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New York's $226 Billion Pension Fund Is Dropping Fossil Fuel Stocks

The fund will divest from many fossil fuels in the next five years and sell its shares in other companies that contribute to global warming by 2040.

By Anne Barnard

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New York State's pension fund, one of the world's largest and most influential investors, will drop many of its fossil fuel stocks in the next five years and sell its shares in other companies that contribute to global warming by 2040, the state comptroller said on Wednesday.

With $226 billion in assets, New York's fund wields clout with other retirement funds and its decision to divest from fossil fuels could accelerate a broader shift in global markets away from oil and gas companies, energy experts and climate activists said.

The announcement came months after the fund moved to sell its stock in 22 coal companies. New York City, San Francisco, Washington and several smaller cities have also adopted fossil-fuel divestment programs, but New York State's commitment to an even more sweeping plan is more significant, especially given the state's centrality to the global financial markets.

The state comptroller, Thomas P. DiNapoli, had long resisted a sell-off, saying that his primary concern was safeguarding the taxpayer-guaranteed retirement savings of 1.1 million state and municipal workers who rely on the pension fund.

But on Wednesday, Mr. DiNapoli signaled that his main reason for adopting the new plan now was his duty to protect the fund and to set it up for long-term economic success in a world that is moving away from fossil fuels.

“New York State’s pension fund is at the leading edge of investors addressing climate risk, because investing for the low-carbon future is essential to protect the fund’s long-term value,” he said in a statement.

Mr. DiNapoli said the fund would drop stocks that do not meet new standards requiring them to show “future ability to provide investment returns in light of the global consensus on climate change.”

With the plan, New York State’s fund has taken a prominent role in a movement that is growing around the world, with pension funds in the United Kingdom, Ireland and Sweden adopting divestment plans. António Guterres, the United Nations secretary general, has urged governments, foundations and universities to follow suit.

Mr. DiNapoli, who is the fund’s sole trustee, joins other investors in concluding that energy companies that do not reshape themselves to part with oil and gas are poor long-term bets. A growing number of shareholders also seek to use their financial clout to address the threat of climate change.

The plan is the result of an agreement among Mr. DiNapoli and state lawmakers who, spurred by an eight-year campaign by climate activists, had been poised to pass legislation requiring him to sell fossil-fuel stocks. The legislators pushed him to act more urgently. He persuaded them that a broader, more nuanced approach would accomplish more.

Instead of requiring the dumping of specific stocks, the plan forces energy companies to drastically change their businesses or face divestment. In a longer-term but much more sweeping step, it also requires all companies in the fund’s portfolio to stop spewing planet-warming gases.

New York’s decision is a setback for oil and gas companies and industry groups. A recent slide in the value of their stocks — ExxonMobil wrote down $20 billion in assets last month — has undermined their main argument against divestment: that fund managers’ first responsibility to retirees and other investors is to maximize profits. The companies also argue that being an active shareholder is the best way to curb pollution.

But Mr. DiNapoli, who also long advocated for engagement over divestment, said a turning point for him came with what he called ExxonMobil’s “disappointing, frustrating” rebuffs in recent years to the New York State fund, California’s teachers’ pension fund and other shareholders that have pushed for a more environmentally sustainable business plan.

“Clearly this will put pressure on companies to be much more transparent about how they’ll transition away from fossil fuels and reduce emissions,” said Alice C. Hill, a senior fellow at the Council on Foreign Relations who studies climate risks.

Pension funds, Ms. Hill added, are conservative investors that have been reluctant to make decisions that could be seen as political, “so for a major investor to say we’re getting out of this business sends a very strong market signal that climate change is a financial risk.”

Other major investors, including BlackRock, the world’s largest asset management firm are also pressing firms to reduce their carbon footprints and be transparent about how and whether they plan to manage the risks of climate change.

BlackRock and others, in turn, are under growing pressure from clients and climate protesters to apply such scrutiny. Many fund managers, like Mr. DiNapoli, have also called for new federal securities rules to require companies to disclose the risks that climate change poses to their business models.

With the new plan, New York’s fund, the New York State Common Retirement Fund, is committing to sell its investments in any oil, gas, oil-services and pipeline companies that do not have clear plans to abandon the fossil fuel business. Few companies have disclosed such plans.

"There will be additional divestments," Mr. DiNapoli said in an interview on Wednesday, adding that he was also signaling to companies that the fund could stay invested "if you're willing to embrace the change that's required and state that clearly."

Last year, the fund owned about $12 billion in fossil fuel-related companies, including producers, service companies and utilities, according to climate activists' analysis of published data. The fund currently owns $2.6 billion worth of stock in large fossil-fuel producers like ExxonMobil, a narrower category.

Skeptics warn that fossil fuel companies could foil the plan by persuading the fund that they are changing when they are not.

But State Senator Liz Krueger, a Manhattan Democrat who was a lead sponsor of the divestment bill, noted that the plan included hiring experts to vet such claims. She added that she would not have withdrawn the bill if she believed the fund's managers could "be fooled."

The heart of the plan, Mr. DiNapoli said, is a measure that goes far beyond fossil fuels: an economywide effort to push all companies the fund invests in — utilities, manufacturing, transportation and more — to reduce the amount of planet-warming greenhouse gases they and their suppliers emit. The fund is committed to selling its stakes in the firms if they do not eliminate such emissions by 2040.

The plan could free up billions of dollars for potential investment in renewable energy and carbon-neutral industries; Mr. DiNapoli said it could help the fund meet its goal of increasing its investments in "climate solutions" from $11 billion to $20 billion.

Richard Brooks, a senior strategist with the climate advocacy group 350.org, welcomed the plan.

"People now understand that it's pension funds and universities and asset managers who are all enabling this industry, propping it up and allowing it to continue to pollute in communities, cause climate change and lobby against meaningful climate action," said Mr. Brooks, whose group was one of 40 climate advocacy and retiree organizations that waged the eight-year campaign to persuade New York institutions to shift their investments.

He added, "It's part of a larger movement, increasingly including some banks and insurance companies, to reshape the financial industry in the U.S."

According to DivestInvest, a group that tracks and promotes the divestment movement, 1,246 institutions and nearly 60,000 individuals have committed to shedding their investments in fossil fuels. The total combined value of their portfolios is $14.1 trillion; their fossil fuel assets are only a portion of that sum since most large institutions invest across a range of sectors.

The movement to dump fossil fuel stocks began as an effort to make an ethical statement and to cast polluters as pariahs, much like the push to divest from apartheid-era South Africa.

The Paris climate agreement, which set targets for reducing greenhouse-gas emissions, also increased pressure on the industry. Under President Trump, the United States is no longer part of the global climate accord. President-elect Joseph R. Biden Jr. has pledged to rejoin.

Since 2012, when Hurricane Sandy killed more than 100 people, flooded parts of Manhattan, including Wall Street, the financial center, and caused tens of billions of dollars in damage, climate-related issues have gained importance in finance and politics, especially in New York.

Committing to the divestment plan in the depths of the Covid economic crisis, analysts say, reflects a confidence among some fund managers that unloading their fossil fuel holdings is their fiduciary duty, a responsibility to act in the best interests of shareholders and investors.

The fossil-fuel divestment movement has also grown on American college campuses, where it began in the early 2010s. It accelerated after huge climate protests in New York and around the world in 2019 and this year as extreme weather wreaked havoc and protests against structural racism highlighted climate change's disproportionate impact on low-income communities of color.

John Schwartz contributed reporting.