



New York State Teachers' Retirement System
*Providing Retirement Security and Modeling Pension
Fund Excellence Since 1921*



**Update to the Legislature Regarding NYSTRS' Deliberative
Process to Address Climate Risk and Opportunities**

Retirement Board Adopts Initial Climate Change Action Plan
December 28, 2021

10 Corporate Woods Drive, Albany, NY 12211
(800) 348-7298 | NYSTRS.org

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Cover Image:

NYSTRS headquarters at 10 Corporate Woods Drive in Albany, NY.



The Retirement System’s wholly owned office building was built in 1984. In 2017, following a number of sustainability and efficiency upgrades, NYSTRS’ building was awarded the LEED Silver certification.

LEED (Leadership in Energy and Environmental Design) certification is a globally recognized symbol of sustainability achievement and leadership. Projects pursuing LEED certification earn points for green building strategies across several categories. Based on the number of points achieved, a project earns one of the four LEED rating levels: Certified, Silver, Gold or Platinum.



New York State Teachers' Retirement System

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(800) 348-7298 or (518) 447-2900
NYSTRS.org

Thomas K. Lee, Executive Director & CIO

December 28, 2021

Dear Members of the Legislature,

The New York State Teachers' Retirement System ("NYSTRS" or the "System") is among the best-funded public pensions plans in the nation. During its 100th anniversary year, the System is nearly 100% funded based on the estimated actuarial value of assets as of June 30, 2021. NYSTRS' 30-year rate of return, net of fees, was 9.2%. These results are top decile compared to peer public pension plans.

Earlier this year, NYSTRS issued a statement regarding the Teachers' Fossil Fuel Divestment Bill S4783-A/A6331-A ("Divestment Bill"). It concluded with a commitment to update the Legislature by December 31, 2021 on the Retirement Board's deliberative process in analyzing the System's climate risks and opportunities. It is my pleasure to provide you with this Update ("Update").

As noted in the April 30 statement, NYSTRS agrees with the sentiment of the Divestment Bill which articulates global climate change as a risk that must be mitigated. As you know, climate change is a complex issue. Mitigation efforts to address climate change require comprehensive and broad-based public policy and regulatory directives; investment in green technology and infrastructure; and corporate and individual commitments to reduce the use of fossil fuels.

NYSTRS' Retirement Board has been actively working with consultants and System staff on a number of climate-related matters. Today, as a result of deliberative analysis and procedural due diligence, the Board unanimously took initial action on climate change by authorizing divestment from directly held public equity securities in companies that derive more than 10% of their revenue from activities related to thermal coal. Further, under the Board's climate action plan, for directly held public equity holdings in internal and passive external portfolios, the System will cease further investment in the 10 largest positions held by the System in companies that have more than 0.3 gigaton of potential CO₂ emissions from thermal coal reserves; the 10 largest positions held by the System in companies that derive more than 20% of their revenue from oil and gas, or have more than 0.1 gigaton of potential CO₂ emissions from oil and gas reserves; and companies that derive more than 10% of their revenue from activities related to oil sands. Further details about these actions, as well as additional measures with respect to the System's Stock Proxy Voting Policy, engagement efforts and the development of a Responsible Investment Pathway, are more fully explained in the Update.

NYSTRS understands its important responsibility as an institutional investor to actively pursue the path to a climate-conscious future. This initial climate action plan squarely puts the System on that path while remaining consistent with NYSTRS' fiduciary duties. The Board is committed to remaining engaged in a comprehensive, deliberative process to evaluate the long-term impact of climate change on the System's investments. Further, the Board pledges to navigate climate-change related matters with the same

diligence, care and prudence it exercises in managing the Fund to ensure retirement security for our nearly 435,000 members.

The System will provide an update regarding the status of the initial climate action plan, and any potential additional actions, following the Board's January 2023 meeting. In the meantime, do not hesitate to contact me if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas K. Lee". The signature is fluid and cursive, with the first name "Thomas" being the most prominent.

Thomas K. Lee
Executive Director & Chief Investment Officer

Update to the Legislature Regarding NYSTRS’ Deliberative Process to Address Climate Risk and Opportunities *Retirement Board Adopts Initial Climate Change Action Plan*

Introduction

NYSTRS’ Retirement Board is committed to being active and thoughtful stewards of System assets. Together with staff, the Board continues to deliberatively analyze the System’s portfolio for climate risks and opportunities that support the transition to a more sustainable future.

On December 28, 2021, the Board adopted an initial climate action plan as a first step in NYSTRS’ deliberative process regarding portfolio adjustments. This Update summarizes the climate action plan, which carefully considers NYSTRS’ exposure to fossil fuel companies in a prudent and balanced approach that is supported by sound investment rationale consistent with the System’s fiduciary duties.

Of particular note, the System’s initial climate action plan calls for:

- Divestment from all directly held public equity thermal coal holdings that derive more than 10% of their revenue from activities related to thermal coal (see details on page 8 and in Appendix A).
- Creation of a Restricted List to “freeze” or prohibit directly held internal and passive external public equity portfolios from further purchases of certain carbon-intensive fossil fuel holdings, including:
 - The 10 largest positions held by the System in companies that have more than 0.3 gigaton of potential CO₂ emissions from thermal coal reserves.
 - The 10 largest positions held by the System in companies that (i) derive more than 20% of their revenue from oil and gas, or (ii) have more than 0.1 gigaton of potential CO₂ emissions from oil and gas reserves.
 - Companies that derive more than 10% of their revenue from activities related to oil sands.

