

THE HIDDEN RISK IN STATE PENSIONS

ANALYZING U.S. PUBLIC PENSIONS' RESPONSES TO THE CLIMATE CRISIS IN PROXY VOTING



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ACKNOWLEDGEMENTS

We would like to thank the following colleagues and organizations for their commentary and guidance: Lindsay Meiman, Ada Recinos, Richard Brooks, Ginny Roscamp, Hillary Larson, Ben Cushing, Cara Fogler, Moira Birss, Tara Houska, BankTrack, Carbon Tracker, the Climate Safe Pensions Network, Divest Oregon, First People's Worldwide, Friends of the Earth, IEEFA, Investor Advocates for Social Justice, Majority Action, Rainforest Action Network, ShareAction, Reclaim Finance, the Sierra Club Foundation, the Sunrise Project, and the World Commission on Environmental Law.

AUTHORS & ACKNOWLEDGEMENTS

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EXECUTIVE SUMMARY

Climate-driven heat waves, droughts, floods, hurricanes, and wildfires are already causing suffering for hundreds of millions of people worldwide. At the time of writing this report, Hurricane Helene is expected to cost insurers \$6.4 billion,¹ with economy-wide impacts reaching up to \$250 billion.² Climate-driven impacts on the economy are already significant: according to one recent peer-reviewed study, the climate crisis inflicted a global economic toll of \$16 million an hour in extreme weather damages between 2000 and 2019.³ Given that these impacts are occurring at only 1.2°C of warming, it's no wonder that economists, financial institutions, and financial regulators are increasingly worried about the risk that the climate crisis poses to our shared economic prosperity.

“The financial impacts that result from the economic effects of climate change and the transition to a lower carbon economy pose an emerging risk to the safety and soundness of financial institutions and the financial stability of the United States,” concluded the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency in a 2023 report, making it clear that climate-related financial risks are faced by all financial institutions and the broader economy.⁴

As long-term investment fiduciaries, pension funds should be among the institutions most alarmed about the economic risks associated

with the climate crisis. Some have taken public strides forward, such as announcing net-zero pledges, investing in climate solutions, or defending the right to invest responsibly. These are critical steps forward. However, as this report shows, the institutions responsible for stewarding trillions of dollars on behalf of the American people fail to match that record with strong standards to address climate-related financial risk in their proxy voting strategies.⁵ Proxy voting is a key tool investors use to encourage responsible corporate governance and behavior. And, in many states, legislators, treasurers, attorneys general, and secretaries of state are enacting policies that restrict public pension funds from analyzing and acting upon climate risk considerations.

This report, in its second annual edition, analyzes thirty-two of the largest and most influential state and local pension systems in the US.

These funds collectively represent over \$3.8 trillion in assets under management (AUM).

5. Climate-related financial risks refer to potentially negative impacts to individual companies, sectors, or the economy and financial system as a whole resulting from the range of physical impacts of climate change and activities associated with the transition to a lower-emissions society.

EVALUATION CRITERIA

To assess climate leadership in corporate governance, this report analyzes pensions on two criteria:

- 1. Proxy voting guidelines:** Proxy voting guidelines were evaluated for their strength in addressing climate- and environment-related financial risks. Voting guidelines signal investor priorities on corporate governance and direct how a shareholder votes. This report includes a new evaluation of public pensions' just transition policies, an area that is seeing increased resolution activity and investor interest.
- 2. Proxy voting record:** Pensions were evaluated on their records on a set of climate-related votes (director elections and shareholder resolutions) in the 2024 proxy season. The sectors included have expanded beyond financial institutions to include a greater number of high-emitting and high-impact sectors: automakers, utilities, industrial, and consumer sectors. The scope of issues covered by the votes in this year's report provides a more comprehensive evaluation of how pensions are putting their guidelines into practice, and the extent to which they are using proxy voting to mitigate climate and related risks from their portfolios.

In the evaluation of **proxy voting guidelines**, one pension received an A grade: New York State Common Retirement Fund, due to guidelines that proactively address the full scope of risk mitigation measures on key systemic risks. Massachusetts Pension Reserves Investment Management (MassPRIM), three New York City systems (New York City Employees' Retirement System (NYCERS), the Teachers' Retirement System of the City of New York (TRS), and the NYC Board of Education Retirement System (BERS)), Connecticut Retirement Plans and Trust Funds (CRPTF), California Public Employees' Retirement System (CalPERS), and the Vermont Pension Investment Commission (VPIC) received B grades due to strong performance on systemic risk, climate resolutions, and climate lobbying resolutions and moderate performance on all other categories. Two-thirds of the pensions analyzed received D or F grades.

In the evaluation of **proxy voting records**, eight pension systems based in California, Massachusetts, New Jersey, New York, Ohio, and Oregon received A grades, indicating that they are taking a thorough approach to risk management. Pension systems based in Connecticut and LA County received B grades. The State of Wisconsin Investment Board and the Washington State Investment Board received C grades.

Public pensions varied greatly in data transparency. While many publish their proxy voting guidelines and voting records, some were only available via a Freedom of Information Act (FOIA) request. Pension systems in Alabama, South Carolina, and Utah were omitted from this report after FOIA requests were denied. Others are only covered on issues where data was available.



REPORT FINDINGS

The findings of this analysis are clear: while some states are beginning to use proxy voting as an effective risk management tool, far too many state pensions are still failing to take adequate steps to address climate-related financial risks and protect their members' hard-earned savings, raising serious concerns about the execution of their fiduciary duty — the obligation that institutional investors have to act in their clients' or beneficiaries' best interest. The leading pension funds continue to strengthen their proxy voting guidelines each year and pull away from the laggards. **Two pension systems included in the 2024 report approved new guidelines in the last year that expanded to cover biodiversity, director accountability on climate, and human rights.**

While this progress is noteworthy, **all the pensions highlighted in this report could do more to shield their beneficiaries from growing climate- and environment-related financial risks.**

In order to help mitigate systemic risks like climate change and protect beneficiaries' interests, the pensions analyzed in this report should update and strengthen their proxy voting guidelines and use those guidelines to direct their voting practices in 2025 and beyond. Pensions should use the recommendations outlined in this report to guide those updates, which can be found in the appendix.

INTRODUCTION

CLIMATE CHANGE: CATASTROPHIC FOR RETIREMENT SAVINGS

The costs of climate change are rising rapidly.

At the time of writing this report, Hurricane Helene is expected to cost insurers \$6.4 billion,⁶ with economy-wide impacts reaching up to \$250 billion.⁷ And while costs are mounting, a 2024 study published in *Nature* estimates that the costs of failing to meet the goals of the Paris Agreement will be nearly six times as much as the costs of reducing emissions to net zero by 2050.⁸ **Those costs will be borne by the public, including in their retirement savings.**

Climate change is a systemic and systematic risk⁹ – an un-diversifiable, un-hedgeable, and escalating risk that will affect all companies in all markets, one way or another, and, without further action, will have negative consequences for investment portfolios. These

risks are numerous and varied, from extreme weather events to unsafe working conditions in rising temperatures and challenging agricultural conditions, all of which will have repercussions for the health of the economy and investment returns.

