A STRATEGIC PLAN FOR

RESPONSIBLE FIDUCIARY INVESTING

a plan by

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for NYC Comptroller

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New York City's five pension systems fund the retirement security of more than half-a-million public sector workers – the teachers, health care workers, firefighters, police officers, payroll administrators, and other retirees who have served our city for decades. The City's pension funds are among the largest in the country (collectively worth $248 billion as of January 2021), which affords them power and potential to influence today's capital markets, and by extension, the broader economy. As a fiduciary for these funds, the New York City Comptroller plays a critical role in overseeing the city's investment portfolios to ensure they are invested responsibly, so our public sector workers and their communities can have the secure future they deserve.

Modern Portfolio Theory looks at the risks of each investment in the context of an overall diversified portfolio, but does not traditionally consider the broader systemic risks facing even -- or perhaps especially -- the most diversified portfolios. Leading economists, investors, and analysts increasingly recognize that highly-diversified funds can manage the risk facing individual companies or sectors, but are still highly exposed to systemic risks facing the economy as a whole. Serving as a fiduciary for these funds must include strong attention to those core systemic risks, including the climate crisis, rampant inequality, and racial injustice.

Only by actively working to address these broader risks can asset managers genuinely help to provide a more stable long-term future for those they serve as fiduciary. This requires active leadership and new thinking: where large institutional investors like the City's pension funds cannot avoid systemic risks and structural challenges, they have to take them on. In the interest of these workers and community-members, the public pension funds have the responsibility and opportunity, consistent with their fiduciary duties, to lead efforts for transformational change in our financial system.

Brad will build a world-class team that takes a strategic and integrated approach to maximizing risk-adjusted market returns, determining and adjusting asset allocations, managing risk, minimizing fees to outside investment managers, and investing for the long-term, while remaining attentive to the fund-level and systemic risks posed by dangers including climate change and inequality. This includes holding corporations and fund managers accountable for inequitable corporate governance practices; a transition away from fossil fuels to clean energy; investing in our communities for long-term innovation and productivity; focusing on long-term value rather than short-term speculation; and working to transition to an economy that works for all of us, not just the privileged few.

A STRATEGIC PLAN FOR RESPONSIBLE FIDUCIARY INVESTING

Too often, environmental, social, and governance (ESG) concerns are put forward one-at-a-time, in a manner that is reactive and disconnected from overall strategic decision-making about an investment portfolio. This lack of ESG integration makes it more difficult to set priorities, manage risk and add value (to the funds, as well as to ESG efforts). To achieve better ESG integration and adopt more coherent and effective strategies, Brad will work with fund trustees to undertake a proactive and strategic process to produce a Strategic Plan for Responsible Fiduciary Investing, to be reviewed once every two years.

STRATEGIC PLANNING PROCESS

1. Strategic plan design:
To initiate the process, trustees for each fund will design the strategic planning process. This will include gathering best practices from the field (e.g. state treasurers, comptrollers, pension fund trustees, and other fiduciary leaders).

2. Fund audits of performance, ESG, and racial justice:
The process will commence with audits of investment decisions over the past five years. These audits will review financial performance (net of fees), evaluate ESG strategies, and include a racial and gender justice audit of the Bureau of Asset Management itself (so that we are holding ourselves to standards we are applying to others).

3. Trustee-level review of the Investment Policy Statement
Trustees will review and approve the policy statement and investment beliefs for the fund, so that the trustees are the drivers of the process.

4. Measuring and evaluating ESG:
As ESG investing has become more mainstream, the number of ESG-branded investment options has exploded, but the field lacks standard metrics. Through this process, we will explore new and consistent ways to measure and evaluate ESG metrics and materiality that are driven by community need and equitable outcomes, consistent with fiduciary duty.

5. Member engagement:
The Bureau of Asset Management and the trustees will engage their members in the process, building upon work that trustees currently conduct with their members. Brad believes in keeping members apprised and informed of the pensions' approaches to diversified investing, long-term orientation, corporate governance priorities and investment management approaches. Through the strategic planning process, members will have the opportunity to learn about and make their voices heard on ESG priorities.

6. Stakeholder engagement:
Trustees will also engage with a wide range of other stakeholders, including workers and consumers of companies that the pension funds are invested in, shareholder activists in key areas of interest, economists, investors, and community leaders to inform the strategic plan.

