

**SENATE
STATE OF MINNESOTA
NINETY-SECOND SESSION**

S.F. No. 3384

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DATE
02/24/2022

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OFFICIAL STATUS
Introduction and first reading
Referred to State Government Finance and Policy and Elections

1.1 A bill for an act
1.2 relating to State Board of Investment; mandating report on impact of climate
1.3 change on fossil fuel investments currently held by State Board of Investment.

1.4 BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

1.5 Section 1. **STATE BOARD OF INVESTMENT; REPORT ON RISKS OF**
1.6 **INVESTMENTS IN FOSSIL FUEL COMPANIES.**

1.7 Subdivision 1. Findings and purpose. The legislature finds and declares as follows:

1.8 (a) Climate change is a long-term problem that will affect the state's environment, health,
1.9 and economy for decades to come.

1.10 (b) Effects of global climate change are already occurring; sea ice has been lost, sea
1.11 levels are rising at accelerated rates, and extreme weather events are occurring with greater
1.12 duration and intensity.

1.13 (c) As global temperatures continue to rise, these effects will likely accelerate leading
1.14 to greater intensity and frequency of devastating weather events.

1.15 (d) The financial sector will be affected by the adverse effects of climate change.

1.16 (e) Climate change presents an array of material financial risks, including transition risk,
1.17 physical risk, and litigation risk, that responsible investors must take into account when
1.18 making investment decisions. Failure to acknowledge and address these risks will result in
1.19 exposure to subsequent liabilities and financial risk.

1.20 (f) If global temperature rise is to be limited to no more than two degrees Celsius,
1.21 governments must act to limit warming and hasten the transition to a low-carbon economy

2.1 by halting the extraction and development of carbon reserves. This regulatory risk will affect
2.2 major sectors of the global economy.

2.3 (g) If climate change and carbon emissions continue on their current trajectories, both
2.4 acute and chronic weather-related activity will greatly compromise the ability of businesses
2.5 that do not account for these changes to reliably generate returns.

2.6 (h) In the public pension investment context, these risks are especially salient. The State
2.7 Board of Investment has a fiduciary duty to retirement plan members, taxpayers, and the
2.8 state, to invest plan assets prudently. In order to meet this requirement and ensure sufficient
2.9 funding of both current and future retirees' benefits, the State Board of Investment must
2.10 consider both short-term and long-term effects of climate change and risks those effects
2.11 pose to retirement fund investments.

2.12 (i) The purpose of the report required by subdivision 2 is to determine the capability of
2.13 the State Board of Investment to measure and respond to the growing financial risks posed
2.14 by global climate change and to assess risks to the assets of the public pension and retirement
2.15 funds due to global climate change.

2.16 Subd. 2. **Report required.** (a) The State Board of Investment shall prepare a report on
2.17 the stability and security of investments in companies that are involved in the exploration
2.18 and extraction of fossil fuels. The report must be limited to assets of the public pension and
2.19 retirement funds managed by the State Board of Investment.

2.20 (b) The report shall include the following:

2.21 (1) a description of the fiduciary duties, prudent person standard, and other requirements
2.22 that govern the State Board of Investment's management of the retirement funds;

2.23 (2) definitions of fossil fuel investments and renewable energy investments;

2.24 (3) an assessment of the financial risks of continuing to stay invested in fossil fuel
2.25 companies, generally, and especially, continued investment in coal mining and producing
2.26 companies;

2.27 (4) identification of already available assessments of alternatives to fossil fuel
2.28 investments, including investment in renewable energy companies and engagement in the
2.29 governance of those fossil fuel companies that are transitioning to become exclusively
2.30 renewable energy resource companies;

2.31 (5) a summary of existing research on the processes, procedures, and policies utilized
2.32 by other public pension funds in the United States to address climate change issues;

3.1 (6) a description of how climate change is currently addressed in the combined retirement
3.2 funds of the State Board of Investment;

3.3 (7) identification of existing metrics to assess the impact of the carbon exposure of
3.4 individual companies and describe measures that would address potential adverse
3.5 consequences to the retirement funds of continued investment in companies holding a large
3.6 carbon footprint;

3.7 (8) identification of improvements that could be incorporated into the State Board of
3.8 Investment's proxy guidelines regarding environmental policies that encourage further
3.9 engagement in climate change initiatives; and

3.10 (9) identification of resources needed by the State Board of Investment to continue
3.11 acquiring knowledge on climate change risk and related investment alternatives.

3.12 (c) The State Board of Investment shall deliver its report on or before February 1, 2023,
3.13 to the chair, the vice-chair, and the executive director of the Legislative Commission on
3.14 Pensions and Retirement.

3.15 **EFFECTIVE DATE.** This section is effective the day following final enactment.