Unfortunately, many pensions may be underestimating the risk of climate change, as they are heavily relying on models of the financial impacts of climate change, like those provided by firms such as Mercer, Aon Hewitt, and Hymans Robertson, which have been criticized as being significantly flawed and dramatically



underestimating climate impacts to portfolios.¹⁰ A separate 2024 study predicts that global equity valuations could plunge 40-50% if emissions are not addressed.¹¹ Losses at this level will impact the ability of public sector workers to retire with the dignity and economic security they deserve. To address decreasing portfolio value, pensioners may see reduced benefits and higher contributions to make up for shortfalls. Taxpayers could be forced to help fill in the gaps in benefit obligations while facing increased inflation,¹² insurance premiums,¹³ and pervasive economic uncertainty.

9. Systemic risks are individual events that can lead to a wider economic downturn. Systematic risks are pervasive and impact the entire market. The impacts of climate change are both systemic and systematic. This report uses "systemic risk" to refer to both systemic and systematic risks.

PROTECTING WORKERS FROM CLIMATE CHANGE

Pension funds are universal owners, meaning that they have highly diversified and long-term portfolios that are representative of global capital markets.¹⁴ The performance of diversified long-term portfolios is largely driven by the overall growth and stability of the global economy, more so than the fluctuations in the value of various companies and sectors. Because they have investment portfolios that represent the market and largely perform according to the market as a whole, they are some of the institutions most exposed to systemic financial risks, such as climate change and biodiversity loss, which are set to have unprecedented consequences on the global economy.

Pensions are also long-term shareholders, with obligations to both today's retirees and young workers who will not retire for decades to come. Long-term market performance is therefore critical to pensions' success and a standard of fairness between beneficiaries of all ages.

In light of this, pensions must vote in corporations' annual meetings to mitigate risks that pose a systemic threat to their portfolios and long-term returns. They must also adapt their investment and stewardship strategies to meet their fiduciary obligations – acting in the best interest of their beneficiaries – in light of these emerging risks.¹⁵ **Only by taking an approach that seeks to mitigate systemic risks and risks to their overall portfolios can long-term and diversified investors, such as pensions, best preserve the value of their investments.**

PENSIONS AND PROXY VOTING: A CRITICAL ACCOUNTABILITY TOOL

Pensions can help protect both their beneficiaries' interests and the economy as a whole from climate-related financial risks with the suite of stewardship tools already at their disposal. Exercising shareholder rights by voting at the annual meetings of major companies is a critical opportunity for pensions to set and communicate clear and decisive expectations for companies.



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Each year, many of the world's largest companies hold annual general meetings in which their shareholders get to vote on important matters that affect the direction of companies.

These votes range from director elections to shareholder (and management) proposals on strategies for addressing environmental and social risks. Individual and institutional investors have the opportunity to weigh in using their proxy votes. The outcomes of shareholder votes are instrumental in determining how companies act — what projects get built, whether fossil fuel expansion gets bankrolled, whether climate solutions are funded, and what kind of responsibility a company has toward Indigenous People and frontline communities.

Institutional investors, such as pensions, hold a large number of corporate shares, granting them disproportionate influence over corporate behavior. This means that how pensions vote on who sits on a company's boards of directors or on shareholder proposals asking companies to decarbonize will be influential in determining whether or not the world will rein in catastrophic climate and ecological crises.

Pensions have an obligation to act on climate to protect their members' savings from potential climate-related losses. In order to mitigate climate-related financial risk, public pensions must use their proxy voting power to move us toward a net-zero economy and place us on a pathway to achieving the goals of the Paris Agreement.¹⁶

Unfortunately, as this report reveals, far too few public pensions adequately utilize their proxy voting power to mitigate climate risks: Many have weak proxy voting guidelines, and, as a consequence, they are not voting to hold companies accountable to an equitable and science-based decarbonization transition. This means **many US pension funds are largely failing to protect their members' returns from climate-related financial risk.**

EVALUATING PENSION PROXY VOTING PERFORMANCE ON KEY SYSTEMIC RISKS

This report focuses on proxy voting, one of the tools investors have at their disposal to engage with companies they hold in their portfolios. It evaluates the extent to which pensions voted to support meaningful climate action and the strength of the guidelines that informed these votes. The 32 pensions covered in this report, representing the largest and most influential public funds in the US, were graded on two criteria:

- 1. Proxy voting guideline:** Proxy voting guideline were evaluated for their strength on climate- and environment-related risks, including systemic risks. Voting guidelines outline the criteria pension staff or third parties use to assess shareholder resolutions and management-backed proposals, including board elections. Strong guidelines enable pension staff to support measures that help mitigate climate change and related risks.
- 2. Proxy voting record 2024:** Pensions were evaluated on their voting record on a set of climate-related votes at financial institutions, utilities, automakers, oil and gas majors, and the industrial and consumer sectors during the 2024 proxy season.

SUMMARY

At least thirteen pensions in this report updated their guidelines this year,¹⁸ and **two pension systems, MassPRIM and CRPTF, strengthened their climate policies significantly from the 2024 report**, which covers 2023 voting and guidelines.

Climate-related director accountability and biodiversity saw the next largest movements from 2024 proxy voting guideline updates, in which CalPERS, MassPRIM, CRPTF, and VPIC added or strengthened language. Despite the improved average scores, most pensions still have yet to adopt policies on Indigenous Peoples' rights and environmental justice. A handful of the highest-scoring overall systems have just transition policies in place, but most guidelines are silent on the issue.



18. (or used the 2024 guidelines of their proxy advisor)

CHANGES TO THIS YEAR'S REPORT

While the 2024 edition of this report focused on self-identified climate leaders, the 2025 version looks at the proxy voting records and guidelines of the largest and most influential public pension funds in the US. This broadened scope includes county and city pension funds, as well as pension funds located in states facing “anti-ESG” legislation and executive actions. These laws, in part, aim to curb the voice of public pension funds by narrowly defining “fiduciary duty” and “pecuniary factors” to exclude commonplace investment risk evaluations that can be lumped under “ESG.” In other words, in these states, politically motivated laws are preventing public pension systems and other actors from scrutinizing favored industries, such as oil and gas, and holding them to good business practices, such as strong workplace standards or climate risk mitigation. While this report contends that climate change (and transition readiness) is not

only a pecuniary factor but one of significance to nearly the entire economy, we interpret language that appears in both “anti-ESG” bills and proxy voting guidelines as intended to prevent pension stewardship teams from supporting any climate-related proposal.

