



May 16, 2022

VIA ELECTRONIC FILING

Office of Regulations and Interpretations
Employee Benefits Security Administration (EBSA), Room N – 5655
U.S. Department of Labor
200 Constitution Avenue, NW
Washington, D.C. 20210

Re: RFI on Possible Agency Actions to Protect Life Savings and Pensions from Threats of Climate-Related Financial Risk (Z-RIN 1210-ZA30)

Dear Acting Assistant Secretary Khawar,

The Climate Finance Fund (CFF) is pleased to submit information to EBSA on safeguarding the savings of workers by making it clear that fiduciaries should consider climate change and other ESG factors when they make investment decisions and when they exercise shareholder rights, including voting on shareholder resolutions and board nominations.

CFF is a philanthropic platform that helps mobilize capital for climate solutions, focusing on the world's largest markets of the United States, China, and Europe, as well as capital allocators throughout the supply chain: consumers, small and medium enterprises, large non-financial corporations, banks, and asset managers. Through this work, we have developed a particular expertise in retail investing, paying considerable attention to the rise of passive asset management and its role in U.S. retirement accounts. It is through this lens that we submit our comments.

Retail investors are the backbone of the U.S. financial system. With over 137 million Americans owning stock¹ and U.S. retirement assets totaling \$39.4 trillion,² the everyday saver deserves to be protected from climate-related financial risks, to have agency over not harming their communities through their investments, and the ability to benefit from the dividends and financial appreciation generated from moving to a net zero economy.

¹ O'Leary and Valdmanis. 2020. How the 137 million Americans who own stock can force climate action. Vox. <https://www.vox.com/21509913/climate-change-bp-microsoft-investors-shareholders-accountability>

² Investment Company Institute. 2022. Retirement Assets Total \$39.4 Trillion in Fourth Quarter 2021. https://www.ici.org/statistical-report/ret_21_q4

Currently, most plans under ERISA and FERSA default to a carbon intensive economy and therefore contain significant stranded asset risk. Stranded asset risk can be divided into three components: economic stranding due to a change in relative costs and prices, physical stranding due to climate events such as flood and drought, and regulatory stranding due to a change in policy.³ Imagine a target retirement date of 2050, the deadline that the world's corporate and government policies are working towards reaching net zero greenhouse gas emissions. To achieve this, thorough analysis indicates that there cannot be an expansion of fossil fuel investments.⁴ Yet, by default, billions of ERISA and FERSA savings are backing the expansion of carbon emitting infrastructure.

In addition to measuring and factoring in environmental, social and governance (ESG) metrics, including climate-related risks, retirement plans also need to apply the Know Your Customer (KYC) fiduciary principle more comprehensively. The \$30 trillion wealth transfer to Millennials, a core constituency of ERISA and FERSA, is underway. Millennials are joining with earlier and later generations in mandating not only that ESG be incorporated into investment plans, but also that the plans lead with ESG. In a 2021 survey of U.S. individual investors, Morgan Stanley found that Millennial interest in sustainable investing, especially strategies for racial justice, climate action, and public health, grew by four points to 99%.⁵

Data driven asset owners and managers have long acted on climate related financial risks, providing not only downside protections but also making space for upside returns to investment portfolios. These institutional investors are decarbonizing investment portfolios, such as maintaining fossil fuel free and deforestation free funds; this trend is observed from university endowments, pension funds and other large institutional investors.⁶ Unfortunately, main street has been systemically left out of those ESG and climate-friendly measures in retirement plans, which tend to be low fee, passive equity funds. A recent Morningstar report indicates that less than 1 percent of U.S. passive equity funds consider ESG factors and criteria to align with the Paris Agreement.⁷ And while the majority of investors want to be Paris-aligned,⁸ fewer than 3 percent of defined contribution plans offer a climate-friendly investment option.⁹ The vast majority of the Americans who rely on ERISA plans to save for retirement do not even have the option of investing with companies best oriented toward a climate-safe future.