(The Restricted List emissions and revenue test criteria are described on page 8 and in Appendix A.)

- Prioritizing the companies on the Restricted List for engagement efforts, to the extent that the System directly holds equity securities in such companies, seeking to engage with such companies on their climate transition plans.
- Revisions to NYSTRS’ Stock Proxy Voting Policy to more clearly articulate the System’s use of proxy voting to affect climate-friendly change among its portfolio holdings.
- Participation as an Investment Advisory Group member of the Value Reporting Foundation’s Sustainability Accounting Standards Board to support the global adoption of environmental, social and governance (“ESG”) sustainability reporting standards.

The initial steps to address climate risks and opportunities related to the System’s portfolio are explained on the ensuing pages. While the System’s climate action plan is an important first step, the Retirement Board’s ongoing deliberative process will continue in 2022 and beyond. NYSTRS anticipates undertaking further deliberations in a number of different areas, which are explained on page 9.

NYSTRS’ Mission: Provide Our Members with a Secure Retirement

NYSTRS is a defined benefit pension plan with the sole mission of providing our members with a secure

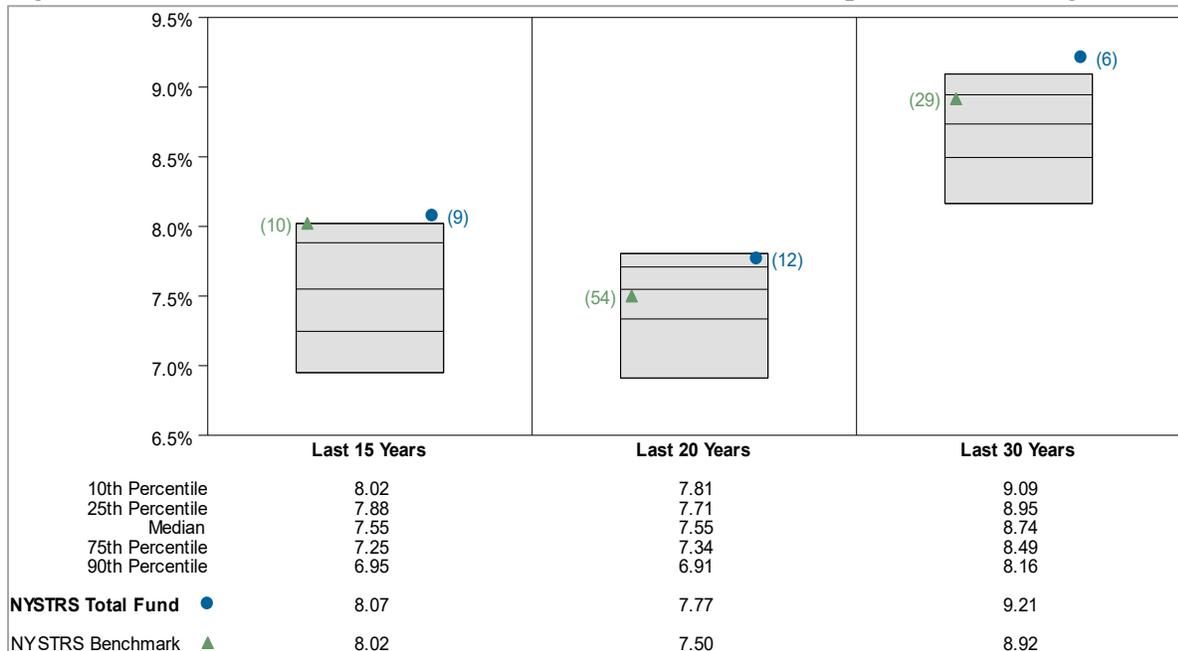
pension they cannot outlive. As of June 30, 2021, we serve 434,948 active members, retirees and beneficiaries. During the last fiscal year, the System paid \$7.7 billion in retirement benefits. During its 100th anniversary year, the System is nearly 100% funded based on the estimated actuarial value of assets as of June 30, 2021. Our status as one of the best-funded public pension plans in the nation is a distinction the System holds in very high regard.

The System has a well-diversified and prudently managed investment portfolio that provides appropriate long-term risk-adjusted returns. This diversification of assets helps us earn the highest possible long-term rate of return within appropriate risk levels. In turn, this enables us to pay guaranteed benefits to members and their beneficiaries at the lowest possible cost to participating employers and the taxpayers that fund them.

Over the 30-year period from July 1, 1991 to June 30, 2021, the System paid \$133.6 billion in benefits. During that same period, approximately 86% of the System’s income was generated from investments, far exceeding the industry average of approximately 61%.

NYSTRS’ total fund performance results for the last 15 and 30 years are top decile, and for the last 20 years was in the top 12th percentile, compared to a peer group of large pension plans (see Figure 1)¹.

Figure 1. NYSTRS’ Total Fund Performance Relative to Peer Groups. Periods Ending 6/30/21.



