



## Alphabet Inc (GOOG)

### Vote Yes: Item 7 – Report on Assessing Systemic Climate Risk from Retirement Plan Options

Annual Meeting: June 7, 2024

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#### THE RESOLUTION

**Resolved:** Shareholders request Alphabet publish a report disclosing how the Company is protecting plan beneficiaries — especially those with a longer investment time horizon — from increased future portfolio risk created by present-day investments in high-carbon companies.

#### SUMMARY

The economic consequences of climate change, both those already occurring and those that have yet to take place, threaten the savings of retirement plan beneficiaries, particularly those with retirement dates more than a decade out. Google LLC 401(k) Savings Plan (the Plan) investments both create and are subject to growing systemic climate risks, including: physical infrastructure impacts; supply chain disruptions; reduced resource availability; financial losses associated with stranded assets; and inaccurate valuations, among others. The wide-ranging impacts of climate harms will have portfolio-wide consequences to employees saving for retirement.

As both private actors and governments scale efforts to respond to and mitigate climate change, shifting regulatory and business environments will increase transition costs for companies that are caught flat-footed, exacerbating the financial risks to plan beneficiaries whose assets have not been responsibly managed. Because the physical, financial, and transition risks associated with a warming climate are expected to increase over time, younger plan beneficiaries with longer investment time horizons can be expected to face higher climate-related risks to their portfolios than beneficiaries closer to retirement.

This Proposal requests that Alphabet assess and report on how it is protecting Plan beneficiaries who have a longer investment time horizon from climate risk in the Company's default retirement options. At Google, the majority of workers' deferred wages are invested through the Plan's "default" option, a series of target-date funds that are heavily exposed to high-carbon and deforestation-intensive industries. The Company's failure to adequately manage climate risk in the Plan, therefore, has the potential to harm beneficiaries, especially younger beneficiaries. This, in turn, may make it more difficult for Alphabet to attract and retain top talent, while also undermining the reputational benefits associated with the Company's efforts to address its operational and supply-chain climate impacts.

Simply put, climate change threatens workers' life savings. The responsible stewardship of employee retirement plans demands active consideration and management of the Plan's contribution to systemic climate risk over different time horizons, as required by beneficiaries' best interests. Under federal law, the Board is charged with monitoring Plan fiduciaries "to ensure that their performance has been in compliance with . . . the needs of the plan."<sup>1</sup> Failure to account for the Plan's long-term contribution to systemic climate risk through plan

<sup>1</sup> <https://www.law.cornell.edu/cfr/text/29/2509.75-8>



investments exacerbate the risks faced by tomorrow's retirees, as those investments lock in climate change's growing impacts. Alphabet must demonstrate that it is actively safeguarding employee financial security over time by mitigating climate change-related financial and economic risk as part of a prudently constructed lineup of funds.

## RATIONALE FOR A YES VOTE

1. **Alphabet's 401(k) Plan's investments in high-carbon industries create climate risk, which threatens workers' life savings, particularly those with retirement dates more than a decade out.**
2. **The climate risk generated by Alphabet's retirement plan investments create reputational risk by undermining the Company's credibility on climate issues and may make it difficult to attract and retain top talent.**
3. **Alphabet's failure to clearly address the contribution to systemic climate risk from its retirement plans may violate its fiduciary obligation to manage those plans in the best interests of its beneficiaries.**

## DISCUSSION

According to recent analysis by *As You Sow*, the Google LLC 401(k) Savings Plan invests as much as \$2 billion in high-carbon industries.<sup>2</sup> This constitutes over 8% of total assets in Plan fund options (excluding assets invested in the employee stock option plan and the self-directed brokerage window). The Plan, in the aggregate, also invests more than \$140 million in deforestation-risk agricultural commodities.<sup>3</sup>

1. **Alphabet's 401(k) Plan's investments in high-carbon industries create climate risk, which threatens workers' life savings, particularly those with retirement dates more than a decade out.**

Approximately two-thirds of the Plan's assets are held in the Company's default option, the Vanguard Target Retirement Fund series.<sup>4</sup> Target Date Funds (TDFs) are an attractive option for Plan administrators because they shift responsibility for reallocating the portfolio over time to the Target Date fund manager. However, according to a recent report, **TDFs have a 16% higher weighted average carbon intensity compared to all sampled retirement plans.**<sup>5</sup> True to form, the Vanguard Target Retirement Funds invest significantly in carbon polluters.<sup>6</sup>