7. Outcome: Fiduciary Blueprint:
Through this strategic planning process, each fund will develop a fiduciary blueprint, which would be finalized and adopted by its trustees, to guide its existing and future investment. These blueprints would then be utilized by the Comptroller's Bureau of Asset Management in its investment research and advice to the funds, and also as a platform for working with other ESG investors on coordinated strategies.

KEY ESG AREAS FOR CONSIDERATION IN THE PROCESS

Climate sustainability:
Ensuring that, consistent with fiduciary duty, the funds are contributing towards achieving the goals of the Paris Climate Accords. This means completing a $4 billion divestment of funds from fossil fuel extraction by 2023, and increasing investments in climate solutions such as renewable energy, electric vehicle infrastructure, housing, efficient waste and water management. Additionally, the funds' role as a shareholder provides a critical voice at the corporate governance table to push investee companies to reduce their carbon footprints and make progress towards becoming a net-zero investor on greenhouse gas emissions by 2040.

Racial and gender equity:
Considering how investments address the cycle of racial wealth and income inequality; access to capital and wealth-building for historically marginalized groups; human rights; mass incarceration; environmental racism, food access and more.

Workers rights and representation:
The New York City pension funds are owned by workers who organized through their union for better pay, benefits, workplace protections, and retirement security. It therefore makes sense for them to consider how the companies they invest in are treating their workers, and that workers' voices are included in corporate decision-making, based on the belief that companies that listen to and treat their workers well generate better long-term investment returns.

Investing in New York City's communities:
New York City's retirees largely continue to live in NYC's neighborhoods, so they benefit from a portfolio that generates market returns by investing in the creation and preservation of safe and affordable housing, sustainable infrastructure, regenerative food systems, small business, thriving commercial strips, access to financial services, and high-quality accessible jobs for New Yorkers.

BALANCED APPROACH TO ESG STRATEGIES

The strategies of ESG investing are too often framed as competing strategies, rather than as a set of tools that can be used thoughtfully and strategically to best achieve our desired outcomes. Through the Strategic Plan for Responsible Fiduciary Investing, under Brad's leadership, the Comptroller's Bureau of Asset Management will take a more integrated approach to have the greatest impact. How should New York City direct and influence corporate and fund manager behavior? Where can we create innovative strategies for community investments with market returns right in our own backyards? In what extreme circumstances should we divest completely?

The strategic plan will take a balanced approach to responsible investing strategies, rather than pit them against one another. These strategies include:

Fund manager and adviser diversity:
As Comptroller, Brad will work to increase the diversity of the City's asset managers and advisers, through the installment of a Chief Diversity Officer in the Bureau of Asset Management and the expansion of the Emerging Manager program, which seeks to foster the growth and development of successful managers with whom the pension fund systems invest, including Minority- and Women-owned Business Enterprise (M/WBE) fund managers that typically do not have access to large institutional investors. To support this effort, Brad will work with the funds' investment consultants to have a more open and transparent process for diverse managers to be considered for investment mandates by the funds. The Comptroller has a key role in evaluating the City's M/WBE program, so it is especially important that the office have a strong M/WBE representation in its own contracted services.

Shareholder engagement to promote change and nurture success:
Brad will build on work by the current Comptroller and his predecessors to build upon the funds' roles as major institutional investors to push corporations to implement stronger ESG practices. Comptroller Stringer's Boardroom Accountability Project has included initiatives to support broader proxy access, boardroom and executive diversity, and director accountability (e.g. NYC's funds led the way in pushing for former Exxon CEO Lee Raymond to be removed from the board of JP Morgan Chase, where he had been a leading voice for fossil fuel extraction).

The Strategic Plan for Responsible Fiduciary Investing will strengthen environmental, social, and governance commitments, including more specific language around tackling climate change, accounting for environmental justice, and addressing wealth and income inequality, consistent with fiduciary duty. The Comptroller's Bureau of Asset Management will work in partnership with other investors, utilize proxy voting and other shareholder action tools, and consider shareholder class action lawsuits as necessary to shift the economy toward these goals. Brad's experience co-founding Local Progress (a national network of over 1,000 local elected officials in 45 states) will enable him to build broad coalitions for this work. Consistent with fiduciary duty, areas of focus may include:

- Climate action through supporting shareholder resolutions at select public companies to move those corporations into compliance with the minimum standards set in the Paris Climate Agreement, and holding corporate leadership accountable by defeating the re-election of corporate directors at firms that fail to take such climate action.

