: Divest from Fossil Fuels

Shareholder engagement with banks, insurance companies and utilities is essential for WSIB to preserve retirement assets and rein in runaway climate change. However, shareholder engagement with the fossil fuel industry itself is a lost cause. For more than forty years, fossil fuel companies have proven that not only are they incapable of transitioning their business models, but that they will actively undermine the transition at every opportunity.

In 2022, the year after that the IEA stated that any investment in new oil and gas development was incompatible with limiting global warming to 1.5°C, US super majors increased their investment in upstream oil and gas development by 30%.[30] Furthermore, fossil fuel companies are continuing to fight climate action on multiple fronts, from undermining international climate negotiations to the gas industry's coordinated attacks on municipalities attempting to ensure that all new homes are built with renewable energy.

In order to protect its members' savings from climate-related financial risk, WSIB should commit to divesting fossil fuel companies from its portfolio — the only time WSIB might consider not divesting from a fossil fuel company is unless the company ceases development of new fossil fuel projects and announces a complete phase-out strategy aligned with principles of equity and a 1.5˚C timeline that is certified by globally recognized science-based professionals.

Recommendation #9: Ensure private markets investments align with 1.5°C pathway

In addition to its stock portfolio, the WSIB has one of the largest portfolio allocations to private equity of any public pension fund. The pension's private equity investments makeup around a quarter of its entire portfolio, around $40 billion.[31] These private market funds also include billions in energy investments which present a similar set of physical and transition risks. In order to manage these risks, we recommend the WSIB engage with its private equity managers to ensure they commit to 1) immediately cease any new investments in fossil fuels and 2) disclose all energy assets and Scope 1, 2, 3 emissions. In addition, we recommend WSIB not renew contracts with private equity managers until they have committed to and started to implement comprehensive climate policies.

30. IEA World Energy Investment 2022 Outlook, Flagship Report, June, 2022, p18-19
31. As of the Sept. 30, 2022 Quarterly Investment Report, https://www.sib.wa.gov/reports.html