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NYC pension funds prioritise private markets for climate-related investments

The New York City Retirement System, comprising of five retirement plans with more than $254.4bn in assets, has sharpened its focus on energy transition and decarbonisation investments in private markets. This comes after four of the five plans recently approved higher target allocations to alternatives. Like some other North American pension funds, the city's retirement system is among a growing number of institutional investors who have plans to advance their climate goals by ramping up allocations to green assets.

The bureau of asset management in the office of the New York City comptroller oversees the five retirement plans, whose assets are mostly managed externally.

John Adler, chief environmental, social and governance officer in the bureau of asset management, and chief climate officer Louise Yeung, tell MandateWire the investment staff's approach to energy transition investing is a holistic one underpinned by a plan to achieve net zero emissions by 2040. The systems will also invest $50bn in climate solutions by 2035.

"We are really looking to invest across asset classes, but I would say I think the most potential is in private markets – specifically infrastructure, [private] credit and private equity," Adler says.

Moreover, he says, the energy transition space itself is ripe with "opportunity."

Although a portion of the system's managers focus exclusively on climate solutions, the majority of investments outside of these mandates are through diversified managers whose investment universes are not limited to energy transition investing.

As reported by MandateWire, Brad Lander, New York City comptroller, previously declared he would prioritise clean energy investments during his tenure.

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Renewable energy assets

Since he was elected in January 2022, infrastructure allocations have targeted opportunities such as data centres powered by renewable energy sources, electric vehicle infrastructure and renewables more broadly.

Within private credit, primary lending for the development of renewables and other energy transition initiatives seems "attractive," according to Adler, who says he also expects private equity to offer "a wide range" of energy transition-related investment opportunities.

For instance, software development focused on maximising energy efficiency across various sectors as well as low-carbon manufacturing and miscellaneous climate technologies are areas of interest when it comes to private equity investing in the energy transition.

Elsewhere, the pension funds' economically targeted investments program may include more allocations to energy transition-oriented alternatives going forward.

This in-state investment program, which embraces all five retirement plans, has a 2 per cent target allocation. In addition to targeting risk-adjusted returns, economically targeted investments generate a social return through investments in housing, climate and the workforce. This investment program has an open-ended RFP, meaning it continuously accepts proposals from asset managers and does not have a closure date.

Referring to the ETI program, Adler says staff are "actively considering energy transition investment opportunities in this space, especially related to Local Law 97."

In 2019, New York City enacted Local Law 97 as part of the Climate Mobilization Act. The law, which seeks to achieve carbon neutrality by 2050, establishes carbon emission limits for the city's largest buildings.

"It's the most seminal municipal climate law for us," Yeung says, describing the law as "a huge opportunity" for retrofitting and other energy-efficient building upgrades.

Local Law 97 comes into effect this year.

System-wide strategic asset allocation shifts

In the second half of 2023, all five pension funds — the $97.6bn Teachers' Retirement System of the City of New York, $48.7bn New York City Police Pension Fund, $76.5bn New York City Employees' Retirement System, $18.5bn New York City Fire Department Pension Fund and the $8.1bn New York City Board of Education Retirement System — approved new strategic asset allocations.

In November 2023, MandateWire reported that NYCERS posted target allocation increases across private equity, infrastructure and real estate with the board's recent adoption of a new asset allocation.

Specifically, private equity saw a 2 percentage point increase, rising to 10 per cent from 8 per cent; infrastructure shifted up to 4.5 per cent from 4 per cent and real estate was raised to 8 per cent from 7.5 per cent.

Also in November, the TRS adopted a new asset allocation, as reported by MandateWire, with the board approving increases in allocations to private equity, infrastructure and real estate.

Private equity shifted up three percentage points to a 10 per cent allocation from 7 per cent, infrastructure jumped to 5 per cent from 4 per cent and real estate shifted up to 8 per cent from 7 per cent.

The Police Pension Fund's approved asset allocation also featured increases in alternatives, as private equity shifted up to a 10 per cent allocation from 8 per cent and infrastructure was raised to 4 per cent from 3 per cent.

The Fire Department Pension Fund approved the largest private equity increase, boosting its target allocation to 12 per cent from 8 per cent. Concurrently, private debt saw a 2 percentage point increase, shifting to a 6 per cent target from 4 per cent.

> **"Without aligned action, we will likely burn up millions of lives and trillions of dollars"**

Infrastructure also experienced a 2 percentage point increase, climbing to 5 per cent from the previous 3 per cent target.

Conversely, BERS lowered its allocation to private equity by 1 percentage point to 8 per cent. Meanwhile, the pension fund's real estate and infrastructure target allocations were each kept consistent at 8 per cent and 4 per cent, respectively. Private credit also held at 5 per cent.

A total portfolio perspective

Decarbonising requires staff to go beyond "only investing in climate solutions, we must also keep fossil fuels in the ground," Yeung says.

Staff have encouraged asset managers and their portfolio companies to adopt net zero goals and integrate climate risk into their due diligence processes. This engagement by New York City Retirement Systems asset management staff spans both the public and private markets.

NYCERS, TRS and BERS have moved to decarbonize their portfolios by 2040, as the bureau of asset management released a comprehensive framework outlining its transition plan in February 2023, as reported by MandateWire. However, the police and fire plans have not sought to align their portfolios with a net zero pathway.

Engaging with corporations that align with the fund's net zero goals is "a central element of the plan," materials from the November meeting state.

NYCERS in particular has plans to invest a total of $17bn in climate solutions by 2035, with an interim goal of $4bn by 2024.

Aligning investor action

In addition to establishing the framework for decarbonising NYCERS, TRS and BERS, the comptroller's net zero implementation plan calls on other asset owners to address climate-related financial risk and take action to limit global temperature rise.

A statement from the comptroller's office warns: "Without aligned action, we will likely burn up millions of lives and trillions of dollars."

Adler says collaboration with other pension funds is on the horizon.

"There's a lot we can learn from each other," he explains, adding: "Certainly in the climate space."

When asked how the comptroller's office is aligning investor action to advance the energy transition, he tells MandateWire the bureau of asset management "can't provide all the capital for a good investment" on its own, adding: "If there's some specific investment strategy that makes sense for us, we would love to be able to collaborate."