- Boardroom diversity, building on the work of the Boardroom Accountability Project, including the newest initiative to apply the "Rooney Rule" to require that women and people of color are welcomed in the door and considered for every open director seat as well as for the job of CEO. The Comptroller's office should also consider helping investee companies recruit people of color and women board members, so many of whom are New York City residents, because diverse boards make better decisions that generate stronger long-term investment returns.

- Workers rights and workers representation on boards: Because the NYC pension funds contain the deferred wages of hundreds of thousands union members, it is especially appropriate for NYC's pensions to hold companies accountable for the way they treat their workforce. Many investment firms are signatories to ShareAction's Workforce Disclosure Initiative, which pushes companies for more information on workers rights, wages, training, health, safety, whistleblowing, and outsourcing. The NYC funds should consider joining this initiative. In addition, the funds should consider joining other investors in a push for worker representation on corporate boards.

- Restricting stock buybacks: Stock buybacks have loaded up major U.S. corporations with trillions of dollars of debt. When companies do these buybacks, they deprive themselves of the liquidity that might help them cope when sales and profits decline in an economic downturn. The strategic plan will lay out criteria to examine the use of buybacks and oppose them when they are used to enrich management at the expense of workers, other stakeholders, and long-term value creation for investors.

- Executive Compensation: Push for more equitable CEO-to-worker pay ratios at companies the funds maintain ownership stakes in; oppose lucrative 'golden parachute' clauses for executives that are terminated.

- Corporate political spending: In the wake of the insurrection on Capitol Hill on January 6th, investors, asset managers and corporations are reviewing their policies regarding political contributions and spending. At a minimum, funds could require managers to report corporate political spending directly to shareholders. Going further, they could require managers to obtain authorization from shareholders before making political expenditures with corporate treasury funds, or consider ceasing political contributions altogether, since there is no demonstrated link between political contributions and stronger long-term investment returns.

Divesting from activity that inescapably exposes the funds to long-term risk:
Where satisfactory change cannot be made through shareholder activism, the strategic plan will consider where divestment would improve long-term, sustainable, risk-adjusted returns:

- Aggressively shepherding fossil fuel divestment: preventing catastrophic climate change and its dire human and financial impacts requires that we end the extraction of fossil fuels and shift to renewable energy as rapidly as possible. Investors are becoming part of this process. Three of the city's pension funds (NYCERS, TRS, and BERS) are in the process of divesting $4 billion from fossil fuel reserve owners by the end of 2022. Brad will ensure that fossil fuel divestment is fully accomplished on or ahead of schedule, in a responsible fashion that protects returns, and work with trustees to examine strategies to address risk in other parts of the fossil fuel industry (Read more about Brad's plan to tackle climate change from the Comptroller's office.)

- Continuing to avoid private prisons and gun-makers: The NYC pension funds were among the first in the nation to divest from private prison and gun manufacturers and retailers and must continue to avoid investments in these harmful and often deadly industries.

- Consider reducing the City's pension fund positions with private equity and hedge funds: The vast majority of the pension funds are invested in U.S. and global stock index funds, fixed income assets, and other comparable investments. Historically, relying heavily on this allocation strategy provides a sound approach to sufficient long-term returns. However, a portion of the City's pension funds are in riskier assets such as hedge funds, private equity, and private real estate funds. Due to the highly speculative and often extractive nature of these investments, and the high fees some charge, the strategic planning process will examine the full costs and benefits of the funds' alternative asset allocation strategies.

Economically targeted investments (ETIs):
In an effort to promote economic development within New York City, address market inefficiencies, and provide capital to underserved communities, consistent with fiduciary duty, the pension funds currently authorize allocating 2% of pension assets towards ETIs. The ETI program's investments have historically been targeted towards affordable or workforce housing for lo-w, moderate- and middle-income neighborhoods and populations in the five boroughs. These ETIs have helped revitalize neighborhoods by returning distressed properties to the City's tax rolls and by developing new housing that is affordable to working people. Since the ETI program began in the 1980s, $3.6 billion has been invested in New York City's five boroughs and the six surrounding New York counties. Brad proposes the following areas for continued and enhanced ETIs:

- Construction and preservation of affordable housing: The funds have approximately $4 billion dedicated to affordable and workforce housing throughout the greater NYC Metro area. However, the current approach is not well-targeted to meeting the needs of New Yorkers, or to preserving the affordable housing that is in the most danger. Drawing on Brad's decades-long experience in community development and affordable housing, he will reinvigorate the ETI portfolio to expand the program's impact and footprint to create more permanent and deeply affordable housing for the New Yorkers who need it most. By investing up to 15% of the ETI portfolio in direct affordable housing preservation, we could preserve as many as 10,000 of the most vulnerable rent-stabilized units in the city, while earning market investment returns.

