

Why We File

Improving energy efficiency is good for investors as well as the planet

by Brian Rice

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As the world's largest educator-only pension fund, the California State Teachers' Retirement System (CalSTRS) invests on behalf of more than 862,000 beneficiaries, and that's a responsibility we take very seriously. Our mission is to secure the financial future and sustain the trust of California's educators. Supporting corporate policies and practices that promote profitability and that do not favour short-term gain at the expense of long-term success is in keeping with our mission.

Energy efficiency is one practice we support. Investments in efficiency help manage rising energy costs and can enhance a company's role as a corporate citizen, as well as being profitable and low-risk. A **2008 McKinsey report** estimated that \$170bn could be invested in energy efficiency yielding an average internal rate of return of 17%. That's good news for the company as it increases its efficiency, good news for investors and good news for the planet. Why wouldn't more companies want to be investing in efficiency?

CalSTRS sent letters to 100 companies last year as a step towards active engagement on their efforts to manage energy usage. Our view was that improved energy efficiency served multiple goals: lowering operating costs, reducing carbon footprints, and improving sustainability profiles. Studies showed that companies actively pursuing and incorporating efficiency efforts were improving their bottom lines, reducing their carbon risk exposure and enhancing their reputations as environmental stewards. We wanted to engage the 100 companies, which we determined were lagging in their energy efficiency efforts, through dialogue to promote the improvement of their energy-efficiency efforts.

More than 30% of those companies responded to our letter. Subsequent discussions with the responding companies revealed that many were considering – and often implementing – energy-use management programmes and systems. The companies that weren't, recognised the need to do so and were willing to consider efficiency programmes. As our next step in the engagement process, CalSTRS chose to file **shareholder proposals** with the companies that did not respond to our letters.

Most of the companies we engage recognise the value behind our proposals. Working together generally leads to the companies implementing the proposal internally. Unfortunately, there are companies that are unwilling to move towards a common goal, or who don't move as far along as we propose. When our engagements have reached an impasse, a shareholder proposal signals the importance of the issue and often incentivises management to move a bit further towards an agreeable resolution. Ultimately, most of the proposals we file are withdrawn because companies agree to implement them. That's a positive outcome both for our beneficiaries and the companies in which we invest.

This year, CalSTRS has filed shareholder proposals at six companies asking for a report to shareholders on efforts at managing electricity consumption. The filings targeted **several companies in the IT sector**, including Citrix Systems, Dun & Bradstreet, Electronic Arts and Fiserv, and the mining firm Walter Energy. One of the companies, FLIR Systems, successfully challenged our proposal and it will therefore not be considered by shareholders. The other five proposals were either withdrawn, or are likely to be withdrawn, because the targeted company agreed to either consider energy efficiency programmes or to disclose the efficiency efforts already in use.

From CalSTRS' perspective, shareholder proposals have helped incentivise five companies to be more energy efficient, or to identify themselves publicly as being more efficient. We encourage all shareholders to consider similar strategies when managing their investments. Imagine how many companies might have better energy efficiency programmes if more shareholders were encouraging them to do so.

In 2004 the CalSTRS board directed staff to begin analysing climate change risk within our portfolio and to develop ways to manage this risk. Since then, CalSTRS staff has looked for opportunities to improve our portfolio companies' performance. Energy efficiency is a perfect example of how a little investor pressure can go a very long way.

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