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Council Members Helen Rosenthal & Costa Constantinides
Congratulate Mayor Bill de Blasio on his Divestment Plan

Today Contracts Chair Helen Rosenthal and Environment Chair Costa Constantinides released the following statements regarding the Mayor's endorsement of divesting from fossil fuels:

"Fossil fuels are a finite resource that we need to keep in the ground, and the clock is ticking for us to find a less risky, more sustainable financial investment for our City's pension funds. For over a year I have called on NYC's five pension boards to develop a road map to phase-out of fossil fuel investments, and I'm proud that today Mayor Bill de Blasio endorsed divestment from coal and a study of divestment from all fossil fuels. The Mayor's proposals are a powerful step forward for the financial security of our pension funds and environmental security of all New Yorkers," said Council Member Helen Rosenthal, Chair of the Council Contracts Committee.

Council Member Costa Constantinides, Chair of the Council Environmental Protection Committee, said, "Mayor de Blasio's plan to divest our city's pension portfolios from coal will bring us closer to our goal of reducing our city's carbon emissions by 80% by 2050. As Council Member Helen Rosenthal and I stated in our recent letter to the trustees of our city pension boards, we must consider whether we would be in better economic and environmental health if we divest from all fossil fuels. That's why we are proud of Mayor de Blasio's plan to consider climate change as part of our long-term investment strategy. I look forward to working with him and Comptroller Stringer on this plan and on other ways we can line up our investments with our environmental values."
The Council Members’ statements are part of a broader movement towards divestment worldwide. In the New York State legislature, State Senator Liz Krueger and Assembly Assistant Speaker Felix W. Ortiz are leading the cause through their Fossil Fuel Divestment Act (S.5873/A.8011), which would require the NYS Comptroller to divest from fossil fuels over a five-year timeline. Senator Krueger has spoken persuasively about divesting from fossil fuels previously.

Below is the letter that the two Council Members sent to the pension fund trustees last week. The Council Members look forward to continuing to fight for a secure financial future for all NYC pensioners.
September 21, 2015

Dear New York City Pension Board Trustees:

We are writing to open a discussion about the financial performance -- and associated risks -- of the fossil fuel investments in our City’s pension funds.
Our interest is prompted by a two year-long decline in energy-related commodity prices -- highlighted by a 58% drop in the price of West Texas Intermediate crude oil since September 2013 -- and an associated drop in the stock and bond prices of many fossil fuel-focused companies.

An accelerating fall in energy stocks over the past 2 months – nearly 15% as measured by energy stock indices -- adds a sense of timeliness and urgency to the discussion we seek.

In the past, long-term investors could count on cycles of low and high prices and low energy prices rebounding over time. However, fossil fuel investments are now increasingly at risk from a variety of factors, such as government regulation of greenhouse gas emissions, energy conservation and efficiency, and the increasing competitiveness of renewable energy. For example, the current devaluation of coal companies, several of which have already declared bankruptcy, is widely recognized to be caused, at least in part, by new regulations concerning carbon emissions.

Reinforcing our interest are recently published analyses that suggest investment strategies de-emphasizing fossil fuels may deliver superior returns, while avoiding the degree of volatility and risk associated with investments in this sector. For example, a study recently released by MSCI – the world’s leading provider of stock market indices, used by more than 6,000 pension funds and hedge funds globally – found that investors who divested from fossil fuel companies would have earned an average return of 13% a year since 2010, compared to the 11.8% return earned by conventional investors.

With this market-derived data as a backdrop, we believe a thoughtful discussion around the City’s fossil fuel-based investments would center on the following questions:

1. What has been the performance of the City’s pension fund fossil fuel investments since January 2014 - and how would this performance have been affected had the City’s pension investments been either fossil fuel free or meaningfully scaled back?

2. How has the inclusion of fossil fuel investments affected the volatility and risk-adjusted returns of the City’s pension funds – and have the performance of these investments justified the increased risks and volatility associated with them?

3. How are current investment strategies taking into account the various factors contributing to the long-term devaluation of fossil fuel companies?

4. What potential modifications – including but not limited to phased divestment - could be made to the pension funds’ fossil fuel investments which might increase both absolute and risk-adjusted returns (while correspondingly reducing risk and volatility)?
5. With the aim of continuing to capture the returns and diversification associated with the energy sector, how might a diversification of energy investments into the renewable sector impact returns and risks?

The importance of opening a vigorous and data-driven discussion around these questions is linked, in part, to the growing share of the City budget devoted to pension fund payments – an outlay rising from under 2% in 2000 to over 12% in 2015. These percentages are projected to grow meaningfully in the coming years. In a sense, every budget dollar the City would have to allocate to pension fund contributions as a result of sub-par investment results deprives the public of a dollar which could otherwise be allocated to education, public safety and property-tax relief, among other pressing priorities.

We also believe in the importance of closely aligning the risk tolerance of the City’s pension investments with the reasonably understood risk tolerance of its pension beneficiaries. We understand the vast majority of these beneficiaries to be middle-income New Yorkers, living on a budget, who do or will depend on retirement benefits to maintain their standard of living. Thus, their tolerance for investment risk is likely to be moderate – and therefore the suitability of volatile, fossil fuel based investments as a part of retirement funds managed on their behalf understandably becomes a topic for public discussion.

The Comptroller is currently engaged in vigorous shareholder activism and boardroom accountability projects – presumably with the goal of influencing corporate behavior. The objectives of the study and discussion we propose are both different and additive – as they look, by reducing or eliminating direct fossil-fuel investments, to protect and potentially enhance financial returns; reduce volatility and risk; and better align the investments and risk profile of the City’s pension funds with the investment objectives and risk tolerance of pension beneficiaries and taxpayers.

We look forward to beginning this dialogue with you, and to ultimately come up with a road map to accomplish the objectives we’ve described.

Regards,

Helen Rosenthal
Council Member Helen Rosenthal
Chair, Committee on Contracts

Costa Constantinides
Council Member Costa Constantinides
Chair, Committee on Environmental Protection