

North Carolina Treasurer  
Richard Moore



Legislative Commission on  
Global Climate Change  
December 11, 2006

# Responsibilities of Department of State Treasurer

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- Serve as state's chief banker and investment officer
- Serve as fiduciary for almost \$75 billion in public monies and state investments
- Oversee pension fund for 700,000 public sector employees and retirees
- Assist local governments in debt management and maintenance of strong financial health
- Administer unclaimed property program

# Summary of Pension Fund

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- 9<sup>th</sup> largest *public* pension plan in United States
- 1 in 8 working North Carolinians is a member of the retirement system
- Ranked as #1 pension fund in nation (*Governing* magazine)
- Ranked as second strongest pension fund in nation (Wall Street Journal)
- Includes over \$70 billion in assets for more than 700,000 active and retired members
- Includes 7 pension systems:
  - Teachers and State Employees
  - Local Governmental Employees
  - Firemen and Rescue Squad Workers
  - Registers of Deeds
  - Legislative
  - Consolidated Judicial
  - National Guard

# Basic Assets Overview

Pension Assets Under Management: \$70 billion

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- Public Equities (Stocks) 58%
- Fixed Income (Bonds) 35%
- Real Estate and Alternatives <5%

# Origins of Corporate Governance movement

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- Enron, WorldCom
- Auditor independence
- Excessive executive compensation
- Director independence
- Split Chairman/CEO position
- Proxy access
- Better corporate governance results in better value for shareholders

# Investment Protection Principles

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Effective July 1, 2002, every money management firm retained by a State Investment Officer, as a condition of future retention, must abide by a set of rules requiring:

- Disclosure of client relationships,
- Disclosure of analyst and manager compensation methods,
- Disclosure of commissions paid to broker-dealers,
- Safeguards to ensure that client relationships of affiliate companies do not influence a manager's investment decisions, and
- Consideration of financial statements, auditor independence and corporate governance standards

# Mutual Fund Protection Principles

January 15, 2004

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The MFPP provide protection for shareholders in four areas:

## **Shareholder Returns**

Billing

Fees

## **Board Reform**

Independence

Meetings & Resources

## **Manager Reform**

Compensation

Ownership

Sale of Funds

## **Fund Disclosure**

Holdings

Trading Costs

Soft Dollars

Professional Staff

# Institutional Investor Summit at the United Nations

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- Original convener of the Summit.
- The Summit was convened for stakeholders to share information regarding the significant financial risks posed by climate change.

- FIRST SUMMIT

- November 21, 2003
- 200 participants
- Over \$1 trillion in assets

- SECOND SUMMIT

- May 10, 2005
- 400 participants
- Over \$5 trillion in assets

# Ceres

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- Investors, environmental groups and other public interest groups that have come together to work with companies on sustainability issues.
- Issues could cover wide range, like diminishing water supply or biodiversity, but the major focus now is easily global climate change.
- Which is why, during first UN Summit, INCR was formed.

# Investor Network on Climate Risk

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- INCR was formed at the first UN Summit in 2003
- Originally had 10 investors with \$600 billion in assets
- Today has over 50 investors with \$3.7 trillion in assets
- Financial risks and investment opportunities from climate change

# What can we accomplish through Corporate Governance?

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- Evaluation and disclosure of climate risks
- Disclosure of energy efficiency measures
- Companies set GHG emissions targets
- Companies reduce GHG emissions
- Strategies to capture opportunities in low-carbon world
- Strategies to capture opportunities in renewables market
- Disclosure of contributions relative to science of climate change
- Disclosure of impact of climate policy uncertainty

# What tools are available?

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- Letters to companies
- Meetings with boards of directors
- Shareholder resolutions
- Drafting disclosure templates
- Media pressure
- Nominating Directors
- Withholding Director votes

# Projects through INCR

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- Working on specific sectors
- Oil & Gas – e.g. ExxonMobil
  - Physical, regulatory and business risks
  - Disclosure of greenhouse gas emissions
  - Disclosure of potential costs from new regulations on emissions, less cheap energy
  - Opportunities from development of new energy technologies, renewable sources
  - Stop funding bad science on climate change

# Insurance Companies

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- NC is also part of insurance working group
- Different risks
  - Physical
  - Regulatory
- Best position to identify and evaluate risks, apply across board, public policy debate
- Following up with those who didn't respond to letter
- National Association of Insurance Commissioners (NAIC) Task Force

# Success Story

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- NC was part of a group of investors that sent letters to the top 30 insurance companies seeking information on climate risk policies.
- AIG is a large insurance company that received the letter.
- In May, 2006, AIG became the first U.S. insurance company to adopt a climate change policy.
- AIG Global Investment Group joined INCR in October, 2006.

# Carbon Disclosure Project

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- International coalition
- Coalition has written 4 letters already, working on next
- Going to over 3000 companies seeking carbon disclosure data
- Members follow-up with companies

# Proxy Voting Guidelines

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- Big part of corporate governance is voting proxies
- Can cast votes for resolutions related to climate change
- There are third party services that help to vote the proxies, but that also provide recommendations to large institutional investors
- Working with them to set guidelines relating to climate change disclosures

# Most Recent Activities

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- Filed shareholder resolution with ConocoPhillips: Seeks a report on company's efforts regarding renewable energy sources. (Nov. 28, 2006)
- Working to attract new partners: Staff spoke about NC activities at Chicago conference to audience including representatives from other state, city and union pension funds. (Dec. 7, 2006)