Eight pensions in this report are in states that have “anti-ESG” laws or executive actions

that restrict pension activities: Arizona, Florida, Indiana, Missouri, North Carolina, Tennessee, Texas, and Virginia.¹⁹ These pensions scored lower than their peers and have fewer guidelines in place to protect the funds’ interests from poor climate performance. This not only restricts climate accountability, but shields corporate actors from general scrutiny on harmful behaviors. While these pension systems underperform on climate voting relative to their peers, a number of pension funds with no such legal restrictions have minimally better guidelines in place. The non-participation of these two groups limits the effectiveness of all shareholder engagement on climate, a cost we all will bear.



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OVERALL SCORES



More information about the methodology and grading used can be found in [Appendix #2](#)

PENSION FUND	FINAL GRADE	TRANSPARENCY	GUIDELINES GRADE	VOTE GRADE
Massachusetts Pension Reserves Investment Management (MassPRIM)	A	Vote Record via FOIA	B	A
California Public Employees' Retirement System (CalPERS)	B	Available	B	A
University of California Investment Office	B	Available	C	A
Connecticut Retirement Plans and Trust Funds (CRPTF)	B	Available	B	B
New York City Public Pension Funds ²⁰	B	Available	B	A
Oregon Public Employees Retirement System (Oregon PERS)	B	Guidelines via FOIA	C	A
Los Angeles County Employees Retirement Association (LACERA)	C	Vote Record via FOIA	C	B
New Jersey State Investment Council	C	Available	F	B
New York State Teachers' Retirement System (NYSTRS)	C	Available	F	A
State Teachers Retirement System of Ohio (STRS Ohio)	C	Vote Record via FOIA	D	A
California State Teachers' Retirement System (CalSTRS)	D	Available	C	D
Maine Public Employees Retirement System (MainePERS)	D	Available	F	F
Maryland State Retirement and Pension System (SRPS)	D	Available	D	D
State of Wisconsin Investment Board (SWIB)	D	Available	D	C
Washington State Investment Board (WSIB)	D	Available	F	C

20. Employees' Retirement System (NYCERS), Teachers' Retirement System of the City of New York (TRS), New York City Board of Education Retirement System (BERS)¹⁹ as a footnote to New York City Public Pension Funds

PENSION FUND	FINAL GRADE	TRANSPARENCY	GUIDELINES GRADE	VOTE GRADE
Colorado Public Employee's Retirement Association (PERA)	F	Available	F	F
Florida State Board of Administration	F	Available	F*	F
North Carolina Retirement Systems	F	Vote Record via FOIA	F	F
Ohio Public Employees Retirement System (OPERS)	F	Available	F	F
Pennsylvania Public School Employees' Retirement System (PSERS)	F	Available	F*	F
Public Employees' Retirement System of Nevada (NVPERS)	F	Vote Record via FOIA	F	F
Teacher Retirement System of Texas (TRS)	F	Available	F	F
The Public School Retirement System of Missouri (PSRS)	F	Vote Record via FOIA	F*	F
Virginia Retirement System (VRS)	F	Vote Record via FOIA	F*	F
Arizona State Retirement System	Incomplete	Incomplete	F	Unavailable
Illinois Municipal Retirement Fund (IMRF)	Incomplete	Incomplete	F	Unavailable
Indiana Public Retirement System (INPRS)	Incomplete	Incomplete	F	Unavailable
State of Michigan Investment Board	Incomplete	Incomplete	D	Unavailable
Minnesota State Board of Investment (SBI)	Incomplete	Incomplete*	D	Unavailable
New York State Common Retirement Fund	Incomplete	Incomplete*	A	Unavailable
Teachers' Retirement System of the State of Illinois (TRS)	Incomplete	Incomplete	F	Unavailable
Vermont Pension Investment Commission (VPIC)	Incomplete	Incomplete*	B	Unavailable

*Minnesota State Board of Investment (SBI), New York State Common Retirement Fund, and Vermont Pension Investment Commission (VPIC) update their proxy voting records after the November 2024 deadline for this report.

More information about the methodology and grading used can be found in Appendix #2

PROXY VOTING GUIDELINES

Proxy voting is one of a pension's strongest tools for corporate governance. The votes that pensions (and other fund managers) take during a company's annual meeting are determined by their voting guidelines. Pensions may write their own guidelines or delegate the responsibility to proxy advisors²³ or their asset managers who vote on behalf of the fund. Most pensions retain Board oversight for the proxy voting process.

Having strong guidelines is key for several reasons: it ensures consistency in voting across different portfolios and fund managers; it establishes standards and expectations for all (or a defined set) of companies, making it easier to communicate corporate governance expectations to portfolio companies; and it helps inform pension beneficiaries how their investments are being managed.

Pensions were evaluated on the scope and depth of their guidelines on a set of critical climate issues. The pensions were graded against a benchmark of how strong voting policies could be on key sustainability issues. In addition to votes on climate and environmental issues, such as biodiversity and deforestation, proxy voting guidelines were also assessed based on whether they contained guidance on votes on lobbying disclosure, just transition, environmental justice, and Indigenous Peoples' rights,²⁴ as these issues, in addition to being important in their own right, are also critical to achieving global climate goals. Performance in each sub-category (e.g. environmental justice, climate directors) was weighted equally in the overall grade.

While no pension received a perfect score, many take notable leadership on several of these issues. The highest scores were granted in Systemic Risk Statements, Climate-Related Shareholder Resolutions, and Director Accountability, which saw several pensions earn the highest possible grade.

The pensions' guidelines were evaluated in each category, with cumulative scores determining the final grade. F* Grades, which reflect an overall negative score, were assigned in instances where "anti-ESG" language appeared in the proxy voting guidelines.

The full methodology used to assess guidelines can be found in [Appendix #2](#) of this report.



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23. Firms such as ISS and Glass Lewis that provide institutional investors with research, data, and voting recommendations
 24. Indigenous People's Rights to Free, Prior, and Informed Consent (FPIC) is a right of self-determination for Indigenous Peoples, as established in the UN Declaration on the Rights of Indigenous Peoples. It enables Indigenous communities to provide, withhold, or withdraw consent on projects that would impact their territories and traditionally owned and cultivated lands. (<https://www.ihrb.org/resources/what-is-free-prior-and-informed-consent-fpic>)

