Centene (CNC)

Vote Yes: Item 6 – Report on Assessing Systemic Climate Risk from Retirement Plan Options

Annual Meeting: May 13, 2025

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THE RESOLUTION

Resolved: Shareholders request Centene 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. The Centene Management Corporation Retirement Plan has investments that both create, and are subject to, growing systemic climate risk.

Climate-related extreme weather events are already causing supply chain disruptions; harm to physical infrastructure; reduced resource availability; and stranded assets. Disruptions are occurring in forests and ecosystems from which products are sourced, while farming is increasingly subject to losses from droughts and flooding. The national insurance system is experiencing instability due to rising costs of catastrophes resulting in nationwide insurance rate increases and a decrease in availability of insurance protection. The lack of affordable insurance is beginning to impair home values and raises risk for the mortgage system and local tax bases. Science indicates that unchecked global warming will destabilize economies at an increasing rate and decrease GDP, impeding retiree's portfolio growth and/or shrinking portfolios outright.

If effective action is not taken to reduce emissions, younger plan beneficiaries with longer investment time horizons will face higher climate-related risks to their portfolios than beneficiaries closer to retirement. Younger employees cannot reduce this risk by investing their own retirement assets into a low carbon fund, since climate risk generated by the Plan's high-carbon investments will impact the entire economy.

This Proposal requests that Centene assess and report on what actions it is taking to address climate risk in the Company's retirement options. The largest share of Centene workers' retirement savings is invested in the Plan's target date funds, a series of age-based funds which have significant exposure to high-carbon industries and industries that contribute to climate change and deforestation. A 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 Centene 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. Responsible stewardship of employee retirement plans, then, demands active consideration of the Plan's contribution to systemic climate risk, including a weighing of beneficiary interests and financial impacts over time. 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.,"[1] which means ensuring that the Plan's fiduciaries are satisfying their duties of loyalty and prudence. Failure to account for the Plan's contribution to systemic climate risk via its investments exacerbates the risks faced by tomorrow's retirees, as those investments lock in climate change's growing impacts. Centene must demonstrate that it is actively taking a role in safeguarding the financial security of all its employees over time by mitigating climate-related financial and economic risk as part of a prudently constructed lineup of funds.

RATIONALE FOR A YES VOTE

1. **Centene'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. **Centene's contribution to climate risk through its retirement plan investments creates reputational risk which may make it difficult to attract and retain top talent.**
3. **A failure to consider and address Centene's contribution to systemic climate risk from its retirement plan violates its fiduciary obligation to manage its plan in the best interests of its beneficiaries.**

DISCUSSION

According to recent analysis by *As You Sow*, the Centene Management Corporation Retirement Plan invests as much as $194 million in high-carbon industries.[2] This constitutes over 7% of total assets in Plan fund options. The Plan, in the aggregate, also invests more than $8 million in deforestation-risk agricultural commodities.[3]

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[1] https://www.law.cornell.edu/cfr/text/29/2509.75-8
[2] https://investyourvalues.org/retirement-plans/centene
[3] https://investyourvalues.org/retirement-plans/centene

1. **Centene'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.**

The most popular Plan options are the Fidelity Freedom Blend series, which collectively hold 68% of Plan assets.[4] Target Date Funds (TDFs), like the Fidelity Freedom Blend series, are an attractive option for Plan administrators because they shift responsibility for reallocating the portfolio over time to the fund's manager. However, according to one report, **TDFs have a 16% higher weighted average carbon intensity compared to all sampled retirement plans.**[5] True to form, the Fidelity Freedom Blend series funds invest significantly in carbon polluters.[6]

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."[7] The physical risks that climate change poses to both Centene and the global economy are well established, with climate-related damages **already costing the global economy an estimated $16 million per hour**.[8] Physical risks include losses from the increased occurrence of 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."[9]

The present and future impacts of climate change can endanger the full range of beneficiaries' retirement savings. Climate-related financial impacts are increasing globally and across the U.S.; a recent report calculated that climate change would result in a 19% decline in global GDP by 2050,[10] equating to a **$23 trillion reduction in the world economy by the year 2050**.[11] Global GDP declines will not wait until 2050. The impacts are already being felt at $16 million per hour and building. A recent analysis of 140 of the world's largest pension schemes found that unmitigated climate change could result in significant losses in regions with higher exposure to the physical risks of climate change. This could equate to a 50%