Consistent with its fiduciary duties, NYSTRS continues to actively investigate how to best integrate ESG factors, including the risks and opportunities associated with climate change, into its investment analysis and portfolio construction.

¹ Callan, *NYSTRS Asset Allocation and Performance Statistics as of June 30, 2021*. The “Callan Public Fund Sponsor Very Large Peer Group” consists of 39 constituent funds with average Assets Under Management (AUM) of \$44.7 billion and a median AUM of \$37.9 billion. The peer group includes Callan clients and anonymously shared data from BNY Mellon and Investment Metrics.

The Board's Fiduciary Duties, Investment Beliefs and a Responsible Investment Pathway

NYSTRS' Board has three relevant fiduciary duties under New York State regulations (11 NYCRR §136-1.6) and applicable law:

- To act in the best interests of the members of the System.
- To use the assets of the System exclusively for the benefit of the members of the System and not for other purposes.
- To prudently manage the assets of the System, using appropriate skill, care and diligence under the circumstances then prevailing.

The Board is committed to its fiduciary duties to act in the best interest of the System's members and to prudently manage System assets using appropriate skill, care and diligence. The Board's unequivocal focus at all times is to ensure the System is sufficiently funded in order to fulfill its mission of providing our members with a secure pension.

In 2020, NYSTRS engaged Mercer as its ESG consultant and Reed Smith LLP as its fiduciary counsel. Together with Callan, the System's general investment consultant, Mercer and Reed Smith are collaboratively guiding the System through the process of considering ESG matters and the impact of such factors on the Board's fiduciary duty to the System's members.

As the Board considers the complexities of ESG matters, Reed Smith advises that responsible and thoughtful stewardship by a collective board of trustees requires prudent decision-making processes consistent with Board-established policies and procedures, informed knowledge, a thorough consideration of relevant facts, and a reasoned, unbiased exercise of judgement. Further, what follows is timely monitoring of the impacts of the decision and making future adjustments based on circumstances then prevailing. As per the Board's fiduciary duties, the Board has an obligation to observe procedural due diligence in making investment decisions in the best interests of the System's members.

Reed Smith's advice letter to the Board, which concludes that the deliberative process in which the Board has engaged and its adoption of the resolution regarding climate change actions are consistent with the Board's fiduciary duties to the System and its members, is found in Appendix B.

The Board thoughtfully and diligently considers complex ESG matters and how they relate to the System's long-term investments, including hearing from climate advocates, and multiple experts regarding the energy sector, climate change, fossil fuel divestment and other ESG-related issues. See Appendix C for a table of Retirement Board and committee meetings on energy, climate, divestment and ESG issues.

From November 2020 through August 2021, the Board was actively engaged in a deliberative process to develop its Investment Beliefs, which have been incorporated into the Board's Governance Manual and which are found in Appendix D of this Update. Simply put, the Board is committed to its fiduciary duty to provide members with a secure retirement – a principle that guides every decision it makes with respect to the pension fund.

The Board's Stewardship investment belief states, "As fiduciaries, we must be responsible and thoughtful stewards of the Fund, acting for the exclusive benefit of NYSTRS' members and beneficiaries."

Responsible stewardship includes:

- Making prudent investment decisions, consistent with our fiduciary duties under a disciplined risk-controlled strategy.

- Promoting responsible corporate governance.
- Being active owners of public and private companies, including but not limited to: voting proxies, participating on Limited Partner Advisory Committees, and capitalizing on the System’s assets to achieve investment goals and objectives in a responsible manner.
- Collaborating with other institutional investors to harness collective influence in engagement efforts.
- Actively participating with external organizations to help shape future rules and regulations related to sustainable investing (e.g., Value Reporting Foundation efforts to advocate for consistent, comparable and reliable ESG data).

The Board’s Investment Beliefs are the foundation for creating a pathway to effectively integrate ESG factors in a responsible manner. The Board is working diligently with its aforementioned external consultants to develop its Responsible Investment Pathway.

Immediate areas of action are the System’s Stock Proxy Voting Policy, divestment of thermal coal holdings, and a restricted list of potentially at-risk companies subject to enhanced monitoring, due diligence and stewardship as noted in the following section.

NYSTRS Updating Stock Proxy Voting Policy on Climate-Related Issues

As an active asset owner, NYSTRS engages with its portfolio companies via proxy voting. Through our stock ownership, proxy voting is one of the most important tools NYSTRS can use to exert influence on public companies to transition to a low-carbon economy. Through our proxy voting activities, including voting on shareholder proposals related to climate change, we can influence public companies to adopt best practices in managing climate change-related issues. Importantly, the System can leverage its seat at the table to promote responsible corporate policies and activities. NYSTRS would not have the same influence on a global landscape without leveraging its active ownership and a responsible proxy voting policy.

