Testimony of

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Chair Massie, Ranking Member Correa, and Members of the Subcommittee:

My name is Dan Bienvenue, and I'm the Interim Chief Investment Officer for the California Public Employees' Retirement System (CalPERS). I have served in this interim role for the last nine months, and I have been a member of the CalPERS Investment Office for nearly 20 years, including in my primary role as Deputy Chief Investment Officer for our public market investments. Thank you for the opportunity to testify at today's hearing.

I am pleased to appear before you on behalf of CalPERS, and I am proud of the work that CalPERS does to preserve and grow the assets entrusted to it by California's public servants. As a fiduciary and a long-term investor, CalPERS considers many risks to its portfolio. This includes climate-related risks. This is, in our view, neither a hard nor a controversial decision. To the contrary, it would be irresponsible for us to ignore factors that can fundamentally impact the long-term viability of investments. It would likewise be imprudent to leave unchecked risks that can over time destroy shareholder value.

We're also humble enough to recognize that we can't go it alone. These are some of the greatest challenges of our era, and the greatest ideas come from bringing together a diverse set of voices. To that end, CalPERS is proud to participate in initiatives like Climate Action 100+ to help foster conversations with companies about ways to improve shareholder value. This is not collusion; it is collaboration. Every vote that CalPERS casts, and every engagement decision that it makes, is based on a single North Star: what is best for the long-term returns for California's public servants.

To help contextualize our approach, I will provide a brief overview of CalPERS, discuss our role as a fiduciary to our members, and offer some thoughts on the importance of corporate disclosure to investors and why we believe addressing climate change risk is so critically important to investors like CalPERS. My testimony will also address a $100 billion climate action plan that we recently announced. In short, the plan calls for new investments in the global energy transition over the next seven years to generate outperformance and minimize risk while cutting in half the climate impact of our investment portfolio.

About CalPERS

CalPERS is the largest public defined benefit pension fund in the United States, with approximately $500 billion in assets. We are a fiduciary who provides retirement benefits to more than 2.2 million public employees, including state and school employees and public servants of cities, counties, and special districts across California.

Last year, we paid more than $31 billion in retirement benefits. Delivering investment returns is our number one job. In the first nine months of this fiscal year, our investments are returning 7.8 percent. Over the long term, nearly 56 cents of every dollar paid in benefits comes from investment returns. The remainder comes from members and their employers. Achieving strong investment returns helps to reduce the cost to our employers and ultimately to taxpayers.

CalPERS is guided by our fiduciary duties of prudence and loyalty and our duty to diversify investments. Under the California Constitution and the state's Public Employees' Retirement Law, we must discharge our responsibilities for the exclusive purpose of providing benefits to participants and beneficiaries. This duty takes precedence over any other duty.

As such, we have a long history of being an active shareholder and an advocate for good corporate governance in corporate America. A fulsome body of research and evidence has established that good corporate governance is good for shareholder value. This data shows that the resiliency of U.S. equity markets benefits from and is sustained by corporate governance practices that CalPERS has long supported: improvements in board independence and composition, as well as the reduction of takeover defenses, to name some examples.

Our views are reflected in a set of Investment Beliefs adopted by the CalPERS Board of Administration that, among other statements, reflect that long-term value creation requires effective management of three forms of capital (financial, physical, and human) and a focus on multi-faceted risks. Therefore, CalPERS engages corporate management and boards on governance, climate change risks, and human capital practices.

For these very reasons, CalPERS recently cast its shareholder votes in opposition to all 12 members of ExxonMobil's board of directors and its chief executive officer at its annual shareholder meeting last month. This is not a decision we arrived at lightly, but it is one we felt compelled to make because we believe in the fundamental right of shareholders to ask companies tough questions and, where appropriate, file shareholder proposals. That right is now under attack at Exxon as a result of a lawsuit designed to punish two small groups of shareholders. If successful, the legal action could diminish the role—and the rights—of every investor in improving a company's bottom line.

We understand that not everyone agrees with our views on Exxon, or various other positions, and that's part of the beauty of having a diverse group of shareholder voices.