GUIDELINE SCORES



PENSIONS	GRADE	State Anti-ESG Policy	Systemic Risk Statements	Climate-Related Shareholder Resolutions Guideline	Climate-Related Votes on Directors Guideline	Climate Lobbying & Political Contributions Guideline	Biodiversity and Nature-Related Guideline	Human and Indigenous Peoples' Rights Guideline	Environmental Justice Guideline	Just Transition Guideline
New York State Common Retirement Fund	A		5	8	13	6	8	8	3	4
Massachusetts Pension Reserves Investment Management (MassPRIM)	B		3	10	10	5	6	7	4	6
New York City Public Pension Funds ²⁵	B		5	10	9	6	2	3	3	4
Connecticut Retirement Plans and Trust Funds (CRPTF)	B		5	8	13	2	3	4	5	2
California Public Employees' Retirement System (CalPERS)	B		5	8	9	4	6	8	1	0
Vermont Pension Investment Commission (VPIC)	B		5	9	5	2	4	7	4	2
Los Angeles County Employees Retirement Association (LACERA)	C		5	9	6	5	4	7	1	1
University of California Investments Office	C		1	6	13	3	7	4	1	2
Oregon Public Employees Retirement System (Oregon PERS)	C		1	7	8	3	4	7	3	2
California State Teachers' Retirement System (CalSTRS)	C		5	6	3	4	1	0	0	4

25. Employees' Retirement System (NYCERS), Teachers' Retirement System of the City of New York (TRS), New York City Board of Education Retirement System (BERS)¹⁶ as a footnote to New York City Public Pension Funds

PENSIONS	GRADE	State Anti-ESG Policy	Systemic Risk Statements	Climate-Related Shareholder Resolutions Guideline	Climate-Related Votes on Directors Guideline	Climate Lobbying & Political Contributions Guideline	Biodiversity and Nature-Related Guideline	Human and Indigenous Peoples' Rights Guideline	Environmental Justice Guideline	Just Transition Guideline
State of Wisconsin Investment Board (SWIB)	D		0	5	12	2	7	1	1	0
State of Wisconsin Investment Board (SWIB)	D		0	5	12	2	7	1	1	0
Maryland State Retirement and Pension System (SRPS)	D		1	5	5	3	2	1	1	0
State of Michigan Investment Board	D		0	6	1	1	4	1	1	0
State Teachers Retirement System of Ohio (STRS Ohio)	D		0	4	0	2	4	0	1	0
Minnesota State Board of Investment (SBI)	F		0	9	0	0	4	0	0	0
North Carolina Retirement Systems	F	L	0	5	6	1	0	1	0	0
Washington State Investment Board (WSIB)	F		0	5	6	1	0	1	0	0
Illinois Municipal Retirement Fund (IMRF)	F		0	1	2	2	1	1	0	1
New Jersey State Investment Council	F		0	4	1	2	0	1	0	0
New York State Teachers' Retirement System (NYSTRS)	F		0	8	0	0	0	1	0	0
Colorado Public Employee's Retirement Association (PERA)	F		0	3	0	1	1	0	0	0

PENSIONS	GRADE	State Anti-ESG Policy	Systemic Risk Statements	Climate-Related Shareholder Resolutions Guideline	Climate-Related Votes on Directors Guideline	Climate Lobbying & Political Contributions Guideline	Biodiversity and Nature-Related Guideline	Human and Indigenous Peoples' Rights Guideline	Environmental Justice Guideline	Just Transition Guideline
Maine Public Employees Retirement System (MainePERS)	F	LE	0	2	0	0	0	1	0	0
Indiana Public Retirement System (INPRS)	F		0	0	0	0	3	-2	0	0
Arizona State Retirement	F	E	0	0	0	0	0	0	0	0
Teachers' Retirement System of the State of Illinois (TRS)	F		0	0	0	0	0	0	0	0
Public Employees' Retirement System of Nevada (NVPERS)	F		0	0	0	0	0	0	0	0
Ohio Public Employees Retirement System (OPERS)	F		0	0	0	0	0	0	0	0
Tennessee Consolidated Retirement System (TCRS)	F	L	0	0	0	0	0	0	0	0
Teacher Retirement System of Texas (TRS)	F	L	0	0	0	0	0	0	0	0
Virginia Retirement System (VRS)	F*	LE	0	-2	-2	1	-2	-2	-2	-2
Florida State Board of Administration	F*	L	-2	1	-2	1	-2	-2	-2	-2

KEY TRENDS IN PENSION PROXY GUIDELINES

Notable scores

- NYS Common, MassPRIM, three of the New York City pensions (NYCERS, TRS, BERS), CRPTF, CalPERS, and Vermont (VPIC) performed well above the rest of the pensions analyzed, earning “A” and “B” grades.
- LACERA, California University, Oregon PERS, and CalSTRS followed with “C” grades. SWIB, Maryland SRPS, the State of Michigan Investment Board, and Ohio STRS earned D grades.
- All other pension systems earned an “F” for sparse proxy voting guidelines or “F*” for explicit anti-ESG language.

Leading pensions strengthen guidelines

In 2024, MassPRIM and CRPTF demonstrated the most significant jump in performance, adding in key language to strengthen their proxy voting guidelines. CRPTF added language addressing the systemic nature of climate risk, strengthened their biodiversity guidelines, and added new director-level accountability standards, jumping from a D+ to a B. MassPRIM also added systemic risk language, updated their lobbying guidelines, and added human rights expectations, moving from a D to a B. These updates see MassPRIM leading across the board. Both funds have just transition policies that contributed to their overall high scores.

Several pensions (CalPERS, CRPTF, MassPRIM) added or strengthened their language on Systemic Risk. This represents a growing trend among universal owners in both recognizing climate change as a systemic risk and acknowledging that fiduciaries have

a responsibility to take steps to manage and mitigate those risks. Accordingly, more pensions are adopting stronger investor stewardship practices as part of their risk management strategies.

However, even the highest-scoring pensions do not lead among their peers in all categories. CalPERS, for example, scored highly on well-established issues like climate resolutions, director accountability on climate, and Indigenous Peoples’ rights but performed more poorly on just transition and environmental justice metrics when compared to some of its peers.

Continued overemphasis on disclosure, not enough on risk mitigation strategies

Proxy voting can influence corporate behaviors in various ways, from encouraging better disclosure of company metrics to prompting the adoption of policies that align with long-term strategic goals. Improved disclosure is essential for investors, providing transparency about a company’s strategy and performance, which helps investors assess whether a business remains a sound investment. However, as noted by the UN Principles for Responsible Investment,²⁷ while better corporate disclosures are important, they are not enough to drive real change on systemic issues like climate change, which require more direct action.

To mitigate risks associated with climate change, companies need to move beyond tracking and disclosing emissions to implementing strategies that actually reduce those emissions. For example, disclosing a company’s greenhouse gas emissions is important, but real risk mitigation results from a company adopting decarbonization strategies that reduce its environmental impact. Proxy voting – and the guidelines that inform those votes – plays a critical role in this by allowing investors to support not only corporate disclosure but also the adoption

of policies that align with climate goals and risk reduction, such as setting clear emissions reduction targets or creating comprehensive transition plans.