The System is currently in the process of reviewing and updating its Stock Proxy Voting Policy, including but not limited to codification of the System’s proxy voting practices on climate and other sustainability issues. Revisions to the policy regarding environmental issues include the following:

- Companies should disclose the environmental sustainability policies and practices most closely tied to the company’s ability to create long-term value for investors.
- Significant risks and opportunities related to climate change and other environmental factors should be disclosed, as well as how the company identifies, measures and manages these risks and opportunities. These risks should include relevant physical and transition risks and opportunities.
- Companies with significant greenhouse gas (GHG) emissions or other negative environmental impacts should disclose plans for transitioning to a more sustainable business model, including GHG emissions and explicit reduction targets where such emissions are material.
- Explicitly calling for executive compensation plans to be tied to relevant sustainability performance objectives, and disclosure of the objectives and rationale for selecting them.

The Board will consider the revised policy at its January 27, 2022 meeting.

Climate Transition Via Asset Ownership

Through its ownership of a broad market portfolio, NYSTRS participates in the evolution of the global economy that is adapting to the risks and opportunities posed by climate change. For example, NYSTRS' public equities portfolios include investments in renewable energy; wind turbines; biofuels; liquefied natural gas; lithium-ion batteries; and electric vehicles.

NYSTRS' portfolios also reflect many of the industry leaders that are embracing the transition to a more sustainable future. For example, NYSTRS owned 99 of the top 100 most sustainable publicly traded companies ranked by Barron's in 2020.

The integration of climate change-related risks and opportunities is an exceedingly complex and intricate undertaking. In July 2021, Mercer completed an assessment of the climate transition readiness of the System's portfolio as of June 30, 2021, using a proprietary tool called Analytics for Climate Transition ("ACT"). Mercer's ACT tool is a multi-factor model that aims to assess the transition capacity of NYSTRS' portfolio along a spectrum ranging from high carbon intensity assets with low capacity to transition ("Grey" assets), to assets that have low carbon intensity or have high capacity to transition ("Green" assets), and assets that are in between ("In-between" assets). Mercer's analysis found that the vast majority of NYSTRS' public equity portfolio as of June 30, 2021 consists of In-between and Green assets, with only a very small portion (approximately 2%) of Grey Assets (see Figure 2).

Figure 2. Mercer's ACT Transition Assessment of NYSTRS' Public Equity Portfolio as of 6/30/21.



The global transformation to a low carbon economy will affect every economic sector and every facet of NYSTRS' investment portfolio. All companies – including those far removed from the fossil fuel production industry – will be impacted by decarbonization in the following decades. For example, increased government regulations to limit greenhouse gas emissions may result in increased compliance costs, capital expenditures and other financial obligations for all companies in NYSTRS' portfolio. The ACT analysis therefore examines the transition readiness of NYSTRS' entire portfolio, not just specific holdings in the fossil fuel production industry. The integration of climate change-related risks and opportunities thus is an exceedingly complex and intricate undertaking.

NYSTRS' Initial Climate Action Plan: Creation of a Divestment List and a Restricted List

At its December 28, 2021 meeting, NYSTRS' Retirement Board unanimously adopted an initial climate action plan as a first step in its ongoing deliberative process on portfolio adjustments related to certain

carbon-intensive fossil fuel holdings. The resolution formulating the climate action plan is found in Appendix A.

NYSTRS' initial climate action plan resulted from a lengthy, robust deliberative process involving the Retirement Board, NYSTRS staff, Mercer, Callan and Reed Smith. This initial climate action plan carefully considers NYSTRS' exposure to fossil fuel companies in a prudent and balanced approach that is supported by sound investment rationale and is consistent with its fiduciary duties. Under this initial climate action plan, NYSTRS will focus initially on public equities securities that are directly held, and from these securities, NYSTRS will develop and take action on two lists:

- **DIVESTMENT LIST.** Divest from all of the System's directly held public equity securities in companies that derive more than 10% of their revenue from thermal coal.
- **RESTRICTED LIST.** Cease further purchase of shares for directly held public equity securities in the System's internally managed portfolios and externally managed passive portfolios of companies that meet the following criteria:
 - The 10 largest positions held by the System in companies that have more than 0.3 gigaton of potential CO₂ emissions from thermal coal reserves;
 - The 10 largest positions held by the System in companies that (i) derive more than 20% of their revenue from oil and gas, or (ii) have more than 0.1 gigaton of potential CO₂ emissions from oil and gas reserves; and
 - Companies that derive more than 10% of their revenue from oil sands.

In addition to prohibiting further purchases of shares of companies on the Restricted List, NYSTRS will also target these companies for prioritized engagement efforts to the extent that NYSTRS directly holds equity securities in such companies. The analysis of companies on the restricted list includes forward-looking factors, including transition readiness. There are companies on the restricted list that are committed to climate transition – a factor we look favorably upon and one that underscores the value of retaining ownership of certain holdings on the list.

The Divestment List and the Restricted List will be periodically reviewed and updated as appropriate. Using market values as of September 30, 2021, the estimated aggregate market value of holdings on the Divestment List is approximately \$66.3 million, and the estimated aggregate market value of holdings on the Restricted List is \$1.036 billion.

NYSTRS staff will implement the action plan noted above in a timely and prudent manner.

Climate Disclosure Frameworks & Standards

Access to clear, consistent and reliable climate-related disclosures from companies help asset owners such as NYSTRS evaluate climate change-related risks and opportunities in their investment portfolios and make informed investment decisions. As noted in the Board's Stewardship Investment Belief, the System is actively participating with external organizations to help shape future rules and regulations related to sustainable investing.