In our system, shareholders get to engage with companies, and those companies, after being exposed to a marketplace of ideas, get to decide how to respond. Far from being a legal problem to tamp down on, this is quintessential free speech to embrace. It is the unnecessary restriction of those opportunities, rather than their availability, that is the true threat to investor value.

As important as these governance considerations are, it is equally important to understand that they are only some of the many factors that we take into account when making investment decisions. CalPERS's Investment Beliefs also reflect several other considerations, including ensuring that cash requirements are accounted for, managing costs, having a strategic asset allocation, and taking risk only when there is a strong belief that a reward will ensue.

Investor Need for Corporate Disclosure

Since the 1930s, Congress has repeatedly tasked the Securities and Exchange Commission with administering a set of securities laws that are based on the notion that disclosure of financial results and business risks—specifically, those that are known to management—must be qualitatively sufficient for investors to participate in America's capital markets and make informed decisions about how to allocate scarce capital. Following the bankruptcies of Enron and MCI WorldCom in 2001 and 2002, respectively, Congress ushered in the modern era of corporate disclosure by enacting the Sarbanes-Oxley Act (SOX), which created the Public Company Accounting Oversight Board (PCAOB) and established an accounting support fee to fund both the PCAOB and the Financial Accounting Standards Board (FASB).

That era also resulted in a corporate disclosure revolution in which investors began seeking ways to determine corporate value without relying solely on quarterly results, particularly earnings per share (EPS). CalPERS has consistently advocated for well-regulated capital markets and corporate transparency sufficient to adequately inform investment decisions. Today, investors are increasingly looking for enhanced disclosures on financially material risks for both short- and long-term systemic challenges, such as the risks presented by climate change. The consideration of climate-related financial risk and other factors is a necessary component of responsible investing, and it is largely an investor-driven effort to keep up with the ever-evolving landscape of our global economy.

Why Climate Change Is an Important Risk to Consider for Investors Like CalPERS

Climate change presents an existential threat to the planet—one we cannot afford to ignore as long-term investors. The consequences of inaction will be measured not just by the impact on Californians and their communities, but also on the bottom line of the many companies we rely upon to generate the investment returns that pay benefits.

As a long-term investor in the global economy, the scale and multi-faceted nature of climate change presents a systemic risk to our investment portfolio in two ways. First, physical impacts, such as wildfires, extreme weather, and droughts, can affect our fixed assets and disrupt portfolio companies' supply chains and operations. Climate change's acute and chronic physical impacts can also drastically impact people's health, food security, migration, water supply, and other ecosystem services in ways that could bring heightened volatility to financial markets and harm economic growth.

Second, transition risks, or shifts in policies, technologies, industries, and customers due to changed climate or movement toward a lower-carbon economy, can affect the financial success of existing business models and industries. The long-term success of the companies in which we invest is dependent upon the degree to which they can successfully navigate these transitions.

How We Maximize Returns and Address Climate Change Risk

Our roadmap to address climate change is found in our Sustainable Investments Program, which leverages the best available science and tools to inform our investment decisions.

We seek to minimize the absolute risk from climate change to our investment portfolio in several ways, including:

- Engaging with the management and corporate boards of companies we own to encourage them to give thoughtful consideration to their greenhouse gas emissions.

- Ensuring climate change risks and opportunities are part of our investment decision-making.

- Partnering with investor-led initiatives such as Climate Action 100+ to advocate for the world's largest corporate greenhouse gas emitters to take necessary action on climate change, and involving ourselves with international bodies such as the United Nations Net Zero Asset Owner Alliance, with members committed to transitioning their investment portfolios to net zero greenhouse gas emissions by 2050.

- Identifying investment opportunities that can drive the transition to a low-carbon economy and help with emission reductions across our portfolio.

It’s these last two points that I would like to expand upon further.

CalPERS and Climate Action 100+

Six-and-a-half years ago, a large group of global institutional investors decided to do something bold. Those investors launched a coalition committed to a set of principles in the response to climate change. CalPERS was a catalyst for the coalition.

The mission was straightforward: Identify 100 companies with some of the highest greenhouse gas emissions and use our voices as shareholders to advocate for these companies to do better.

