Response to Request for Information Issued by the New York City Comptroller

A. General Information

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2. www.coalexit.org (English) and www.urgewald.org (German)

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4. Heffa Schuecking is the director and founder of the German environment NGO "Urgewald", which monitors the impacts of European investments abroad. Ms. Schuecking is the author of several ground-breaking studies on financial institutions' exposure to the coal industry. Among these are: "Bankrolling Climate Change" (2011), "Banking on Coal" (2013), "Dirty & Dangerous: The Coal Investments of the Norwegian Government Pension Fund (2014) and "Investors vs. the Paris Climate Agreement" (2017). Urgewald has played a key role in motivating some of Europe's largest investors such as AXA, Allianz and the Norwegian Government Pension Fund to divest their coal-related assets. To this end, Urgewald has developed a comprehensive database called the "Global Coal Exit List", which provides extensive information on all companies operating along the thermal coal value chain.

5. Urgewald could conceivably provide investment analysis services in relation to the coal investments of the Systems, but not on other fossil fuel investments.

B. Information Requested Regarding RFP and Investment Analysis

Approaches to Investment Analysis services

5. Best approaches

The following answers focus on the coal industry as this is the area of our primary expertise.

a) Scope:
The Systems' divestment is formulated to target the owners of fossil fuel reserves. In the case of the coal industry, we believe this approach is insufficient as it would only lead to the divestment of coal mining companies. Coal-based utilities are, however, the world's number one source of CO_2 emissions and should thus also be divested from the Systems' portfolios.

We believe the Systems should adopt a holistic approach that addresses the entire thermal coal value chain from coal mining to coal power generation and building of new coal power plants. In order to make it easier for investors to pursue such a holistic approach, Urgewald has developed the "Global Coal Exit List" (GCEL), a comprehensive database of companies participating in the thermal coal value chain.
While most coal databases used by the finance industry only cover around 100 companies, the GCEL provides key statistics on over 770 companies whose activities range from coal exploration and mining, coal trading and transport, to coal power generation and manufacturing of coal plants. All in all, the companies listed in the GCEL represent over 88% of world coal production and 86% of the world's coal-fired capacity. The database can be viewed and downloaded at: www.coalexit.org

b) Timetable and Specific Milestones

From a climate perspective, the divestment of coal industry assets should be prioritized and the experience of other large investors shows that this can usually be accomplished within one to two years. However long the sale of fossil fuel assets takes, we, however believe it is crucial to immediately halt all new and additional investments in the fossil fuel industry. As stated in regards to the coal industry, this should not only cover fossil fuel reserve owners, but also companies planning new fossil fuel infrastructure such as coal-fired power plants, coal harbors, tar sands pipelines and oil pipelines etc.

c) Appropriate divestment approaches based on asset classes

In this context, we would like to point out that the Systems should ensure that the divestment criteria are not only applied to fossil fuel companies, but also to their financing subsidiaries. Many large coal industry players have special financing subsidiaries, whose sole purpose is to raise money for their mother company through bond issues. Investors often classify these subsidiaries in the category "financials" and thus fail to recognize that they are, in effect, bankrolling the coal industry when buying such bonds. It is key that finance subsidiaries of fossil fuel companies are included in the divestment action.

d) Analyzing the investment risks

Meeting the goals set out in the Paris Climate Agreement will require a speedy phase-out of coal-based energy production. Climate scientists calculate that to keep the 1.5°C target within reach, emissions from the world's coal plant fleet must be reduced by at least 30% by 2025.[1] Investments in the coal industry are therefore fraught with risks as the industry struggles with a rapidly changing regulatory environment and an increasing competition through renewable energy sources, which are already cost-competitive in many regions of the world. According to IRENA, the International Renewable Energy Agency, renewable energy prices will be at parity with fossil fuels worldwide by 2020.[2]

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[1] „The 10 Most Important Short-term Steps to Limit Warming to 1.5°C", Climate Action Tracker, 2016
[2] https://www.greentechmedia.com/articles/read/irena-renewable-energy-competitive-fossil-fuels-2020#gs.X8vl5GA

Investments in the coal industry are especially at risk as coal power is the largest source of CO_2 emissions and often the first target of government action on climate change. In this context, it is important to note that the investment risks apply not only to coal plant operators, but to all companies whose business models are coal-based. These include coal traders, coal transporters, coal plant manufacturers and other types of companies providing specialized services to the coal industry. Investors that rely on ICB or Bloomberg classifications, however, generally fail to recognize that these companies are part of the thermal coal value chain and that the structural decline of the coal industry threatens their revenue streams.