One such example is the System's active participation with groups such as the Value Reporting Foundation ("VRF," formerly the Sustainability Accounting Standards Board or SASB) in this developing area. NYSTRS supports the SASB standards and participates as an active member of the SASB Standards Investor Advisory Group ("IAG"). The IAG of the SASB Alliance comprises leading global asset owners, asset managers, and investment intermediaries who recognize the need for consistent,

comparable, and reliable disclosure of financially-material, decision-useful ESG information to investors. SASB Standards IAG members recognize the SASB Standards as being globally applicable as part of a core set of company ESG disclosures and ask issuers to use SASB Standards in disclosures to investors. NYSTRS' commitment includes participating on the IAG Corporate Engagement and U.S. Policy and Regulatory working groups.

During the recent COP26 summit, the International Financial Reporting Standards ("IFRS") Foundation announced the formation of the International Sustainability Standards Board ("ISSB") and the commitment of the Climate Disclosure Standards Board ("CDSB") and the VRF to consolidate, laying the groundwork for a global sustainability disclosure standard-setter for the financial markets.

In light of demand for climate change information and questions about whether current disclosures adequately inform investors, Securities & Exchange Commission ("SEC") Acting Chair Allison Herren Lee on March 15, 2021 requested public input from investors, registrants and other market participants on climate change financial disclosure. NYSTRS was the first large public pension plan to respond to the SEC's request. In its May 21, 2021 comment letter to the SEC, NYSTRS supported SASB's approach to standard setting for a full range of financially material sustainability factors, including those related to climate change. NYSTRS supported SASB's position and urged the SEC to consider the points made by SASB to "ensure markets have access to consistent, comparable, reliable information on financially material risks and opportunities related to climate change and other sustainability factors."

The Retirement Board's Focus for 2022

NYSTRS' initial climate action plan is only the first step in this ongoing deliberative process. As the Retirement Board's deliberative process continues in 2022, NYSTRS anticipates undertaking further deliberations in a number of different areas, including but not limited to the following:

- Complete due diligence of the oil sands industry no later than December 31, 2022 with a recommendation to the Retirement Board at its January 2023 meeting.
- Develop a Divestment Policy to guide future engagement activities and divestment decisions.
- Continue to look for climate-friendly investment opportunities.
- Analyze fixed income and private equity investments for climate-related risks and opportunities.

NYSTRS' revised Stock Proxy Voting Policy (for the Board to consider at its January 27, 2022 meeting) is another important tool to affect positive, climate-friendly change within its portfolio companies.

The System pledges to continue working with industry groups in support of ongoing regulatory efforts to develop climate disclosure frameworks and standards that promote clear, consistent, reliable and decision-useful climate disclosures.

The Board is committed to helping develop the path to a climate-friendly future. The Board's deliberative process is ongoing and will evolve over time. It bears repeating: The Retirement Board and NYSTRS staff are committed to and actively engaged in investigating how to best integrate the risks and opportunities associated with climate change into its investment analysis and portfolio construction, including any potential portfolio adjustments or enhancements, and they are doing this in a methodical and prudent manner consistent with their fiduciary duties. NYSTRS will provide an update on its initial climate action plan and any potential additional actions following the Retirement Board's January 2023 meeting.

Appendix A – Resolution Regarding Climate Change Actions:
NYSTRS’ December 28, 2021 Board Meeting

WHEREAS, the System is a long-term investor participating in broad global markets that are transitioning to a lower-carbon economy; and

WHEREAS, consistent with its fiduciary duties, the Board is engaged in a comprehensive, deliberative due diligence process of evaluating the long-term economic impact of climate change on the System’s investments; and

WHEREAS, the Board believes that the combustion of fossil fuels generates greenhouse gases that contribute to climate change, and that governmental and market forces reacting to climate change may alter the risk and return expectations of companies in the fossil fuel industry; and

WHEREAS, the Board recognizes that market prices of publicly traded fossil fuel companies might not fully reflect the risks of climate change because of a current lack of disclosure standards regarding the physical, transition and other risks of climate change; and that the evaluation of fossil fuel companies’ climate transition plans is a component of the Board’s climate risk analysis; and

WHEREAS, the Board’s evaluation of climate change impacts is currently focused on companies engaged in the fossil fuel industry that are directly held in the System’s public equities portfolios, including the expected changes in the risk and return profiles of such companies over the long term, which changes may adversely impact the value of the System’s investments in such companies; and

WHEREAS, based upon the data and advice presented to the Board by its investment staff, its independent investment consultants and its independent fiduciary counsel, the Board has determined that there is a rational nexus between the long-term economic risks facing companies in the fossil fuel industry and the long-term risks they pose to the System’s investment in such companies, for which the System may not be compensated by commensurate returns; and

WHEREAS, the Board believes that it is in the best interests of the System’s members and beneficiaries, consistent with the Board’s fiduciary duties, for the System to take initial actions to mitigate climate change risks in the System’s portfolio and to adopt an initial climate plan on the terms described in these resolutions.