While some pension funds (including Oregon PERS, MassPRIM, and the NYC Pension Funds) have begun pushing companies beyond simple disclosure by supporting shareholder proposals that encourage decarbonization or other climate-related policies, too many remain focused primarily on improving transparency. Some funds (such as California University and the Michigan Retirement System) take a middle-ground approach, supporting enhanced disclosure and target-setting but stopping short of advocating for concrete actions like developing public transition plans. Ultimately, the most effective proxy voting guidelines are those that push companies to implement strategies that address systemic risks, such as climate change, rather than merely providing more data.



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States with anti-ESG laws and rulemaking lag on responsible investment stewardship

Eight pensions in this report are in states that have anti-ESG laws or executive actions that restrict pension activities: Arizona, Florida, Indiana, Missouri, North Carolina, Tennessee, Texas, and Virginia.²⁶ These pensions face scrutiny and restrictions for proxy voting language and investment decisions that consider non-traditional financial metrics. Some states name risks related to environmental and social issues among these factors.

These “anti-ESG” pensions scored lower than their peers because they have language that prevents them from engaging on environmental and social risks that are highly relevant to either the company’s or the pension fund’s long-term performance. In other words, they explicitly exclude measures that would protect the funds’ interests from poor climate performance. Anti-ESG policies not only restrict measures for emissions-related accountability but also shield corporate actors from general scrutiny.

However, not all laggards are based in anti-ESG states. Notably, even pensions in states without anti-ESG legislation lack provisions in their guidelines to protect their beneficiaries’ savings from climate-related risks. While the systems in “anti-ESG states” underperform on climate voting, a number of pension funds with no such legal restrictions perform only marginally better.

Regardless of the cause, the approach of these two groups limits the effectiveness of all shareholder engagement on climate, a cost that pension beneficiaries and all of us will bear.

Underperformance on Indigenous Peoples’ rights, environmental justice, political lobbying, biodiversity, and just transition

Indigenous Peoples’ rights, environmental justice, lobbying and political spending, biodiversity, and just transition are critical issues in their own right. They are also key climate issues, as improving outcomes on each of these metrics has co-benefits with improving climate change and climate-related risk mitigation. For example, companies that have failed to align their lobbying practices with global climate goals have contributed to delays or blocked key climate legislation.

The vast majority of pension funds analyzed failed to adequately account for risk management in all or some of these critical areas, with many pension systems with relevant language earning low scores for supporting only disclosure-based resolutions. This is all the more concerning given that some of these issues, such as climate lobbying, deforestation, and Indigenous Peoples’ rights, have been a part of the investor narrative on climate accountability for years. It is one thing to support an audit of a company’s community impacts and another to call on the company to actively reduce harm to Indigenous nations and communities of color by ceasing new development of polluting infrastructure.

While biodiversity and just transition are emerging issues for investors, they present significant portfolio risks. Biodiversity loss and ecosystem destruction are, on their own, ecological crises that threaten societal and economic stability. They are also intrinsically linked with the climate crisis, with ecosystem destruction as a key driver of global greenhouse gas emissions,²⁸ and biodiversity loss as one of the most dramatic impacts. Similarly, the transition to – and economic benefits of – a clean energy economy are not guaranteed to include communities who long have worked in extractive industries or been on the frontlines of pollution.²⁹ However, initial research indicates that improving due diligence on just transition metrics can improve investor returns, and investors should seek

out information on how portfolio companies are approaching these opportunities.³⁰

A comprehensive approach to systemic risk management requires tackling more than just greenhouse gas emissions; it requires addressing these affiliated ecologic and economic justice crises.



PROXY VOTING RECORDS IN 2024

Proxy voting is one of the most effective ways shareholders can help shape the direction of a company, including the speed and seriousness with which a company tackles its responsibility for reducing greenhouse gas emissions, negative community impacts, and other climate risks. Evaluating pensions' voting records allows for an analysis of whether pensions are putting their proxy guidelines into practice and whether they're taking the necessary steps to reduce the climate risks posed to both companies in their portfolios and their portfolios as a whole.

The full slate of climate- and environment-related shareholder resolutions at US corporations in 2024 was beyond the scope of this report. Instead, this report focuses on several key sectors: financial institutions, utilities, automakers, oil and gas companies, and the industrial and consumer sectors. These industries will play a critical role in the transition to a low-carbon economy and, therefore, are a key indicator of pensions' commitments to reducing climate risk.

Pensions were scored depending on how often they supported climate-related resolutions and how often they opposed directors at key companies failing to mitigate climate risk.³¹

Each resolution was evaluated for whether it was primarily concerned with disclosure, target setting and implementation, or governance, and grouped by issue area.³² Pensions were graded by what percent of shareholder resolutions or Vote No³³ board votes they supported. Each category of resolutions was weighed evenly in the overall grade.



31. Director vote recommendations were taken from Majority Action's Voting Guide for a 1.5C World <https://www.majorityaction.us/proxy-voting-guide-for-15c-world>.

32. Not all topics of interest come to a vote year-to-year, as this depends on trends in shareholder filing. This is why there are more issues in the disclosure section than in the target setting/implementation category.

33. A "Vote No" campaign is an effort by shareholders or other stakeholders to oppose the election or re-election of specific board members due to concerns over their performance. The Vote No efforts highlighted in this report were made over objections to a failure of climate risk oversight by the board members in question.

2024 KEY VOTES SCORES

Scores are displayed as percentages



PENSION FUND	GRADE	Disclosure Votes					Target Setting & Implementation Votes		Governance Votes
		Biodiversity Disclosure	Climate Disclosure	FPIC Disclosure	Lobbying Disclosure	Environmental Justice Disclosure	Biodiversity Action	Climate Targets	Director Votes
California Public Employees' Retirement System (CalPERS)	A	100	100	100	100	100	60	100	33
California University	A	100	100	100	100	100	100	100	18
Massachusetts Pension Reserves Investment Management (MassPRIM)	A	100	100	100	100	100	100	75	33
New Jersey State Investment Council	A	100	100	75	100	100	50	50	21
New York City Public Pension Funds ³⁴	A	100	100	100	100	100	60	100	33
New York State Teachers' Retirement System (NYSTRS)	A	0	100	100	100	100	100	100	0
Oregon Public Employees Retirement System (Oregon PERS)	A	100	100	100	100	100	100	100	7
State Teachers Retirement System of Ohio (STRS Ohio)	A	100	100	100	100	100	50	33	40
Connecticut Retirement Plans and Trust Funds (CRPTF)	B	0	100	100	75	100	0	67	13
Los Angeles County Employees Retirement Association (LACERA)	B	100	86	100	100	0	60	75	7

34. Employees' Retirement System (NYCERS), Teachers' Retirement System of the City of New York (TRS), New York City Board of Education Retirement System (BERS)³⁴ as a footnote to New York City Public Pension Funds