From a business case perspective, it thus makes sense not only to divest from coal mining and coal power companies, but also from coal traders, coal plant manufacturers and other coal "service" companies. The *Global Coal Exit List* identifies over 200 companies, which derive over 30% of their revenues from providing various services along the thermal coal value chain.

e) Analyzing potential impacts of divestment on the Systems' portfolios

Without having viewed the Systems' actual portfolios, this is hard to assess. The experience we have gathered with large European investors, however, shows that investments in coal power, coal mining and coal service companies generally only account for around 1 – 1.5% of the investment value of a given investment portfolio.

6. Precedents that can help guide the approach

Notable precedents in Europe are the divestment actions taken by the Norwegian Government Pension Fund, Allianz, AXA and Generali.

In 2015, the Norwegian Govt. Pension Fund[3] and the German insurance company Allianz divested coal miners and coal-based utilities from their portfolios. Coal miners were dropped if they derive 30% or more of their revenues from coal. Coal power utilities were excluded if 30% or more of their power generation is coal-fired. In May 2018, Allianz went one step further and announced that it will also divest companies, which are planning to build 500 MW or more or new coal-fired capacity. In addition, Allianz has stated that it plans to lower its 30% threshold on coal to 0% by 2040.[4] This will be accomplished in successive 5% steps. The exact timing of these steps will be published later this year.

France's AXA undertook its first coal divestment in 2015, based on a 50% threshold. In 2017, it, however, announced a new coal divestment action based on the *Global Coal Exit List*.[5] AXA thus now excludes coal miners, coal service companies and coal power companies that derive 30% or more of their revenues or power generation from coal. It also excludes the largest coal producers (with an annual production of over 20 million tons) and companies planning new coal power capacity or coal infrastructure. In addition, AXA also excluded tar sands producers and tar sands pipeline operators from

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[3] https://www.nbim.no/en/responsibility/exclusion-of-companies/

[4] https://www.allianz.com/v_1525272038958/media/responsibility/documents/Allianz-Statement-coal-based-business-models.pdf

[5] https://www-axa-com.cdn.axa-contento-118412.eu/www-axa-com%2Ff5520897-b5a6-40f3-90bd-d5b1bf7f271b_climatesummit_ceospeech_va.pdf

its investment universe. All in all. AXA's divestment covered around 200 companies with a total investment value of over 3 billion €.

The Italian insurer Generali also undertook a coal divestment action based on the Global Coal Exit List in 2018. Generali excludes coal miners, coal service companies and coal power producers based on a 30% threshold as well as the largest coal producers and companies planning new coal-fired capacity. All in all, Generali will divest coal assets in value of 2 billion €.[6]

7. What are ways to address the costs of externalities in investment portfolios?

Next to its climate impacts, the coal industry has massive impacts on water resources, air quality, natural ecosystems, human health and local communities. These externalities strengthen the case for a rapid phase-out of coal investments from the Systems' portfolios.

8. How do you view the extent to which the market currently prices in climate change risk?

The market fails to price in the climate risks and other externalities associated with the fossil fuel industry.

9. How could divestment be effective in influencing fossil fuel reserve owners to take steps toward addressing carbon risk?

We believe it is key for investors to not only address fossil fuel reserve owners, but to also address companies that are planning to build new fossil fuel infrastructure. There are, for example, currently plans to build 656,000 MW of new coal-fired capacity, and most of the companies behind these plans do not own coal reserves. Stopping the expansion of the global coal plant fleet is, however, key to keeping global warming to the limits specified in the Paris Climate Agreement. Divestment criteria must therefore also be applied to coal plant developers and not just coal reserve owners.

The adoption of precise and transparent divestment criteria by large investors provide a huge incentive for companies to stop building new fossil fuel infrastructure and begin phasing out their fossil-fuel related activities. The model adopted by Allianz, which has announced that it will progressively lower its thresholds on coal to 0% by 2040, lays out a clear path for what companies need to accomplish if they want to remain investable.

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[6] https://www.generali.com/media/press-releases/all/2018/Generali-approves-climate-change-strategy-It-will-divest-2-billion-from-coal