NOW THEREFORE, BE IT

RESOLVED, the Board hereby authorizes the Executive Director and Chief Investment Officer, or designees, to adopt and implement an initial climate action plan as follows:

1. Divest from all of the System's directly held public equity securities in companies that derive more than 10% of their revenue from thermal coal (the "Divestment List").
2. For directly held public equity securities in the System's internally managed portfolios and externally managed passive portfolios, cease further purchase of shares in companies that meet the following criteria (the "Restricted List"):
 - a. The ten largest positions held by the System in companies that have more than 0.3 gigaton of potential CO₂ emissions from thermal coal reserves;
 - b. The ten largest positions held by the System in companies that (i) derive more than 20% of their revenue from oil and gas, or (ii) have more than 0.1 gigaton of potential CO₂ emissions from oil and gas reserves; and
 - c. Companies that derive more than 10% of their revenue from oil sands.
3. Prioritize the companies on the Restricted List for engagement efforts, to the extent that the System directly holds equity securities in such companies, seeking to engage with such companies on their climate transition plans.
4. Periodically review, and update as needed, the Divestment List and the Restricted List based on the criteria set forth above, no less frequently than annually.
5. Monitor the actions taken under this initial climate action plan and their impact on the System's investment portfolio, and recommend to the Board (i) any additional actions with regard to the companies on the Restricted List, and (ii) any changes to this initial action plan, in each case, as appropriate under the circumstances.
6. Take the foregoing actions expeditiously and in a prudent manner so as to minimize market impact and potential adverse impact on the value of the System's holdings affected by this initial climate action plan.

AND BE IT FURTHER

RESOLVED, the Board finds and concludes that the foregoing actions are consistent with the Board's fiduciary duties to the System and its members.

Appendix B

ReedSmith

Driving progress
through partnership

Harvey L. Leiderman

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December 21, 2021

Retirement Board
New York State Teachers' Retirement System
10 Corporate Woods Drive
Albany, NY 12211-2395

Re: Climate Action Plan

Honorable Members of the Board:

This firm serves as independent Fiduciary Counsel to the New York State Teachers' Retirement System ("NYSTRS") and its governing Retirement Board ("Board") and Staff.

NYSTRS is a long-term investor in global markets. The Board has been considering the broad issue of climate change and its long-term impact on the System's investment portfolio. The Board has indicated that it believes that climate change presents economic risks and opportunities impacting the long-term value of the System's assets. The Board believes that it has an obligation to assess these risks and opportunities as they may impact the System, and to take appropriate action. The Board is determining whether it would be prudent to make changes to its portfolio holdings in light of the expected risks and opportunities presented by climate change.

The Board is presently considering whether to adopt a Staff-recommended Resolution re Climate Change Actions ("Resolution") in connection with the Board meeting scheduled to be held on December 28, 2021. In furtherance of its consideration of the Resolution, you have asked us to advise whether the deliberative process in which the Board has engaged, and its adoption of the proposed Resolution, are consistent with the Board's fiduciary duties to the System and its members.

We conclude that the deliberative process in which the Board has engaged, and its adoption of the proposed Resolution, are consistent with the Board's fiduciary duties to the System and its members.

The Board has three relevant fiduciary duties under New York State regulations (11 NYCRR 136-1.6) and applicable law:

- To act in the best interests of the members of the system
- To use the assets of the system exclusively for the benefit of the members of the system and not for other purposes
- To prudently manage the assets of the system, using appropriate skill, care and diligence under the circumstances then prevailing

Prudent stewardship by a collective board of trustees requires prudent decision-making processes, consistent with Board-established policies and procedures, informed knowledge, a thorough consideration of the relevant facts, and a reasoned, unbiased exercise of judgment – followed by timely monitoring of the impacts of the decision and making future adjustments based on the circumstances then prevailing. The Board has an obligation to observe procedural due diligence in making investment decisions in the best interests of the System and its members. Good intentions alone are insufficient for satisfying a trustee's fiduciary standards. Primarily serving the interests of others – however laudable – rather than those of the System and its members is not permitted.

In making its climate change determinations, the Board has obtained and is continuing to obtain advice from NYSTRS' Investment Staff, Counsel and outside investment consultants with expertise in this field. Staff, Counsel and the consultants have provided extensive education for the Board relating to the topic of climate change, industry sectors impacting and impacted by climate change, the governmental and market forces reacting to climate change, past and forecasted performance of public global markets and the System's at-risk holdings.

The Board has considered, and is continuing to consider various scenarios covering several investment options available to it. With the Resolution, the Board is taking measured and prudent steps to mitigate climate change risks in the System's portfolio, and to capitalize on economic opportunities arising out of the transition away from the generation of greenhouse gas emissions. The Board is staging its deliberations based on the relative magnitude of its holdings in global public companies in the fossil fuel industry most susceptible to governmental and market forces impacting those companies' activities, and whether further engagement with those companies about mitigating their risks is likely to prove fruitful. The Board is directing staff to bring back additional data and recommendations for the Board's further consideration, and intends to regularly monitor the execution of its climate action plan and its consequences.

The Board's process and proposed actions are consistent with the Board's investment policies and beliefs.

Retirement Board
New York State Teachers' Retirement System
December 21, 2021
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We believe the Board's comprehensive, deliberative due diligence process of evaluating and addressing the long-term economic impact of climate change on the System's investment portfolio, and the actions proposed by the Resolution, are prudent and taken with the best interests of the System and its members in mind. We further believe that this process and these actions are designed to use the assets of the system exclusively for the benefit of the members of the system and not for other purposes.