Such investments introduce climate risk into the Plan's portfolio in mutually reinforcing ways. As the nonpartisan Government Accountability Office (GAO) explains, "Retirement plan investments are subject to both physical and transition risks from climate change."<sup>7</sup> The physical risks that climate change poses to both Alphabet and the global economy are well established, with climate-related damages **already costing the global economy an estimated \$16 million per hour.**<sup>8</sup> Physical risks include losses from the increased occurrence of

<sup>2</sup> <https://investyourvalues.org/retirement-plans/google>

<sup>3</sup> <https://investyourvalues.org/retirement-plans/google>

<sup>4</sup> <https://investyourvalues.org/retirement-plans/google>

<sup>5</sup> <https://iyv-charts.s3.us-west-2.amazonaws.com/files/U.S.+Retirement+Carbon+Footprint+Report.pdf>

<sup>6</sup> <https://fossilfreefunds.org/fund/vanguard-target-retirement-2050-fund/VFIFX/fossil-fuel-investments/FSUSA072BK/FOUSA05HZH>

<sup>7</sup> <https://www.gao.gov/assets/gao-21-327.pdf>

<sup>8</sup> <https://www.weforum.org/agenda/2023/10/climate-loss-and-damage-cost-16-million-per-hour/>



catastrophic storms, floods, droughts, and wildfires, whether from direct impacts on physical infrastructure or from disruptions to supply chains and losses from the deleterious effect of intensifying climate impacts on a company's operations over time. Transition risk, meanwhile, includes costs associated with a company's failure to appropriately anticipate and plan for the "... policy, legal, technology, and market changes needed to transition to a lower-carbon economy."<sup>9</sup>

The present and future impacts of climate change can endanger the full range of beneficiaries' retirement savings. A 2021 Swiss Re report calculated that climate change would result in an **11% to 14% decline in global GDP by 2050**, with the impact rising to an **18% decline** in the absence of action or falling to 4% with aggressive mitigation.<sup>10</sup> In short, climate change could result in a reduction of the world economy by \$23 trillion by the year 2050.<sup>11</sup> While many retirement plan fiduciaries rely on studies from investment consultants that minimize the expected costs of climate change, a recent study found that the economic studies behind many of the models used by those consultants are at odds with the scientific literature identifying the impacts of inadequately mitigated climate change.<sup>12</sup>

In addition, high-carbon investments can be a risk in the short term. The GAO notes that investments in oil, coal, and gas could experience a **decrease in annual returns of 9% through 2050**, while annual returns in electric utilities could decline by about 3% over the same timetable.<sup>13</sup> In fact, investing in renewable power stocks has beat a high-carbon strategy by more than **threefold** in the last decade.<sup>14</sup>

The Plan's investments also create climate risk in a more insidious form—investments in high-carbon companies *contribute to and lock in future climate change*. High-carbon investments are thus likely to disproportionately impact younger employees who will not access retirement funds for decades since tax-deferred retirement vehicles like 401(k)s carry tax penalties to discourage participants from withdrawing funds prior to retirement. Thus, a 30-year-old worker contributing to their employer-offered defined-contribution plan can usually expect to have their funds invested for at least 30 years. As high-carbon investments increase systemic climate risk over time, retirement portfolios face the likelihood of diminishing returns, harming younger workers proportionally more than workers who will access retirement savings in the shorter term. It is unsurprising, therefore, that those with the most at stake—plan beneficiaries—overwhelmingly favor responsible management of climate risk in their retirement portfolios.<sup>15</sup>

Plan fiduciaries have an opportunity now to address the requests of this proposal and better protect plan beneficiaries' life savings from growing climate risks, particularly those beneficiaries with longer investment time horizons.