- Financing a green economy: Brad will seek to invest in emerging opportunities that use capital to achieve social and environmental goals while earning appropriate investment returns, such as infrastructure investments in renewable energy, transportation and greener buildings. Buildings account for nearly 75% of the City's greenhouse gas emissions, which is why upgrading buildings for energy efficiency is the key to reducing NYC's climate emissions by 80% by 2050. As

Comptroller, Brad will explore investments that enable dedicated funds for property owners to retrofit their buildings for greater efficiency, in compliance with the City's new law requiring large buildings to upgrade to high energy efficiency standards (Read more about Brad's plan to tackle climate change from the Comptroller's office). Just $10-$15 million of city investment capital would be sufficient to finance solar installations on nearly all of the remaining solar-ready rooftops on City buildings, providing energy savings for the City and earning market investment returns. The ETI portfolio could make capital available for solar installations such as ground-mount or distributed community solar, as well as on privately-owned buildings.

- Providing start-up capital to M/WBE and Black- and Brown-owned businesses: M/WBEs face barriers to accessing capital to grow their enterprises. These businesses are the lifeblood of our local economy and create high-quality local jobs and support the City's long-term economic recovery. Small local investment funds are a very popular impact investing model, but many of these funds have struggled to raise capital at scale. Seeding and investing small neighborhood investment funds, community banks, and community development financial institutions (CDFIs) that prioritize underserved New York City neighborhoods could provide critical support to our local economies and small businesses.

  Through the strategic planning process, Brad will explore new ways to invest our City's pension funds, consistent with fiduciary duty, into NYC-based M/WBE start-ups, entrepreneurs and small businesses, particularly in neighborhoods where there are structural and systemic barriers to accessing capital and start-up funds. For instance, through the expansion of the pension funds' existing ETI program, the funds could act as a source of capital for neighborhood investment funds in New York City, which could help these funds grow at scale and provide critical ongoing support to small businesses, while generating appropriate risk-adjusted returns to the pension funds. Many similar loan programs outside of New York City have helped small businesses grow while maintaining low default rates; expanding them in New York City with City investment capital could be a game-changer for fair, democratic capital access for all of New York's entrepreneurs.

As Comptroller, Brad is committed to working with the City's pension boards' trustees as fiduciaries to realize a future that is more prosperous, more sustainable, more inclusive, more affordable, and more just -- all while protecting and enhancing the retirement security of the members.

RESPONSIBLE INVESTMENT ADVISORY GROUP

Brad has recruited a "Responsible Investment Advisory Group" to advise him, his campaign team, and his transition team on issues including asset and portfolio management, environmental, social, and governance (ESG) investing, and corporate governance. Members include (affiliations listed for identification purposes only):

- Vonda Brunsting, Program Manager, Institute for Responsible Investment, Harvard Kennedy School (fmr. SEIU Capital Stewardship)
- Sean Campbell, Founder, Capital for Communities (fmr. Macquarie Group, Marathon Asset Management, D.E. Shaw & Co.)
- Demetric Duckett, Managing Director, Capital for the New Majority, Living Cities
- Eric Horvath, Director of Capital Strategies, Common Future
- Jon Lukomnik, Sinclair Capital, author of Moving Beyond Modern Portfolio Theory (fmr. NYC Deputy Comptroller for Asset Management)
- Angela Matheny, Director of Investment Staff & Diverse Manager Equity at Crewcial Partners
- Keith Mestrich, retired President & CEO of Amalgamated Bank
- Carlos Naudon, President, Ponce de Leon Federal Bank
- Lenore Palladino, Assistant Professor of Economics and Public Policy, UMass Amherst, Fellow at Roosevelt Institute
- Delilah Rothenberg, Founder and Executive Director, Predistribution Initiative
- Robin Varghese, Associate Director, Knowledge and Innovation, Economic Justice Program, Open Society Foundations