Based upon the foregoing, we conclude that the deliberative process in which the Board has engaged, and its adoption of the proposed Resolution, are consistent with the Board's fiduciary duties to the System and its members.

Very truly yours,

A handwritten signature in blue ink, appearing to read "Harvey L. Leiderman", followed by a horizontal line.

Harvey L. Leiderman

HLL:nm

Appendix C – NYSTRS Retirement Board and Committee Meetings on Energy, Climate, Divestment and ESG Issues

Date	Meeting Type	Topic
08/04/16	Retirement Board Retreat	Balancing Fiduciary Duties with Environmental, Social and Governance Concerns in Investing , presented by David Gillan, Managing Director of Real Estate, and Joseph Indelicato, General Counsel.
04/25/18	Investment Committee Meeting	Portfolio Management & Security Substitution , including a discussion on firearms exclusion, presented by Fred Herrmann, Managing Director of Public Equities.
08/02/18	Retirement Board Retreat	Fiduciary Education Session.
03/13/19	Investment Advisory Committee Meeting	Re-imagining Big Oils – How Energy Companies can Successfully Adapt to Climate Change , presented by Michele Della Vigna CFA, Head of Oil & Gas Research, Goldman Sachs Inc., Global Investment Research London.
03/13/19	Investment Advisory Committee Meeting	Indexing Low Carbon Investment Strategies , presented by Reid Steadman, Managing Director, Global Head of ESG, Marcus Friedman, Director, Asset Owners Channel, and Narottama Bowden, Senior Product Manager, ESG Indices, S&P Dow Jones Indices.
09/09/20	Investment Advisory Committee Meeting	Sustainability: A Fundamental Reshaping of Finance , presented by Brian Deese, Managing Director and Global Head of Sustainable Investing, BlackRock.
09/09/20	Investment Advisory Committee Meeting	Fossil Fuel Divestment , presented by Ruth Foster of DivestNY, Thomas Sanzillo, Director of Finance for the Institute for Energy Economics and Financial Analysis (IEEFA.org), Mary Finneran, Retired Teacher, and Celia Darling, Student.
10/02/20	Retirement Board Retreat	Overview of ESG Governance Topics , presented by Mercer.
11/20/20	Retirement Board Work Session	Investment Beliefs , led by Callan and Mercer. Callan facilitated a discussion with the Retirement Board as a first step in a multi-step process to formulate a set of investment beliefs.
01/05/21	Retirement Board Work Session	Investment Beliefs , led by Callan, Mercer and Reed Smith. Continuation of a multi-step process to formulate a set of investment beliefs.
02/18/21	Retirement Board Education Session	NYSTRS' Proxy Voting Guidelines & Processes , presented by Margaret Andriola (Investment Operations) and Ben Lee (Legal).
03/24/21	Retirement Board Work Session	Investment Beliefs , led by Callan, Mercer and Reed Smith. Continuation of a multi-step process to formulate a set of investment beliefs.
04/15/21	Retirement Board Work Session	Investment Beliefs , led by Callan, Mercer and Reed Smith. Continuation of a multi-step process to formulate a set of investment beliefs.
04/29/21	Executive Committee Meeting	2021 Legislative Update , including an hour-long discussion of the Teachers' Fossil Fuel Divestment Act , led by NYSTRS' General Counsel Joseph Indelicato and external fiduciary counsel Harvey Leiderman of Reed Smith.

Date	Meeting Type	Topic
05/26/21	Retirement Board Work Session	Investment Beliefs , led by Callan, Mercer and Reed Smith. Continuation of a multi-step process to formulate a set of investment beliefs.
07/29/21	Retirement Board Retreat	Mercer Education Session on ESG Pathways and Process. Continuation of a multi-step process to formulate a set of investment beliefs.
08/25/21	Retirement Board Education Session	Mercer Education Session on Sustainable Investment Pathway; and Formalization of Investment Beliefs.
09/08/21	Investment Advisory Committee Meeting	A Primer on the Geopolitics of the Energy Transition , presented by Henning Gloystein, Director of Energy, Climate & Resources, and Mikaela McQuade, Director of Energy, Climate & Resources, Eurasia Group.
10/04/21	Retirement Board Education Session	Mercer Education Session on Climate Risk and Stewardship , led by Mercer and attended by Callan and Reed Smith. Discussion of NYSTRS' portfolio climate transition assessment and stewardship.
11/04/21	Retirement Board Meeting	Proxy Policy Update , presented by Noreen Jones, CFO, and Chris Brown, Assistant Manager, Investment Operations.
11/23/21	Retirement Board Meeting	Mercer Education Session on Climate Risk and Stewardship , led by Mercer, including a discussion of NYSTRS' portfolio climate transition assessment; and Climate Workshop , led by NYSTRS staff.
12/02/21	Retirement Board Meeting	Proxy Voting and Stewardship; and Continuation of Discussion of ESG and Climate Issues.
12/08/21	Investment Advisory Committee Meeting	Sustainable Financial Disclosure, Transparency and Accountability , presented by Max Messervy, Principal, Sustainable Investment Consultant, Mercer.
12/08/21	Investment Advisory Committee Meeting	Integrating Climate Data into the Investment Process , presented by Julie Skedd, Client Service Director, U.S Public Plans; Tom Walsh, Investment Manager, International Alpha Clients; and Tara-Jane Fraser, Senior Analyst, Research and Engagement, Baillie Gifford.
12/17/21	Retirement Board Meeting	Continuation of Discussion of ESG and Climate Issues.