## **2. The climate risk generated by Alphabet's retirement plan investments create reputational risk by undermining the Company's credibility on climate issues and may make it difficult to attract and retain top talent.**

<sup>9</sup> <https://www.gao.gov/assets/gao-21-327.pdf>

<sup>10</sup> <https://www.swissre.com/media/press-release/nr-20210422-economics-of-climate-change-risks.html>

<sup>11</sup> <https://www.nytimes.com/2021/04/22/climate/climate-change-economy.html>

<sup>12</sup> <https://carbontracker.org/reports/loading-the-dice-against-pensions/>

<sup>13</sup> <https://www.gao.gov/assets/gao-21-327.pdf>

<sup>14</sup> <https://www.bloomberg.com/news/articles/2021-03-18/renewable-returns-tripled-versus-fossil-fuels-in-last-decade#xj4y7vzkg>

<sup>15</sup> See <https://www.schroders.com/en-us/us/institutional/clients/defined-contribution/schroders-us-retirement-survey/sustainability/>



Alphabet has taken actions to address climate change by committing to reaching net-zero greenhouse gas (GHG) emissions across its value chain by fiscal year 2040.<sup>16</sup> Not only do the Plan's carbon-intensive investments directly undermine this commitment, but they also risk the Company's climate reputation.

In a competitive employee retention and recruitment landscape, companies are identifying new ways to engage and retain top talent by appealing to the values and interest of the workforce. A recent Gallup poll found that, "70 percent of U.S. workers said that a firm's environmental record is important to them and is a consideration when deciding whether to take a job with a company."<sup>17</sup> For companies attempting to retain top talent, 40% of respondents in a 2022 Schroders study said that when an ESG investment option is added to a defined-contribution plan it improves how they view their employer.<sup>18</sup> The study also found that nearly three-in-four plan participants (74%) said they would or might increase their overall contribution rate if offered ESG options. An overwhelming majority of consumers, too, expect corporations to address their impact on the climate. Younger consumers, especially, are prepared to enforce that expectation with their purchasing power.<sup>19</sup>

Alphabet must begin addressing its 401(k) Plan's continued contributions to climate change or risk negative effects to its reputation, its Plan returns, its employees' futures, employee recruitment and retention, and consumer retention.

### **3. Alphabet's failure to clearly address the contribution to systemic climate risk from its retirement plans may violate its fiduciary obligation to manage those plans in the best interests of its beneficiaries.**

The Company's failure to properly manage climate risk by mitigating investments in high-carbon industries could constitute a failure to manage its Plan in the best interest of the Plan's beneficiaries. Carbon-intensive investments, especially, create risk and may sacrifice value. As New York Comptroller Thomas DiNapoli explained when announcing the state's plan to enforce a carbon-neutrality mandate, "...investing for the low-carbon future is essential to protect the fund's long-term value."<sup>20</sup>

Fiduciary responsibility extends to considerations of climate risk. According to a report from the U.S. Commodity Futures Trading Commission, an independent federal agency, in September 2020: "Fiduciary duty requires the assessment of material risks and the management of these risks on behalf of stakeholders in keeping with their stated long-term goals, *and climate risk is increasingly being recognized as one such risk*" (emphasis added).<sup>21</sup> Alphabet's own operational climate goals make it clear that it considers climate risk to be material, and the law requires consideration of material risk.

Recent changes to federal law support addressing material climate risk in retirement plans. The Department of Labor recently finalized regulations under the Employee Retirement Income Security Act, which "empower plan fiduciaries to safeguard the savings of America's workers by clarifying that fiduciaries may consider climate

<sup>16</sup> <https://sustainability.google/operating-sustainably/>

<sup>17</sup> <https://www.shrm.org/resourcesandtools/hr-topics/talent-acquisition/pages/climate-change-branding-can-lift-recruitment-and-retention.aspx>

<sup>18</sup> <https://www.schroders.com/en-us/us/institutional/clients/defined-contribution/schroders-us-retirement-survey/sustainability/>

<sup>19</sup> <https://www.oliverwymanforum.com/climate-sustainability/2021/apr/consumers-want-companies-to-take-a-stand-on-climate.html>

<sup>20</sup> <https://content.govdelivery.com/accounts/NYOSC/bulletins/2b0442d>

<sup>21</sup> <https://www.cftc.gov/sites/default/files/2020-09/9-9-20%20Report%20of%20the%20Subcommittee%20on%20Climate-Related%20Market%20Risk%20-%20Managing%20Climate%20Risk%20in%20the%20U.S.%20Financial%20System%20for%20posting.pdf>



change and other environmental, social, and governance (ESG) factors when they make investment decisions.”<sup>22</sup> The rule additionally makes clear that “a fiduciary’s duty of prudence must be based on factors that the fiduciary reasonably determines are relevant to a risk and return analysis and that such factors may include the economic effects of climate change.”<sup>23</sup> In short, this new rule confirms the authority of plan administrators to consider climate change as a risk factor when selecting plan investment options, including default options.