PENSION FUND	GRADE	Disclosure Votes					Target Setting & Implementation Votes		Governance Votes
		Biodiversity Disclosure	Climate Disclosure	FPIC Disclosure	Lobbying Disclosure	Environmental Justice Disclosure	Biodiversity Action	Climate Targets	Director Votes
State of Wisconsin Investment Board (SWIB)	C	0	100	100	100	0	50	0	0
Washington State Investment Board (WSIB)	C	0	57	75	100	0	0	67	7
California State Teachers' Retirement System (CalSTRS)	D	0	57	100	60	0	40	0	13
Maine Public Employees Retirement System (MainePERS)	D	0	14	0	50	0	0	0	7
Colorado Public Employee's Retirement Association (PERA)	F	0	14	0	36	0	20	0	0
Florida State Board of Administration	F	0	0	0	40	0	25	0	13
Maryland State Retirement and Pension System (SRPS)	F	0	71	75	88	0	0	0	0
North Carolina Retirement Systems	F	0	14	0	40	0	20	0	7
Ohio Public Employees Retirement System (OPERS)	F	0	0	25	0	0	0	25	7
Teacher Retirement System of Texas (TRS)	F	0	0	0	44	0	0	0	0
Virginia Retirement System (VRS)	F	0	0	0	33	0	0	0	0

PENSION FUND	GRADE	Disclosure Votes					Target Setting & Implementation Votes		Governance Votes
		Biodiversity Disclosure	Climate Disclosure	FPIC Disclosure	Lobbying Disclosure	Environmental Justice Disclosure	Biodiversity Action	Climate Targets	Director Votes
Pennsylvania Public School Employees' Retirement System (PSERS)	F	0	0	0	0	0	0	0	0
Public Employees' Retirement System of Nevada (NVPERS)	F	0	0	0	0	0	0	0	0
The Public School Retirement System of Missouri (PSRS)	F	0	0	0	0	0	0	0	0



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KEY TRENDS IN PENSION PROXY VOTING

Eight pensions lead the way

Only two pensions supported all the included resolutions (University of California Office Investments Office and Oregon Public Employees Retirement System), but no pension voted against every recommended director. CalPERS and three pension funds managed by the New York City Comptroller followed with near-perfect scores, but missed points on biodiversity resolutions. MassPRIM failed to support one GHG reduction target resolution.

Lobbying disclosure resolutions received the most support from the included public pensions, followed by resolutions pertaining to Indigenous Peoples' rights and climate-related disclosures.

Ten pensions fall well behind their peers in using proxy voting accountability

The pensions of Colorado, Florida, Maryland, Missouri, Nevada, North Carolina, Ohio (PERS), Pennsylvania, Texas, and Virginia fell well behind their peers in how they executed votes in 2024. Notably, this list includes both states with reputations as being climate leaders, such as Washington and Maryland, and states with anti-ESG legislation and rules. The voting records of these pensions show limited support for climate- and environment-related measures on both disclosure and target-setting resolutions. This reflects an inability or an unwillingness to review key climate risks and positions them as laggards on climate accountability.

Three funds (Pennsylvania Public School Employees' Retirement System (PSERS), Public Employees' Retirement System of Nevada (NVPERS), and The Public School Retirement

System of Missouri (PSRS)) failed to support any of the assessed votes. The Virginia Retirement System (VRS) and the Teacher Retirement System of Texas (TRS) performed marginally better, supporting only votes on lobbying disclosure.

Several others only supported a handful of resolutions and did not demonstrate a comprehensive strategy for climate risk mitigation.

Taken together, these pensions are failing to take proactive measures to protect their beneficiaries from the economic fallout of climate change. In addition to failing to support risk mitigation strategies at companies, their votes against disclosure resolutions means they are limiting the access of all investors to key, investment-relevant information. Without appropriate disclosure or risk mitigation strategies, pensions are undermining their ability to deliver on the promise of a dignified retirement.

Problems with consistency

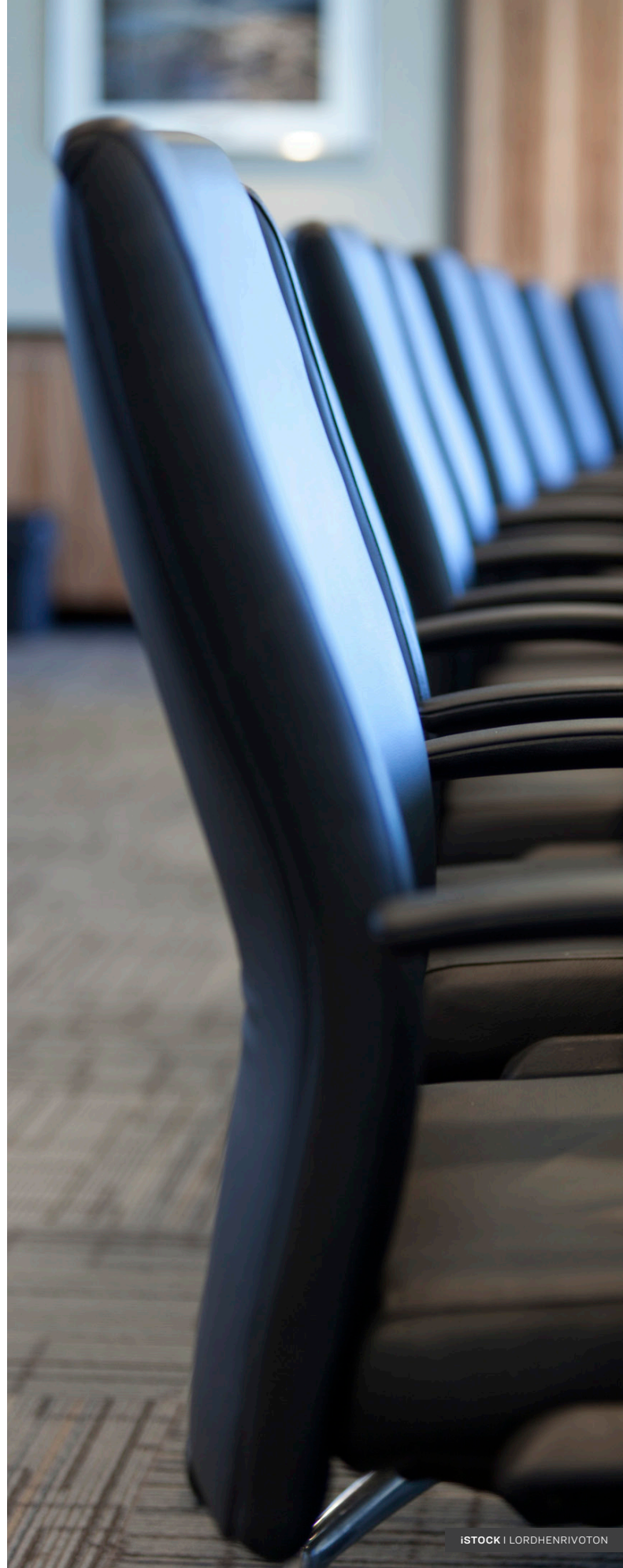
All other pensions failed to support several climate and director measures or failed to consistently execute votes at all companies analyzed. For example, biodiversity disclosures and action were the least-supported resolution votes across the board.