Appendix D – NYSTRS Retirement Board’s Investment Beliefs¹

MISSION OF THE INVESTMENT PROGRAM	GOVERNANCE	STEWARDSHIP
<p>We Believe:</p> <p>Keeping our members at the forefront of all we do and providing them with a secure pension requires an investment program designed to maintain the sustainability of the benefits.</p>	<p>We Believe:</p> <p>A strong governance structure is vital to our success.</p>	<p>We Believe:</p> <p>As fiduciaries, we must be responsible and thoughtful stewards of the Fund, acting for the exclusive benefit of NYSTRS’ members and beneficiaries.</p>
<p>Context:</p> <ul style="list-style-type: none"> • The investment program is designed to: <ul style="list-style-type: none"> ○ Accumulate sufficient assets to fund the retirement benefits of NYSTRS’ members and beneficiaries over the long term. ○ Maintain sufficient liquidity to pay such benefits as they become due. • Receiving actuarially determined contributions is foundational to ensuring the accumulation of sufficient assets. 	<p>Context:</p> <ul style="list-style-type: none"> • A strong governance structure includes: <ul style="list-style-type: none"> ○ A common understanding of our fiduciary responsibility and mission. ○ A well-defined and documented system of checks and balances, which recognizes the need for organizational agility. ○ Clearly delineated roles and responsibilities: <ul style="list-style-type: none"> ▪ It is the responsibility of the Retirement Board to set policy. ▪ It is the responsibility of the Executive Director and Chief Investment Officer and staff to implement policy and maintain operations. ○ Internal policies and procedures which set forth clear expectations and processes to ensure a culture of integrity, respect, accountability, transparency and compliance. ○ Valuing broad and diverse input. 	<p>Context:</p> <ul style="list-style-type: none"> • Responsible stewardship includes: <ul style="list-style-type: none"> ○ Making prudent investment choices, consistent with our fiduciary duties under a disciplined risk-controlled strategy. ○ Promoting responsible corporate governance, consistent with our Duty of Loyalty to act for the exclusive benefit of NYSTRS’ members and beneficiaries. ○ Being active owners of public and private companies, including but not limited to: <ul style="list-style-type: none"> ▪ Voting proxies. ▪ Participating on Limited Partner Advisory Committees. ▪ Capitalizing on the System’s assets to achieve investment goals and objectives in a responsible manner. ○ Collaborating with other institutional investors to harness collective influence in engagement efforts. ○ Actively participating with external organizations to help shape future rules and regulations related to sustainable investing. (e.g., Value Reporting Foundation efforts to advocate for uniform reporting and disclosure templates).

¹ The Retirement Board’s Investment Beliefs are found in the Board Governance Manual, which is available on the System’s website at <https://nystrs.org/NYSTRS/media/PDF/About%20Us/BoardGovManual.pdf>.

Retirement Board’s Investment Beliefs (continued)

DIVERSITY, EQUITY AND INCLUSION	ASSET ALLOCATION	RISK
<p>We Believe: Diversity, equity and inclusion are integral to the organizational vision of being the model for pension fund excellence.</p>	<p>We Believe: The most significant contributor to a fund’s long-term investment performance is asset allocation.</p>	<p>We Believe: Risk is inherent in all investments and must be prudently managed.</p>
<p>Context:</p> <ul style="list-style-type: none"> • Promoting and fostering a culture of diversity, equity and inclusion, both within NYSTRS and among its partners, will: <ul style="list-style-type: none"> ○ Enhance decision making and outcomes. ○ Contribute to a more equitable and just society. 	<p>Context:</p> <ul style="list-style-type: none"> • The asset allocation process is designed to: <ul style="list-style-type: none"> ○ Maximize the likelihood the Fund meets its expected return and liquidity requirements. ○ Ensure the overall portfolio is broadly diversified, subject to statutory requirements. ○ Minimize risk. • NYSTRS is a universal owner of the global public markets, with a highly diversified, long term portfolio. We hold the following convictions about the capital markets: <ul style="list-style-type: none"> ○ Markets are generally efficient. ○ Passive management provides broad, diversified exposure, while active management can yield benefits when the investment manager has an informational, technical or operational advantage. ○ Alternative investments allow the System to expand the opportunity set beyond public markets and can be used as a return enhancer and risk diversifier. • Cost, diversification, risk and return should be considered within the context of the attributes of each asset class, individually, and its contributions to the portfolio as a whole. <ul style="list-style-type: none"> ○ Performance should be monitored and evaluated net of fees and costs. 	<p>Context:</p> <ul style="list-style-type: none"> • NYSTRS’ risk management program is designed to identify, assess and address significant risks, including the ability to manage System assets relative to liabilities, meet liquidity requirements and maintain an appropriate funding level.