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4 https://investyourvalues.org/retirement-plans/centene
5 https://iyv-charts.s3.us-west-2.amazonaws.com/files/U.S.+Retirement+Carbon+Footprint+Report.pdf
6 https://fossilfreefunds.org/fund/fidelity-freedom-2050-fund/FNSBX/fossil-fuel-investments/FSUSA0720M/F00000YBQ2
7 https://www.gao.gov/assets/gao-21-327.pdf, p.9-10
8 https://www.weforum.org/agenda/2023/10/climate-loss-and-damage-cost-16-million-per-hour/
9 https://www.gao.gov/assets/gao-21-327.pdf p.10
10 https://www.nature.com/articles/s41586-024-07219-0
11 https://www.nytimes.com/2021/04/22/climate/climate-change-economy.html

decline in returns for U.S. pensions by 2040, with the greatest impacts being felt by today's younger workers.[12]

Investments in high-carbon companies *contribute to and lock in future climate impacts*. High-carbon investments are thus likely to disproportionately impact younger employees who will not access retirement funds for decades because tax-deferred retirement vehicles like 401(k)s carry penalties that discourage participants from withdrawing funds prior to retirement. 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.[13]

Many retirement plan fiduciaries rely on studies from investment consultants that minimize the expected costs of climate change. A recent analysis found that the economic studies behind many of the models used by consultants are inconsistent with science in quantifying the impacts of unmitigated or inadequately mitigated climate change.[14] At a minimum, Centene has a fiduciary duty to assess the adequacy of climate-related studies used by its fiduciaries and the likely impact to its employee's retirement of continuing to fund the climate crisis.

Other climate risk considerations include that 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, in comparison, annual returns in electric utilities could decline by about 3% over the same timetable.[15] Fossil fuel energy had the lowest returns of any sector in the S&P 500 over the last decade.[16]

Plan fiduciaries have an opportunity now to better protect their employees' life savings from growing climate risk, particularly those beneficiaries with longer investment time horizons.

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[12] https://www.theactuary.com/2024/12/11/north-american-pension-schemes-are-highly-vulnerable-climate-change-and-their-investment

[13] *See* https://www.schroders.com/en-us/us/institutional/clients/defined-contribution/schroders-us-retirement-survey/sustainability/

[14] https://carbontracker.org/reports/loading-the-dice-against-pensions/

[15] https://www.gao.gov/assets/gao-21-327.pdf, p.13

[16] https://ieefa.org/sites/default/files/2025-01/REVIEWED-15818-Briefing%20Note_2024%20Recap%20oil%20stocks%20%281%29.pdf

2. **Centene's contribution to climate risk through its retirement plan investments creates reputational risk which may make it difficult to attract and retain top talent.**

Centene has publicly stated long-term operational sustainability goals.[17] The Plan's carbon-intense investments, however, directly undermine this commitment and 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 interests of the workforce. A recent Deloitte study found that 27 percent of U.S. workers said they will consider a firm's position on sustainability before accepting a job.[18] 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.[19] 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.

Centene must begin addressing its 401(k) Plan's contribution to climate change risk or negatively impact its reputation, its Plan returns, its employees' future financial security, employee recruitment and retention, and consumer retention.

3. **A failure to consider and address Centene's contribution to systemic climate risk from its retirement plan violates its fiduciary obligation to manage its plan in the best interests of its beneficiaries.**

Centene's own operational climate goals make it clear that it considers climate risk to be material, and the law requires consideration of material risk. The Company's failure to properly address climate risk, including by mitigating its investments in high-carbon industries, puts it in jeopardy of not managing its Plan in the best interest of Plan beneficiaries. Carbon-intense investments create risk and are increasingly likely to sacrifice value. As New York Comptroller Thomas DiNapoli explained when announcing the state's plan to enforce a carbon-neutrality mandate, "[I]nvesting for the low-carbon future is essential to protect the fund's long-term value."[20] As climate-related impacts increase, harm to Plan value is no longer in the long term, it is already occurring.