Consistency in applying corporate accountability standards is key to responsible and comprehensive management of climate and related risks. While this does not mean investors should ignore idiosyncrasies at each company, it does mean they should often support similar efforts at similarly positioned institutions. If a resolution makes it to a proxy vote, there is acknowledgment from the company, the Securities and Exchange Commission, and shareholders that the issue in question is not already being addressed.

Pensions still shying away from board accountability

As seen in their voting records, most of the pensions did not find it warranted to execute votes against the reelection of directors responsible for climate risk oversight, even when companies are failing to align their decarbonization strategies with science-based pathways. While our analysis encompasses only a select number of votes where director accountability is warranted, the voting trends at these institutions are indicative of a hesitancy by pensions to hold boards accountable for their strategic decisions, even where climate risk management is inadequate. On average, each fund voted against just ten percent of the recommended directors.

The Board of Directors is responsible for setting the direction of the company and is charged with representing shareholder interests. Board elections are an important accountability tool used to ensure that company management is doing its due diligence on the oversight and management of key risks. Unfortunately, too many pensions are not willing to hold company leadership accountable for the decisions that they're making, including for ineffective management of climate risks.



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DIRECTOR ACCOUNTABILITY AT OIL AND GAS COMPANIES

While a discussion on fossil fuel divestment is beyond the scope of this report, it is important to review the voting practices of public pensions at oil and gas companies. It is common for pensions that acknowledge climate risks to express hesitancy to give up the influence of shareholder rights for equity owners. These pensions contend that they are better able to reduce climate risks to their portfolios by remaining invested and engaging with major polluters to clean up or adjust their business models. While equity ownership does maintain shareholder voice, it must be used wisely – and consistently – to reduce portfolio risks.

Shareholder engagement and divestment are not mutually exclusive. Exiting can be a consequence of stalled progress, or pensions could exit from fossil fuels in non-equity asset classes, like bonds and private equity, to maintain shareholder leverage while limiting their overall portfolio exposure. For shareholders choosing to use divestment as an escalatory tool, it is important to delineate a time-bound escalation horizon, after which they should phase out holdings if engagement efforts fail. For example, the Science-Based Targets Initiative's Fossil Fuel Financing position paper recommends a two-year time horizon for escalating from engagement to phase-out of fossil fuel stocks.³⁵

The following chart highlights pension systems with public statements on the importance of engaging fossil fuel companies shown alongside their 2024 voting record. This report considered votes where Majority Action recommended votes against the entire board of directors at fossil fuel companies for failure to develop medium-term greenhouse gas emissions targets.³⁶ The Board of Directors is responsible for setting the direction of the company and is charged with representing shareholder interests. Public pension funds that stay invested in fossil fuels in the name of accountability should be pressuring directors for strong climate risk oversight, including emissions reduction targets, just transition policies, and plans to align with the clean energy transition.

It is surprising to see that the loudest proponents of engagement over divestment continue to support directors at companies without credible transition plans. ExxonMobil, in particular, launched an effort last year to stifle shareholder voice, suing shareholders Arjuna Capital and Follow This for filing a standard emissions reduction resolution. These efforts were denounced by State Treasurers, but few followed CalPERS' lead in voting against the entire board over governance concerns.³⁷

PENSIONS WITH PUBLIC STATEMENTS ON ENGAGEMENT VS. DIVESTMENT		2024 RECOMMENDATION: VOTE AGAINST THE ENTIRE BOARD ³⁸		
PENSION	STATEMENT ON DIVESTMENT ³⁹	EXXONMOBIL	OCCIDENTAL PETROLEUM	CONOCO PHILLIPS
CalSTRS	As the demand for energy continues to grow, it's important that long-term investors, such as CalSTRS, actively engage fossil fuel companies and the sectors that currently rely on fossil fuels, such as utilities and transportation, to transition their business models. ⁴⁰	Supported some of the Board	Supported whole Board	Supported some of the Board
CalPERS	When we divest, we give up our "seat at the table" as a shareowner, thereby losing our best avenue for influencing a company to act in line with our core values and principles. ⁴¹	Voted against the entire Board	Supported some of the Board	Supported some of the Board
NYSTRS	If the Board determines engagement would be futile or the Board believes it has exhausted all practicable engagement options without achieving satisfactory progress or resolution, the Board may consider divestment. ⁴²	Supported some of the Board	Supported whole Board	Supported whole Board
LACERA	It is generally the preference of LACERA... to engage rather than divest investment holdings concerning risks to long-term value. ⁴³	Supported some of the Board	Supported some of the Board	Supported some of the Board

36. Majority Action recommended votes against the entire board at these companies for in the case where "The oil & gas company does NOT have a medium-term GHG reduction target that covers at least 95% of its scope 1 and 2 emissions and relevant scope 3 emissions."
 37. Divestment statements were collected from pension websites, press releases, investment policies, and net zero plans, and may not reflect all statements made to the press or in Board meetings.

OTHER STEWARDSHIP TOOLS

Proxy voting is one of several stewardship tools available to investors. The evaluation of other tools, including the filing of resolutions, membership in investor initiatives, and engagement with portfolio companies on environmental and social issues, are outside the scope of this report, but we review them briefly here.



Filing and negotiating resolutions

Several of the evaluated resolutions were filed by the pension systems included in this report. The NYC Comptroller, on behalf of the New York City Employees' Retirement System, the New York City Teachers' Retirement System, and the New York City Police Pension Fund, filed Clean Energy Financing Ratio resolutions at several financial institutions. Not included in this report, the Illinois State Treasurer's Office filed at Berkshire Hathaway, and the Vermont Pension Investment Commission filed at Williams Companies but withdrew.



Engagement with portfolio companies

Through engagement and ongoing dialogue, investors are able to address a larger range of issues with companies; by contrast, proxy voting is limited by what matters have been filed for evaluation at the company's annual meeting. However, not all investors undertake engagement activities outside of proxy voting, and of those that do, not all disclose those activities. Furthermore, without adequate disclosure, it is difficult to assess the quality or content of these engagements or to determine whether investors are making strong demands for decarbonization – this is the subject of a forthcoming report from the Sierra Club. By contrast, proxy voting provides a clear record of what investors are asking of companies' boards and management.



