

Resolution No.:	<u>18-804</u>
Introduced:	<u>May 2, 2017</u>
Adopted:	<u>May 16, 2017</u>

**COUNTY COUNCIL
FOR MONTGOMERY COUNTY, MARYLAND**

Lead Sponsor: Council President Berliner
Co-Sponsors: Council Vice President Hans Riemer, Councilmember Tom Hucker

SUBJECT: Environmental, Social, and Governance Investment Policy Guidelines and Fossil Fuel Company Investments of the Employees' Retirement System and the Consolidated Retiree Health Benefits Trust

Background

1. In 2016, President Obama noted that "Climate Change is a potential existential threat to the entire world if we don't do something about it." The substantial global risks of climate change are without question and are an immediate and increasing threat to our own generation and those that follow.
2. Climate change is a global issue, but with profoundly local aspects as well. Known environmental impacts of climate change include the loss of ice at the poles, rising seas and increased coastal flooding, longer and more damaging wildfires, more destructive hurricanes, more frequent and intense heat waves, and increased droughts. Health impacts of climate change include increased air pollution, a longer and more intense allergy season, the spread of insect-borne diseases, the disruption of our food supply, and more frequent and dangerous medical issues due to heat waves. These will have a profound impact upon the quality of life for current and future Montgomery County residents. Other impacts include the continued acidification of the oceans, destruction of coral reefs, the loss of marine life and shrinking habitats.
3. The extraction, transport and burning of fossil fuels results in the release of greenhouse gases, such as carbon dioxide and methane, which directly contribute to climate change. The 2015 Paris Agreement on goals for reducing emissions is a major step forward, and market forces are moving strongly in the direction of clean energy. However, the challenge remains grave, especially given the gross disregard for the threat of climate change displayed by President Trump and members of his administration. It is more important than ever that local governments confront climate change and the companies that contribute to it. Montgomery County is a national leader among local governments in addressing climate change by taking direct action locally to support clean energy, energy efficiency, and sustainability.

4. Retirement funds and other institutional investors have focused increasing attention on environmental, social, and governance (ESG) factors in the selection of professional investment managers and in the process followed by those managers when selecting companies for investment. Investments in the securities of fossil fuel companies must draw particular scrutiny. The burning of fossil fuels results in the release of greenhouse gases, such as carbon dioxide and methane, which directly contribute to climate change. Many fossil fuel companies have refused to acknowledge climate science, have rejected business plans that accurately account for the carbon emissions created by their identified reserves, and have lobbied against urgently needed climate policies. For these reasons, a growing global movement believes that it is morally reprehensible to invest in and seek to profit from the catastrophe-inducing actions of these companies. Since 2012, investments worldwide with a total value of over \$5 trillion have been fully or partially divested of fossil fuel holdings. Minimizing the amount of County public employee pension funds invested in these companies will tell the world that we can no longer support policies and business practices that endanger our climate and our health.
5. The Employees' Retirement System (ERS), the defined benefit pension plan that includes employees of Montgomery County Government, participating agencies, and their beneficiaries, is overseen by the Board of Investment Trustees. The Consolidated Retiree Health Benefits Trust (CRHBT), the trust that includes employees of Montgomery County Government, Montgomery County Public Schools, Montgomery College, participating agencies, and their dependents, is overseen by the CRHBT Board of Trustees. The ERS currently has assets of about \$3.8 billion. The CRHBT currently has assets of about \$700 million.
6. Both Boards have adopted ESG guidelines for a socially responsible investment policy that applies ESG factors to the selection of investment managers and the managers' selection of securities. As the managers work to achieve the best risk-adjusted return in accordance with their fiduciary duty, they apply ESG screens to help determine which investment options to include or exclude from consideration.
7. There are several examples of public pension funds that have reduced or eliminated fossil fuel holdings using ESG factors. Notably, The District of Columbia Retirement Board has sold all of its directly held Carbon Underground 200 stocks via ESG screening as of June 9, 2016, in response to a DC Council resolution passed in 2014. The states of Maine and Vermont have also made considerable progress in reducing the fossil fuel holdings of their public employee pension funds using ESG policies.
8. Gino Renne, President of UFCW Local 1994, in an April 16 letter to Council President Berliner, expressed support for using ESG factors to reduce fossil fuel holdings in the ERS, noting that "Employee unions across the country have played a critical role in taking action to fight climate change by leveraging employee funds to make investment decisions that take the impact on our climate into consideration." And the Board of Investment Trustees noted in its April 10 statement on the issue that it will "focus particular attention on decisions by our managers to retain or invest in securities of fossil fuel companies."

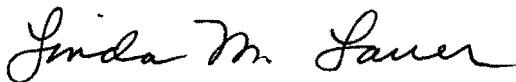
Action

The County Council for Montgomery County, Maryland approves the following resolution:

The Council requests the Board of Investment Trustees of the Employees' Retirement System and the Board of Trustees of the Consolidated Retiree Health Benefits Trust to:

1. consistent with their fiduciary duties, explore all means possible to:
 - a. minimize the Board's investments in companies with the largest fossil fuel reserves as rapidly as possible; and
 - b. apply environmentally and economically-sound decision-making, both generally and specific to climate change, using ESG policy guidelines; and
2. report within 6 months after adoption of this Resolution and annually thereafter to the Council and the Executive on implementation of these actions, detailing the research conducted on top fossil fuel holding companies and detailing the extent of divestment or the rationale for not pursuing divestment from individual holdings.

This is a correct copy of Council action.

A handwritten signature in black ink, reading "Linda M. Lauer". The signature is written in a cursive, flowing style.

Linda M. Lauer, Clerk of the Council