



July 13, 2023

Dear Manager,

Thank you for your partnership with the Teachers' Retirement System of the City of New York (TRS), New York City Employees' Retirement System (NYCERS), the New York City Police Pension Fund, (Police), the New York City Fire Pension Fund (Fire), and the Board of Education Retirement System (BERS) (collectively, the "Systems") to serve the Systems' beneficiaries.

We value our relationship with you to achieve superior and sustainable performance for the Systems, and we hope and expect to continue to build a successful long-term relationship with you as an investment partner. The Systems and the Comptroller's Bureau of Asset Management ("BAM") have long-term obligations to the Systems' beneficiaries extending for decades and a fiduciary duty to protect against downside and systemic risks and foster stable financial markets and long-term economic growth essential to the performance of the Systems' investments.

As Comptroller of the City of New York and as the Chief Investment Officer for BAM, we are writing in our roles as investment manager and custodian for the Systems, to convey important expectations of the Systems' asset managers across all asset classes. This letter communicates key elements of the **TRS, NYCERS, and BERS Net Zero Implementation Plans** and the expectations for **Asset Manager Net Zero Alignment**. In addition, this letter outlines the expectations of all five Systems regarding asset managers' **Commitment to Addressing ESG Risks and Opportunities**.

### **Expectations of Asset Managers for New York City Retirement Systems Toward Net Zero Alignment of Investments and Integration of ESG Risks and Opportunities**

#### **TRS, NYCERS, and BERS Net Zero Implementation Plans**

Climate change is creating increasingly devastating effects that undermine the stability and health of the global economy. By committing to achieve net zero emissions by 2040, TRS, NYCERS, and BERS seek to support more concerted and ambitious action in the real economy needed to reduce systemic risks and protect the interests of the Systems' beneficiaries. TRS, NYCERS and BERS first approved the goal of achieving net zero by 2040 in October 2021 and instructed BAM to develop a comprehensive implementation plan to achieve this goal. As of April 2023, all three Systems have approved Net Zero Implementation Plans which are available [here](#).

The Plans reflect international consensus that a low-carbon transition, in line with scientific evidence, to keep global temperature rise below 1.5° C requires:

- significantly reducing emissions across the economy;
- greatly increasing financing of climate change solutions;
- ceasing investment in new fossil fuel supply projects in accordance with established net zero scenarios; and
- engaging asset managers and portfolio companies on their plans for decarbonization to ensure net zero alignment.

## **Asset Manager Net Zero Alignment**

TRS, NYCERS, and BERS seek collaboration and alignment with all of their asset managers to achieve the goals of the Plans. The only way they can achieve the goal of net zero by 2040 and help limit global temperature change to 1.5° C is with the active participation and collaboration of their asset managers. The Plans require TRS, NYCERS, and BERS to ensure prudent consideration of climate change risk and opportunity, including net zero alignment in the due diligence, selection, monitoring and engagement of asset managers in all asset classes, to ensure a faithful discharge of the Systems' fiduciary duties. Specifically, the Plans provide for the following expectations and actions regarding asset managers:

### **NYCERS and BERS Expectations of Asset Managers for Net Zero Alignment**

NYCERS and BERS expect all their public and private markets asset managers to have a net zero goal, science-based targets, or an acceptable alternative approach and implementation plans to achieve them covering, at a minimum, assets managed for the System, by June 30, 2025.

### **TRS Expectations of Asset Managers for Net Zero Alignment**

TRS expects all of its public assets managers to have a net zero goal, science-based targets, or an acceptable alternative approach and implementation plans to achieve them covering, at a minimum, assets managed for the System, by June 30, 2025, and all of its private markets managers to do so by June 30, 2026.

### **Targets to Cover Scopes 1 and 2 and Material Scope 3 Emissions**

TRS, NYCERS, and BERS all expect managers to cover Scopes 1 and 2 emissions and material Scope 3 emissions of underlying investments in their targets and plans. Scope 3 emissions are considered material if they constitute 40% or more of total emissions. Should data be inadequate for Scope 3 emissions, managers are expected to have a plan for measuring Scope 3 emissions and setting material Scope 3 targets as soon as possible.

### **NYCERS and BERS Potential Actions for Lack of Manager Alignment**

BAM will recommend to the NYCERS and BERS boards in 2025 potential actions for managers that have not adopted a net zero goal, science-based targets, or an acceptable alternative approach and implementation plans for their investment strategy, consistent with fiduciary duties.

### **TRS Potential Actions for Lack of Manager Alignment**

BAM will recommend to the TRS Board potential actions beginning in 2025 for public markets managers, and in 2026 for private markets managers, that have not adopted a net zero goal, science-based targets, or an acceptable alternative approach and implementation plans for their investment strategy, consistent with fiduciary duties.

## **Review of Proxy Voting Records of Public Markets Managers**

BAM will review the proxy voting record of public markets asset managers related to climate change, including shareholder proposals and director elections.

## **Interim Progress Reports**

BAM will provide TRS, NYCERS, and BERS with an interim report in 2023 on the number of managers across asset classes that have adopted net zero goals, science-based targets, or an acceptable alternative approach for their investment strategy and an in-depth progress report in 2024 of all managers' status, including details of net zero implementation plans and progress toward their targets.

We have added specific questions regarding climate risk management and net zero alignment in our updated annual ESG questionnaire for asset managers.

## **Commitment to Addressing ESG Risks and Opportunities**

The Systems' long-term investment horizon and broad exposure across the economy make it prudent for them – and their investment managers – to take into account consideration of environmental, social, and governance risks and opportunities in order to generate the best risk-adjusted investment returns for their participants and beneficiaries.

Portfolio companies face risks as a result of environmental (e.g., the potential liabilities of fires for utilities or pollution for manufacturers, potentially stranded assets); social (e.g., lawsuits and reputational risks for discrimination or harassment, claims for unfair labor practices or labor law violations); and governance (e.g., insider trading, inadequate board oversight) exposures. These are investment risks that should be given their proper weight.

ESG data collection aligns our ability to prudently measure and monitor risks and returns. Once ESG risks and opportunities are identified, risk mitigation strategies can be implemented and proactive ESG integration strategies pursued as part of the discharge of fiduciary duty.

We are therefore deeply concerned by the efforts of policy makers to prohibit consideration of ESG risks. If some investors choose to wantonly ignore the risks they face, that is their business. But the Systems must insist that they not interfere with the Systems' "freedom to invest" by thoughtfully assessing and addressing all material risks the Systems face.

We are therefore taking this opportunity not only to reaffirm the Systems' policies in support of utilization of ESG considerations, but also to request written affirmation of your commitment to take actions which align with this approach. For example, our office has joined other asset owners, institutional investors and companies as a signatory to [Freedom to Invest](#) to reinforce the fiduciary need to consider all material financial risks and opportunities, including ESG considerations. We encourage you to consider supporting this or similar principled commitments.

The Systems can only execute their investment strategy, which includes ESG risk and opportunity integration, when their asset managers remain committed to prudently and systematically applying ESG in their investment process. Please provide your response to the annual ESG questionnaire no later than 30 days after receipt of this letter.

We greatly appreciate your continued collaboration and partnership to build strong and sustainable long-term performance for our investment portfolios and ensure retirement security for the Systems' beneficiaries.

Sincerely,



**Brad Lander**  
New York City Comptroller



**Steven Meier**  
Chief Investment Officer, New York City Retirement Systems