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[17] https://www.centene.com/why-were-different/corporate-sustainability/healthy-environment/environmental-sustainability.html
[18] https://www2.deloitte.com/us/en/insights/environmental-social-governance/importance-of-sustainability-to-employees.html
[19] https://www.schroders.com/en-us/us/institutional/clients/defined-contribution/schroders-us-retirement-survey/sustainability/
[20] https://content.govdelivery.com/accounts/NYOSC/bulletins/2b0442d

According to a September 2020 report from the U.S. Commodity Futures Trading Commission, an independent federal agency: "Fiduciary duty requires the assessment of material risks and the management of these risks on behalf of stakeholders in keeping with stated long-term goals. *Climate risk is increasingly being recognized as one such risk*."[21]

Federal law supports addressing material climate risk in retirement plans. The Department of Labor's regulations under the Employee Retirement Income Security Act (ERISA) empower plan fiduciaries to safeguard the savings of America's workers. The rule 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."[22] In short, this rule confirms the authority of plan administrators to consider climate change as a risk factor when selecting plan investment options, including default options, since climate change will impact Plan financial returns. By *failing* to address climate risk to the Plan's full range of beneficiaries, the Company exposes itself to potential legal liability.

Importantly, plan fiduciaries and beneficiaries do not need to choose between maximizing returns and managing climate risk.[23] Assessing and mitigating participants' exposure to climate-related financial risk is directly related to participants' goals of maximizing financial benefit and minimizing risk. Indeed, Centene employees may already be experiencing the financial costs of climate risk in their portfolios: a recent report from the University of Waterloo and *As You Sow,* released in April 2024, analyzed a 10-year time period ending December 31, 2023, and found employees from 12 tech-sector companies could have earned an estimated $5.1 billion in additional returns had their employers moved to decarbonize their retirement plan holdings 10 years ago.[24] Because the majority of retirement plans in the U.S. are structured similarly to the retirement plans included in this study, these findings likely hold true for other employer-sponsored 401(k) plans. These findings follow an earlier analysis from researchers at the University of Waterloo looking at the cumulative returns of 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 (from 2013–2022), had they excluded fossil fuels.[25] Other researchers have found similar impacts on passively invested index funds.[26] The majority of

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[21] 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 *(emphasis added)*
[22] 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
[23] https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2699610
[24] https://www.asyousow.org/reports/the-impact-of-energy-sector-investments-on-the-financial-value-of-tech-401ks
[25] https://stand.earth/press-releases/waterloo-pensions-report-2023/
[26] https://ieefa.org/resources/passive-investing-warming-world

Centene 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.

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.[27] 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.[28] 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 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."[29] 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.[30] These plans operate under basically the same fiduciary obligations as does Centene's Plan here. Their decisions to actively manage and mitigate climate risk demonstrate that doing so does not run counter to, but rather promotes, the Plan sponsor's fiduciary duties.

RESPONSE TO CENTENE'S BOARD OF DIRECTORS' STATEMENT IN OPPOSITION

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

"Our 401(k) plan provides participants with a diverse array of investment options for their retirement funds, including target date retirement trusts, index-based funds, a money market fund and actively managed funds."

> The existence of a diverse array of investment options is irrelevant to the Proposal, which seeks to understand how the Company is protecting plan beneficiaries from increased future portfolio risk from **the Plan's** investments in high-carbon companies. Present-day investments in high-carbon companies occur across *all* Centene's Plan options, including the target date funds that account for 68% of Plan assets.

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[27] https://www.bloomberg.com/news/features/2022-10-20/how-to-purge-fossil-fuel-investments-from-your-401-k-or-ira#xj4y7vzkg
[28] 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
[29] https://ucnet.universityofcalifornia.edu/employee-news/uc-retirement-savings-program-fund-menu-to-remove-companies-that-own-fossil-fuel-reserves/
[30] https://ctpf.org/news/chicago-teachers-pension-fund-ctpf-commits-divestiture-fossil-fuel-holdings-andor-investing

As importantly, individuals cannot avoid, by individually investing their own portfolios sustainably, the systemic climate risk produced by Centene's Plan investments in high carbon companies which increase systemic climate risk and impact current and future retirement fund value. Individual employees cannot avoid this systemic harm from Centene's actions, no matter how they personally invest.