Membership in investor initiatives

CalPERS, CalSTRS, the University of California Office Investments Office, Connecticut Retirement Plans and Trust Funds (CRPTF), the Oregon Treasurer, the New York City Comptroller, New York State Common Retirement Fund, Maryland SRPS, Minnesota SBI, Vermont Pension Investment Commission, and Washington SIB are all members of Climate Action 100+, a global investor-led initiative focused on climate action



Engagement of external managers

It is not enough for pensions to manage these risks by themselves; effective management of systemic risk requires engagement from other investors, including the asset managers that manage the pensions' funds. The New York City Comptroller's Office has led significant engagements with BlackRock, one of their asset managers, demanding improved climate stewardship and investment strategies.²²

RECOMMENDATIONS

Pensions have a fiduciary duty to protect their members' hard-earned savings. Unfortunately, far too many are failing in that duty, as they fail to utilize their proxy voting practices to mitigate systemic climate risks.

In order to protect members' savings, maximize returns, and mitigate climate- and environment-related financial risks, the pensions analyzed in this report must update and strengthen their proxy voting guidelines and use those guidelines to direct their voting practices in 2025 and beyond.

Recommendation #1: Strengthen proxy voting guidelines to better protect portfolios from sustainability risks

The pensions featured in this report should update their proxy voting guidelines before the next proxy season in the following ways in order to adopt stewardship practices that work to mitigate idiosyncratic and systemic risks to their beneficiaries' portfolios:

- Adopt a universal owner and/or systemic risk framework for guiding proxy voting. Guidelines should enable pensions to vote for measures that mitigate both company-specific and systemic risks that threaten the performance of the pension's portfolios.
- Align proxy voting principles with internationally recognized frameworks on climate, biodiversity, and human rights, such as the Paris Agreement, the Global

Biodiversity Framework, and the UN Declaration on the Rights of Indigenous Peoples.

- Amend guidelines to support resolutions calling for increased disclosure by companies on sustainability, human rights, political activity, and community impacts.
- Ensure guidelines promote best risk management practices at companies on sustainability issues, including the adoption of policies or strategies that mitigate negative impacts and/or redress harms on matters related to climate, nature, biodiversity, human and Indigenous Peoples' rights, and vulnerable communities.
- Amend guidelines to enable votes against board members and auditors at high-emitting and high-impact⁴⁴ companies that have failed to adopt strategies that align with global climate goals, global nature and biodiversity goals, and the principles of a just transition.

Develop escalatory strategies, where necessary

- Incorporate escalation into stewardship efforts, including coordinating proxy voting with portfolio management to address a company's continual misalignment with relevant expectations. For example, shareholders could delineate a time-bound escalation horizon, after which they could phase out holdings (debt and/or equity), suspend investments in new primary market issuances, vote against the entire board, and other actions if the company refuses or is

44. High-impact companies are those whose operations, products, or services drive high-emission activities, even if their own direct emissions footprint is relatively small. Key examples of such companies include banks, insurance providers, and other financial institutions, which play a significant role in financing and supporting carbon-intensive industries.



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unable to meet the defined expectations (e.g., lacks a credible decarbonization strategy, or is not following one).

To ensure transparency and ongoing engagement on these issues, pensions should:

Update their guidelines to reflect emerging best practices at least biennially and publicly disclose the updates once they are finalized by the pension boards.

Publish their proxy votes for the most recent voting season by October 1 of each year and maintain a historical record that is publicly available.

Amend practices to allow pre-declaration and publishing of rationales for key votes, among other means of amplification.

For more information on these recommendations, please see the [model proxy voting guideline](#).

Recommendation #2: Engage asset managers and proxy policy advisors to align on sustainability

For asset owners, it is critical that the strategies adopted to protect their long-term interests are echoed by their asset managers. Asset managers and other service providers are well-positioned

to conduct complementary engagements at scale and can support risk management efforts through selected proxy voting and investment policies. Conversely, misaligned manager engagement and voting undermine an asset owner’s own efforts. For asset managers and proxy advisors to serve pension funds and other clients’ best interests, they must also adopt “a consistent, transparent, and outcomes-oriented” engagement strategy on the issues highlighted in this report. To advance this alignment and protect long-term portfolio value, pensions should do the following:

Engagements with asset managers and service providers

- Urge asset managers and proxy advisors to amend their benchmark proxy voting strategies to include provisions to mitigate systemic risks, like climate change, and to support measures calling for the adoption of policies, targets or strategies that mitigate negative impacts on climate, nature, biodiversity, human and Indigenous Peoples’ rights, and vulnerable communities.
- Where managers or service providers have specialty or thematic policies, advocate for the incorporation of systemic risk mitigation strategies, including prioritizing real-world decarbonization outcomes. Encourage the

development of these alternative policies where they do not exist.

- Set clear expectations for progress on these matters through regular updates and through the development of internal processes and training to ensure these new policies are consistently applied.

Contracts with external parties

- Require new and current asset managers to have a public plan for achieving net-zero emissions across entire portfolios, including specified near-term steps to reach science-based targets and regularly report on Scope 3 emissions (i.e., financed emissions).
- Require new and current asset managers to have a clear escalation framework for high-risk and high-impact companies. A thorough assessment should include an analysis of proxy voting and engagement records.
- Seek alternative asset managers or proxy advisors if current ones fail to meet risk management principles or fail to provide a decision-useful analysis of relevant risks.

Recommendation #3: Support public policy and legislative reforms to mitigate sustainability risks that impact portfolios

Pension fund staff and trustees, including public financial officers (such as state treasurers, comptrollers, and auditors), should support public policy reforms at the local, state, and federal levels to improve corporate disclosures of and mitigation of climate-, environment-, and human rights-related financial risks to beneficiaries and taxpayer funds.

Recommendation #4: Join asset owner initiatives working to address sustainability risks

In order to maximize their effectiveness and learn best practices from other pensions and large asset owners, the pensions analyzed in this report should join existing networks and investor initiatives (e.g. Ceres Investor Network, IIGCC, Climate Action 100+, ICCR, Net Zero Asset Owners Alliance, Investors and Indigenous Peoples Working Group) that engage on and share best practices among investors on relevant issues for managing and mitigating sustainability risks to investment portfolios.

More information on updates and changes to the methodology and more details on the grading rubrics [can be found here](#).



APPENDIX

Appendix #1: Model proxy voting guidelines

For pensions looking to improve their proxy voting guidelines on the issues highlighted in this report, a model proxy voting guidelines [can be found here](#). that cover the issues assessed in this report. These are not intended to be comprehensive guidelines, as many other issue areas are not addressed here.

Appendix #2: Methodology

The 2025 *Hidden Risk* report carries the same argument as the inaugural 2024 report: proxy voting and stewardship are key to reducing systemic risks, and strong proxy voting guidelines underpin the strongest strategies. This is particularly critical for universal owners invested for the long term, including pension funds. Several updates were made this year to reflect a broader scope of pension systems, as well as additional sectors. Other updates to the proxy voting guidelines reflect feedback from pension staff and updated analysis from key partners.

More information on updates and changes to the methodology and more details on the grading rubrics [can be found here](#).

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