
Pension Fund Takes Unprecedented Climate Change Action.

In an effort to highlight the potential impacts of global warming, the nation's largest public pension fund is asking corporations to include climate change experts on their governing boards.

On Monday, the investment committee for California Public Employees' Retirement System (CalPERS) voted to start requiring the corporations it invests in to include people on their boards who have expertise in climate change risk management strategies. It is the first U.S. pension system to establish such a requirement, which comes months after California experienced the largest gas leak in U.S. history and the state's largest oil spill in decades.

"Updating our requirements ensures that corporate boards have the expertise and competence to adequately understand and address the challenges and risks imposed by climate change," said California Controller Betty T. Yee in a statement after the vote. Yee is a board member of CalPERS and the California State Teachers' Retirement System (CalSTRS).

As major investors (CalPERS is worth $288 billion), pension systems can — and do — leverage the power of their wallets with corporations as a way of influencing policy. For example, the New York State Common Retirement Fund — the third largest U.S. pension fund — is among a group of major investors that wants ExxonMobil to start publishing an annual assessment of its impact on public climate change policies. Exxon is trying to block their request.

One of the common ways pension funds leverage their clout is through social divestment from companies associated with or in support of controversial issues.

The cause has varied over the years. In the 1980s, many pension funds divested from companies that were doing business in South Africa as a reaction to apartheid policies there. CalPERS alone pulled $9.5 billion. In 2013, a number of pension funds, including CalSTRS and the New York City pension funds, divested from gun manufacturers after mass shootings in Aurora, Colo., and Newtown, Conn. Climate change and environmental stewardship has been the latest focus.

Still, there's no proof social divesting actually works, and there are concerns that it actually hurts investment returns for pension funds.

That may partially be why CalPERS and CalSTRS have resisted environmental activists' calls to divest their stocks in fossil fuel companies. Instead, both systems believe they can have a greater impact by playing more of an activist role with the companies in which they invest. Having a "voice at the table" is far preferable to "the most serious step" of divesting, the two funds explained last year. "Divestment severs our ties with a company and therefore," they said, "severs our influence as well."

Even credit rating agencies have taken notice of climate change's potential impact. Standard & Poor's now regularly evaluates states and localities' environmental risks when looking at their credits.

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