Climate Action 100+ is an investor-led initiative directed at focused engagement with systemically important greenhouse gas emitters and other companies across the global economy—companies that have a significant opportunity to drive the clean energy transition and help achieve the goals of the 2015 Paris Agreement. CalPERS co-founded Climate Action 100+ in 2017. CalPERS also served as its inaugural Steering Committee chair and has resumed that role again this year.

Today, the initiative has more than 700 investor signatories. Of the 170 focus companies, 42 are oil and gas companies.

The objective of Climate Action 100+ is to engage each focus company to seek improved governance oversight of climate-related risks and opportunities, curb emissions across the value chain, and strengthen climate-related financial disclosures in line with the Taskforce on Climate-Related Financial Disclosures (TCFD).

To be clear, this is engagement, not divestment. CalPERS has active investments in approximately 90 percent of the 170 Climate Action 100+ companies. CalPERS holds these positions because we believe owning these companies provides good value for our members. But we also think we can use our voices to bring about changes that will make them even better investments, and that is what Climate Action 100+ is about. Through corporate engagement, we exercise our ownership rights to hold boards accountable for their oversight of management strategy. The underlying objective is to ensure these companies are managed to create long-term, sustainable value for shareowners, consistent with CalPERS's fiduciary duty.

Make no mistake: These efforts have produced real results that substantially benefit the long-term outlook for our members. As a result of our work, more than 75 percent of companies have now adopted a goal of net zero by 2050, and more than 90 percent of companies have taken steps to align reporting with the TCFD recommendations. However, such disclosures are not standardized and therefore are not comparable. Therefore, we are working to encourage issuer adoption of standards issued by the International Sustainability Standards Board (ISSB) in order to establish a global baseline of financially material risk disclosures for the benefit of investors.

$100 Billion Climate Action Plan

Let me now turn to CalPERS's plan, announced in November 2023, that commits to investing $100 billion in the industries that are rapidly growing in response to climate change. The plan more than doubles the size of our climate investment portfolio over the next seven years to generate outperformance through more selective investments, while reducing greenhouse gas emissions of our portfolio by 50 percent. The $100 billion plan will focus on three main areas of investment.

Mitigation

First, we will invest in mitigation. These are strategies that reduce greenhouse gases, such as renewable energy, carbon capture, and waste management. The transition to a low-carbon economy drives unprecedented growth in mitigation solutions. Government policies, like the Inflation Reduction Act, positively impact the economics of mitigation solutions and create new opportunities.

Adaptation

Second, we will invest in adaptation. These are strategies designed to manage water supply, rethink agriculture practices, and develop early warning systems and community preparedness for natural disasters. Heightened global awareness about the frequency and severity of climate-related hazards and increased occurrence of negative events make the timing right for adaptation investments.

Transition

Finally, CalPERS will invest in transition opportunities, often referred to as “brown to green” investments. These are strategies designed to incentivize high emitters to develop more climate-friendly operations.

The marketplace for these investments is ripe with opportunity. Our plan can not only help fuel the global energy transition, but more importantly, deliver value for our portfolio and our members.

Conclusion

Our primary fiduciary duty is to make good investments to fulfill our responsibility to our members. We believe companies’ long-term value creation requires effective identification, monitoring, and management of risks and opportunities. We have a long history of focusing on these risk areas because of their potential impacts on our returns, and it is investors like CalPERS who ultimately bear the costs when these risks are not managed adequately.

Our goal isn’t just to make our portfolio look good; it’s to ensure that our investment decisions make a difference by providing secure benefits for our members and by mitigating climate change risk. These two goals are not mutually exclusive; in fact, they are aligned.

We are not just investors. We serve those who serve California, a membership of more than 2.2 million state, school, and local employees who depend on us to provide the retirement benefits they’ve worked hard for.

We believe we can play an important role in this critical effort, and we appreciate this opportunity to tell you about our plan.

Thank you again, Chair Massie, Ranking Member Correa, and members of the Subcommittee, for inviting us to participate in this hearing. I look forward to answering your questions.