"…the Company's internal investment committee is in the process of allowing participants to invest in a self-directed brokerage option that gives participants access to mutual funds from hundreds of fund families, which will include ESG-related fund options…"

The Company's addition of a self-directed brokerage window with ESG-related fund options may allow participants to avoid short term return reductions associated with fossil fuel energy stocks and suggests a recognition on the Company's part that these risk factors exist, and that there is employee demand for plan investments that mitigate them. Yet, the addition 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 in its Plan for the benefit of all plan participants. Moreover, self-directed options are rarely used. A Vanguard analysis of more than 4.9 million defined contribution plan participants across its business found that, "in plans offering this feature, only 1% of these participants used it in 2023" representing only 2% of total plan assets.[31] Moreover, relying on self-direction can harm participants. The GAO has noted significant misallocation and lack of diversification among self-directed 401(k) investors.[32]

"Federal law requires that our plan fiduciary make investment determinations in a prudent manner and based on relevant risk-return investment options."

Climate risk is material risk. The Department of Labor has explicitly identified the economic effects of climate change as a legitimate subject of fiduciary attention when managing retirement plans. The prevalence of climate-risk mitigation strategies among institutional asset owners, including managers of defined contribution plans similar to the Company's 401(k), demonstrates that there is no conflict between fiduciary duty and climate-risk mitigation. In fact, the risk to fiduciaries is in *failing* to consider climate change and the potentially dramatic

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[31] https://institutional.vanguard.com/content/dam/inst/iig-transformation/insights/pdf/2024/has/how_america_saves_report_2024.pdf
[32] https://www.gao.gov/assets/gao-14-310.pdf

financial risk it creates to Plan beneficiaries. The Proposal requests that the Board report on 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. It does not request that the Plan fiduciary “sacrifice the interests of participants” or “take on additional investment risk.” Assessing and mitigating participants’ exposure to climate-related financial risk is directly related to participants’ goals of maximizing financial benefit and minimizing risk for its beneficiaries.

“…the recent United States federal court decision in Spence vs. American Airlines suggests that considering factors other than investment return, especially ESG factors, are not permissible and a violation of the committee's fiduciary duty of loyalty to plan participants.”

Spence v. American Airlines is a poor guide to the law of fiduciary duty. In *Spence*, Judge Reed O’Connor concluded that American Airlines violated its fiduciary duty of loyalty to plan participants by failing to effectively monitor the actions of its asset manager, BlackRock, which Judge O’Connor attributed in large part to a conflict created by BlackRock’s extensive holdings of American Airlines’ equity. Beyond that, Judge O’Connor’s opinion did *not* conclude that consideration of risks associated with “environmental” or “social” factors was illegal. Rather, the court expressly concluded that such consideration was *legal* so long as the sole motivation for any investment decision was financial, not related to environmental or social goals. For the reasons already explained in this memo, there is no colorable argument that climate risk is not financial risk.

Judge O’Connor’s opinion to the contrary turned entirely on his personal belief that climate change is “unproven.” Based on that belief, Judge O’Connor concluded, with no material evidence on the point,[33] that BlackRock’s financial explanations for its limited pro-climate votes were “pretextual.” Given the case’s lack of factual findings on the critical points of climate risk or a valid financial basis for climate-related voting actions, *Spence* cannot reasonably be relied on to obviate a Plan’s duty to address the pecuniary impact of climate risk to Plan participants.

In short, *Spence* does not change the undeniable legal fact that plan fiduciaries have a responsibility to assess and mitigate material financial risks. Nor can one outlier district court opinion alter the fact that climate risk *is* material financial risk. Plan fiduciaries are more likely to

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[33] *See, e.g.*, Matt Levine, *Maybe ESG Is Illegal Now*, Bloomberg (Jan. 14, 2025), https://www.bloomberg.com/opinion/articles/2025-01-14/maybe-esg-is-illegal-now (“There is no evidence that BlackRock is lying, that its claims that ESG factors are financially important are pretextual. That’s just what the judge thinks . . . .”).

run afoul of their fiduciary obligations if they ignore such risks on the basis of one extreme outlier decision and fail to engage in reasonable material risk analysis. In fact, the Proposal provides an opportunity to mitigate legal risk by providing clear pecuniary justification for the assessment and management of long-term climate risk.

CONCLUSION

The wide-ranging impacts of climate change will have portfolio-wide consequences to employees saving for retirement. Centene's failure to adequately manage climate risk in its retirement plan has the potential to harm beneficiaries, especially younger beneficiaries. This, in turn, may make it more difficult for Centene 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. Finally, failing to address climate risk to the Plan's full range of beneficiaries also exposes Centene to potential legal liability for failure to meet its fiduciary duty to plan participants.

Vote "Yes" on this Shareholder Proposal 6.

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For questions, please contact Grant Bradski, As You Sow, gbradski@asyousow.org