It is by *failing* to address climate risk to the Plan’s full range of beneficiaries that the Company exposes itself to potential legal liability, not by addressing this material risk. For example, in 2020, a lawsuit was filed in Australia by an employee who claimed his pension fund did not adequately disclose or assess the effect of climate change on its investments.<sup>24</sup> Recently, in the UK, ExxonMobil was fined for failing to disclose climate-related impacts and risks stemming from its pension plan.<sup>25</sup> It is likely that similar action will be taken against U.S. corporations.

Importantly, plan fiduciaries and beneficiaries do not need to choose between maximizing returns and managing climate risk.<sup>26</sup> Assessing and mitigating participants’ exposure to climate-related financial risk is directly related to participants’ goals of maximizing financial benefit and minimizing risk. Many of the anticipated financial costs of climate change are already being experienced by Alphabet employees. A recent report found that Google 401(k) participants could have earned an estimated \$1.15 billion in additional returns, if Google “had divested from the Energy Sector ten years ago.”<sup>27</sup> The findings follow an earlier analysis from researchers at the University of Waterloo looking at six major U.S. pension funds, estimating that plan participants would have been **\$21 billion richer**, with returns on their investments 13% higher on average over 10 years, had they excluded fossil fuels.<sup>28</sup> Other researchers have found similar impacts on passively invested index funds.<sup>29</sup> The overwhelming majority of Google 401(k) Plan assets are in index funds or index-based target date funds that are not integrating climate risk as a metric in managing portfolio investments. The findings from these reports highlight the present-day impacts of investing in high-carbon industries with embedded climate-related financial risks.

A recent *Bloomberg* report notes that, as of September 2022, 1,500 institutions, representing more than \$40 trillion in assets, had committed to reducing exposure to investments in high-carbon industries.<sup>30</sup> These include commitments to sell billions of dollars of high carbon holdings from prominent employee retirement funds in New York City, Maine, and New York state.<sup>31</sup> The University of California Retirement Savings Program, which holds \$168 billion in assets under management, for more than 300,000 participants, has also stated an intent to

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<sup>22</sup> <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-on-prudence-and-loyalty-in-selecting-plan-investments-and-exercising-shareholder-rights>

<sup>23</sup> <https://www.dol.gov/agencies/ebsa/about-ebsa/our-activities/resource-center/fact-sheets/final-rule-on-prudence-and-loyalty-in-selecting-plan-investments-and-exercising-shareholder-rights>

<sup>24</sup> <https://www.plansponsor.com/pension-fund-climate-change-lawsuit-settles/>

<sup>25</sup> [https://www.edie.net/exxonmobil-pension-plan-fined-for-failure-to-disclose-climate-risks/?utm\\_campaign=P%26P%20%7C%20ESG%20Monitor%20Analytics&utm\\_medium=email&\\_hsmi=276597309&\\_hsenc=p2ANqtz-9kN88Pbkwp57mHvfyuJzBBpiKuik1-WrETc7P35QksodM6QqxDPgyWKpnPCMy-LuKunu1u2OCd\\_05mCcNBmaki4QDk8w&utm\\_content=276597309&utm\\_source=hs\\_email](https://www.edie.net/exxonmobil-pension-plan-fined-for-failure-to-disclose-climate-risks/?utm_campaign=P%26P%20%7C%20ESG%20Monitor%20Analytics&utm_medium=email&_hsmi=276597309&_hsenc=p2ANqtz-9kN88Pbkwp57mHvfyuJzBBpiKuik1-WrETc7P35QksodM6QqxDPgyWKpnPCMy-LuKunu1u2OCd_05mCcNBmaki4QDk8w&utm_content=276597309&utm_source=hs_email)

<sup>26</sup> [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2699610](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2699610)

<sup>27</sup> <https://www.asyousow.org/reports/2024-waterloo-google-401k-report>

<sup>28</sup> <https://stand.earth/press-releases/waterloo-pensions-report-2023/>

<sup>29</sup> <https://ieefa.org/resources/passive-investing-warming-world>

<sup>30</sup> <https://www.bloomberg.com/news/features/2022-10-20/how-to-purge-fossil-fuel-investments-from-your-401-k-or-ira#xj4y7vzkg>