³ Carbon Tracker. <https://carbontracker.org/terms/stranded-assets/>

⁴ IEA. <https://www.iea.org/reports/net-zero-by-2050>

⁵ Csernyik. 2021. Barron's. Future Returns: Millennials and Sustainable Investing. <https://www.barrons.com/articles/future-returns-millennials-and-sustainable-investing-01637695579>

⁶ Fossil fuel divestment database. <https://divestmentdatabase.org/>

⁷ Bryan et al. 2020. Passive Sustainable Funds: The Global Landscape 2020. Morningstar. <http://jii.pm-research.com/lookup/doi/10.3905/jii.2018.1.063>

⁸ Shultz. 2021. Barron's. Future Returns: Wealthy See a Role in Investing to Tackle Climate Change. www.barrons.com/articles/future-returns-wealthy-see-a-role-in-investing-to-tackle-climate-change-01632255522

⁹ National Association of Plan Advisors. 2021. <https://www.napa-net.org/news-info/daily-news/could-esg-options-boost-401k-participation>

In part due to the lack of systemic support to address the ESG and climate-related soundness of retail retirement portfolios, ESG and climate focused asset managers, robo-advisors, and products have been created. Sphere (SPFFX) created a climate-friendly index and mutual fund that consistently tracks and outperforms the SPDR S&P 500 ETF.¹⁰ Asset manager Carbon Collective has created a Climate Index, thereby supporting the capital formation of climate solutions companies and enabling individuals to benefit from future appreciation and dividends.¹¹ OpenInvest (now acquired by J.P. Morgan) offers data and metrics for ESG investing, including LGBTQIA+ rights, racial justice, and disability inclusion. ETFs such as Adasina Social Justice (JSTC) integrate climate and other ESG factors. Etho Capital's research has shown that more climate leading companies consistently outperformed their less efficient counterparts over the preceding decade.¹²

The following is 10-point, non-exhaustive list of actions that can be taken under ERISA and FERSA to protect the life savings and pensions of U.S. workers and families 1) from the threats of climate-related financial risk and 2) so they can benefit from the opportunities of the green transition.

1. Clearly state that past track records are not required for funds to be included under retirement plans, as this often penalizes new funds that are disproportionately more likely to be led by women and/or people of color, as well as incorporate ESG/climate impacts. For example, in 2021, 121 new sustainable funds launched, compared to just 71 the previous year.¹³¹⁴
2. Require fiduciaries to consider investment fund impacts on racial, gender, and economic inequality, as these inequalities starve the U.S. economy from growth, including a consumer base that forms the foundation for dividend-awarding value companies.¹⁵
3. Encourage forward-looking metrics to be used in plans under ERISA and FERSA. By its very nature, retirement is a future event that should therefore not be beholden to past performance. A Target Date 2050 retirement fund would therefore be encouraged to stress test the fund against climate scenarios.
4. Make ESG funds, including ones that use negative screens, eligible to serve as the default investment (the Qualified Default Investment Alternative, or QDIA).
5. Implement a suite of climate-friendly investment options to allow federal pension holders to opt into an investment that is completely divested from fossil fuels and deforestation.

¹⁰ Sphere. <https://www.oursphere.org>

¹¹ The Climate Index. <https://www.carboncollective.co/climate-index>

¹² Climate Leadership Process. Etho Capital. <https://ethocapital.com/go-in-depth>

¹³ Gresham. 2022. Record-breaking year for sustainable funds: Morningstar. <https://www.benefitspro.com/2022/02/04/record-breaking-year-for-sustainable-funds-morningstar/?slreturn=20220416112419>

¹⁴ Due Diligence 2.0 Commitment. <https://www.duediligencecommitment.com/>

¹⁵ World Economic Forum. 2021. Racial and ethnic inequality has cost US economy \$51 trillion since 1990. <https://www.weforum.org/agenda/2021/09/racial-and-ethnic-inequality-has-cost-us-economy-51-trillion-since-1990/>

6. Create a fair and equitable process to diversify management of the Thrift Savings Plan (TSP), including providing opportunities for women and minority-owned and led asset management funds to manage assets. Consider learning from other federal diversity, equity, and inclusion procurement processes.
7. Require fiduciaries to produce proxy voting policies and procedures that recognize ESG and climate related risks, opportunities, and impacts.
8. Provide a standardized format for fiduciaries to disclose to the DOL, plan participants, and beneficiaries how they integrate ESG factors, including climate related impacts, into their investment practices.
9. Direct the Federal Retirement Thrift Investment Board (FRTIB) to conduct an audit of the TSP's exposure to climate-related financial risk and collect data from asset managers, including financed emissions and climate-related risk management strategy and metrics for various funds.
10. Direct ERISA plans to measure, report and manage financed emissions using the Partnership for Carbon Accounting Financials (PCAF) accounting methodology¹⁶ and use Form 5500 Annual Return/Report ("Form 5500") or a new systemic risk reporting form to collect this data for large pension plans. PCAF is a comprehensive, methodologically rigorous, and widely used solution that would involve a minimal administrative burden to implement.

Yours truly,



Marilyn Waite

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¹⁶ PCAF, <https://carbonaccountingfinancials.com/>