Tobias Read
Oregon State Treasurer

OREGON STATE TREASURY

Treasurer Read's Core Decarbonization Framework:

Climate change is real. Human actions are driving current warming trends and climate disruption. Climate change poses significant risks and opportunities for Oregon's investments, the markets, and the global economy. The physical impacts of climate change will impact investments in the long term, as well as in the near and medium terms.

Government action at all levels—including statutory, regulatory and policy decisions—is essential to avoid the worst impacts of climate change, including those on frontline communities and workers. According to the latest science-based assessment from the International Panel on Climate Change (IPCC), we need to keep the average temperature increase to 1.5 degrees Celsius, and to achieve that, we need to achieve net zero emissions by 2050.

Oregon has been a leading state in combatting climate change. It adopted one of the nation's first greenhouse gas reduction (GHG) goals in 2007, seeking to reduce GHG emissions by 75% from a 1990 baseline by 2050. Recent executive actions by Governor Brown have increased those goals. Oregon has recently adopted measures to require 100% non-fossil fuel emitting electricity by 2040, electrify the transportation sector by setting ambitious goals for electric vehicle adoption and carbon content fuel reduction goals, and reduce onsite energy usage in new buildings. Recently, Oregon's Department of Environmental Quality completed rules requiring natural gas suppliers to reduce their GHG emissions by 90% by 2050.

Government actions to comply with the latest scientific assessments as well as international agreements will increase, with more entities taking action to adapt to climate change, most of which will impact a broad range of companies and industries. These actions will also bring about new investment opportunities in a decarbonizing economy.

Not all companies or industries facing climate risk represent the same investment risks or opportunities. Furthermore, some companies that face elevated climate risk and economic uncertainty also provide the greatest investment opportunity.

Therefore, consistent and thorough engagement is a key component of any effort to assess, measure, and address identified risks and opportunities. Engagement must include actions taken directly by Treasury staff, but also through efforts taken alongside other institutional investors. This also includes using our proxy voting authority to encourage and support efforts by portfolio companies regarding risk management, strategic planning, and enhanced reporting requirements—all of which are integral to long-term value creation for shareholders.

Immediate and broad sector-based divestment by OST is likely inconsistent with its fiduciary duty and can undermine productive engagement efforts to encourage better long term decision-making by companies. Instead, "divestment" should be used as a risk-reduction measure aimed at specific investments where there is a sustained, acute, and measurable financial risk and where an economic analysis demonstrates divesting would not negatively and materially impact OST-managed funds, and would be consistent with OST's fiduciary responsibilities.

Continuing to address investment-related climate risk and maximizing climate investment opportunities through targeted investment decision-making, proactive engagement, and supporting policy advocacy is consistent with the Treasury's fiduciary duty. Treasury must expand our efforts in these endeavors.

More importantly, decarbonizing OST's portfolio, consistent with our fiduciary duty, is an opportunity to responsibly respond to emerging climate-related risks and opportunities. Decarbonizing our portfolio can be done in a manner that aligns our portfolios with the broader statutory, regulatory, and policy decisions represented in state, regional, and federal policies, and reflected specifically in international agreements like the Paris Agreement. Specifically, OST and the Oregon Investment Council should consider pursuing strategies that begin to decarbonize our investments with a goal of achieving net-zero carbon emissions by 2050.

A STRATEGY TO ACHIEVE NET ZERO EMISSIONS IN OPERF BY NO LATER THAN 2050

<u>The Goal:</u> For Oregon Public Employee Retirement Fund investments to achieve net zero greenhouse gas emissions by no later than 2050, including an interim goal of a 50% decarbonization by 2035.

<u>A Plan:</u> Commitment by Treasurer Read to develop and present a proposal to the Oregon Investment Council to transition OPERF to 50% decarbonization across the total portfolio by 2035, and net zero total portfolio level GHG emissions by no later than 2050, consistent with OST's and OIC's fiduciary duties. OST will engage with representatives of beneficiary groups in developing the plan. The plan will be presented to the OIC no later than February 1, 2024.

This plan will include:

- <u>Interim targets:</u> the establishment of interim targets to measure and demonstrate progress toward the 2035 and 2050 targets. It will also include an assessment of the feasibility of reaching net-zero by 2040, and any additional impacts on returns, costs, and fiduciary challenges.

- Enhanced engagements: Strategies for increased engagement with investment partners to achieve net zero emissions, and continued collaboration with other similarly aligned institutional investors, investor coalitions, and advocacy organizations.

- Timeline: A timeline to review certain carbon intensive investments by June 1, 2025.

  - Prioritization: That timeline will prioritize a review of OST investments in tar sands, thermal coal, and natural gas derived from fracking, which will be completed by February 1, 2025.

  - Review of carbon intensive investments: The review will use industry best practices to (1) assess the transition readiness and the risk of continued investment for all carbon intensive investments, (2) establish minimum standards for companies and funds to demonstrate transition readiness and risk mitigation. 3) recommendations for appropriate next steps consistent with the fund's investment styles, including integrating the review of the transition readiness of certain carbon intensive industries into investment manager selection.

- Ongoing monitoring: The plan should include recommendations regarding the need for on-going and consistent monitoring of carbon intensive investments.

- Increased OST capacity: Identification of additional OST staff and resources necessary to ensure ongoing tracking and measurement of progress towards the 2035 and 2050 targets.

- Beneficiary Engagement: The plan shall include a recommendation for beneficiary engagement around implementation and monitoring of progress towards net-zero goals.

- Governance:

  - Identification of any statutory provisions to which OST's and OIC's investment activities are subject.

  - Identification of appropriate OIC investment policies that would need to be developed if the OIC were to adopt the plan to align OPERF with decarbonization targets.

- Reporting and Accountability: The plan shall include a commitment to appropriate reporting mechanisms and timelines. It is anticipated that reporting will include biennial reports to the legislature.