<sup>31</sup> <https://comptroller.nyc.gov/newsroom/comptroller-stringer-and-trustees-announce-successful-3-billion-divestment-from-fossil-fuels/>; <https://www.reuters.com/business/sustainable-business/new-maine-law-marks-us-first-fossil-fuel-divestment-2021-06-17/>; <https://www.nytimes.com/2020/12/09/nyregion/new-york-pension-fossil-fuels.html>



sell existing holdings and make no future investments in high-carbon industries, citing “long term financial risk” and the expectation that this decision will “have a positive financial and risk-reducing impact on fund performance in the long run.”<sup>32</sup> In October 2022, the Chicago Public School Teachers’ Pension & Retirement Fund, which has about 5% of its portfolio invested in fossil fuel industries, announced its plan to sell holdings in high-carbon industries.<sup>33</sup>

## RESPONSE TO ALPHABET’S BOARD OF DIRECTORS’ STATEMENT IN OPPOSITION

The Board’s statement in opposition to the Proposal is unpersuasive.

### **“Plan participants are free to invest in a wide range of investments, including through the Plan’s self-directed brokerage option.”**

The existence of a self-directed option is irrelevant to the Proposal, which focuses solely on how the Company is protecting Plan beneficiaries, especially younger beneficiaries, from climate risk stemming from the Company’s present-day investments. The existence of a self-directed brokerage window is little more than an ineffective delegation to the Plan’s beneficiaries of the Company’s responsibility to manage the material risks of climate change.

Further, less than 3% of Plan assets are invested via the self-directed option, while more than 64% of Plan assets are invested in the default investment option.<sup>34</sup> Because high-carbon and deforestation-intensive investments help to create systemic climate risk, automatically investing employees’ money in climate-unsafe alternatives harms even those employees who opt to choose more climate-friendly investment alternatives.

Finally, relying on self-direction can harm participants. The GAO has noted significant misallocation and lack of diversification among self-directed 401(k) investors.<sup>35</sup>

### **“...federal law requires that investment determinations be based on relevant risk-return factors.”**

As noted above, the Department of Labor has explicitly identified the economic effects of climate change as a legitimate subject of fiduciary attention when managing retirement plans. Further, as discussed above, the prevalence of climate-risk mitigation strategies among institutional asset owners, including managers of defined contribution plans like the Company’s 401(k), demonstrates that there is no conflict between fiduciary duty and climate-risk mitigation. Finally, the Proposal simply requests that the Board report on the Company’s management of this risk.

### **“...the proposal risks putting undue pressure on the investment committee to make changes that are imprudent or not in the best interests of Plan participants.”**

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<sup>32</sup> <https://myucreirement.com/Resource/2312>

<sup>33</sup> <https://www.pionline.com/esg/chicago-teachers-pension-fund-divest-fossil-fuels-end-2027>

<sup>34</sup> <https://iyv-charts.s3.us-west-2.amazonaws.com/retirement-plans/google/google-llc-401k-savings-plan-form-5500-filing-and-attachment-2022.pdf>

<sup>35</sup> <https://www.gao.gov/assets/gao-14-310.pdf>



First, what is requested is a report on risk management, not changes to the investment line-up. While the findings of the report may indeed lead the investment committee to suggest changes, that is not the request of the Proposal. It would, however, be a good outcome for beneficiaries if the investment committee were to identify climate-related risk and seek to act on it. Assessing and taking steps to mitigate climate-related financial risk by plan fiduciaries is both prudent and in the best interest of plan participants. If Company fiduciaries had considered these risks 10 years ago, and the plan had reduced its exposure to high carbon industries, a recent report indicates that Google employees might have earned over \$1 billion in additional returns.<sup>36</sup>

**A fiduciary's failure to properly manage climate risk, by mitigating investments in high-carbon industries, constitutes a failure to manage in the best interest of the full range of the Plan's beneficiaries.**

The Board is able to exercise its oversight duties by instructing the internal investment committee, possibly in consultation with external investment advisors, to actively assess and report on the management of climate-related financial risk, as requested in the Proposal.

## CONCLUSION

**Vote "Yes" on this Shareholder Proposal 7.**

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<sup>36</sup> <https://www.asyousow.org/press-releases/2024/3/19-google-employees-missed-out-one-billion-missed-returns-fossil-fuels>