



**RETIREMENT BOARD CALENDAR SHEET**  
**Retirement Board Meeting of November 17, 2022**

**To:** The Retirement Board

**Through:** Alison Romano  
CEO & CIO

Kurt Braitberg, CFA, CAIA  
Managing Director, Public Markets

**From:** Andrew Collins  
Director of ESG Investing

Adrienne von Schulthess  
Investment Officer, ESG Investing

**Subject:** Approval of List of Thermal Coal Companies Subject to Investment Restriction

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**Agenda Item:**

Annual Report and Recommendation on Thermal Coal Restrictions

**Background:**

In 2017, the San Francisco Employees' Retirement System ("SFERS") Retirement Board ("Board") first approved Investment Staff ("Staff") recommendations for the process and criteria to establish investment restrictions for certain thermal coal companies. Annually, Staff assesses SFERS' exposure to the thermal coal industry and recommends any changes to the list of restricted companies based on the Board-approved criteria.

Staff's memorandum provides an update to the current list of companies subject to investment restriction. Recommended changes to the list include:

- The removal of one company because it announced a plan to exit its thermal coal business;
- The removal of one company whose thermal coal revenues dropped below the investment restriction threshold;
- The removal of four companies that are no longer publicly traded;
- The addition of four companies that derive between 10-50% of revenues from thermal coal revenues and have not announced plans to exit the business; and
- An update to reflect a name change for one restricted company.

Staff's memorandum also details the performance impact of not owning restricted thermal coal companies in the SFERS' investment portfolio over the past year and since the inception of the restriction, and it provides an update on industry developments over the past year.

**Recommendation:**

If the Board wishes to remain divested from thermal coal companies according to the criteria described in the attached Staff Memorandum, then the following motion is recommended:

*Move that the San Francisco Employees' Retirement System reaffirm its intent to remain divested from thermal coal companies and adopt the 2022 List of Thermal Coal Companies presented in Appendix B.*

Attachment: Staff Memorandum



# SFERS

San Francisco Employees' Retirement System

## City and County of San Francisco Employees' Retirement System

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**Date:** November 17, 2022

**To:** The Retirement Board

**Through:** Alison Romano, CEO & CIO  
Kurt Braitberg, CFA, CAIA, Managing Director, Public Markets

**From:** Andrew Collins, Director of ESG Investing  
Adrienne von Schulthess, Investment Officer, ESG Investing

**Subject:** Approval of Annual Report and Recommendation on Thermal Coal Restrictions

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### **EXECUTIVE SUMMARY**

Staff is recommending approval of the "2022 List of Thermal Coal Companies" (Appendix B). This list includes the following updates for 2022:

- Remove Arch Resources, Inc. as the company announced plans to exit thermal coal operations and thermal coal represents less than 50% of company revenues.
- Remove African Rainbow Minerals Limited as thermal coal represents less than 10% of company revenues.
- Remove Agritrade Resources Limited, Cloud Peak Energy, Westmoreland Coal, and Foresight Energy due to the companies either going private, bankrupt, or having their securities removed from listing.
- Add Inner Mongolia Dian Tou Energy Corporation Limited, Shanxi Coal International Energy Group Co., Ltd., TBEA Co., Ltd, and Pingdingshan Tianan Coal Mining Co., Ltd. due to thermal coal revenues between 10-50% and no plans to exit thermal coal.
- Update Yanzhou Coal Mining Company Limited to Yankuang Energy Group Company Limited due to a name change.

### **BACKGROUND**

At the May 17, 2017 meeting, the San Francisco Employees' Retirement System ("SFERS") Retirement Board ("Board") approved Investment Staff ("Staff") recommendations to 1) establish investment restrictions (Level III) for certain "U.S. companies that derive significant revenue from the mining of thermal coal" and 2) engagement (Level II) with certain companies for which thermal coal "does not represent a majority of revenues."

At the September 12, 2018 meeting, the Board approved recommendations to 1) establish a formal framework for thermal coal investment restrictions and 2) an updated list of restricted thermal coal companies that was expanded to include non-U.S. companies.

At the October 10, 2018 meeting, the Board approved five strategies recommended by Staff to address climate risk in the SFERS portfolio. One of the strategies approved at the October 10, 2018 meeting included “Engage with thermal coal companies that receive between 10-50% of revenue from thermal coal. Considering divesting from any companies that do not make a commitment to exit the thermal coal business in the near term.”

At the October 9, 2019 meeting, the Board approved an update to the criteria for investment restriction of thermal coal companies whereby companies are also subject to investment restriction if they derive between 10% and 50% of revenues from thermal coal activities and have not announced plans to substantially reduce or cease thermal coal activities.

This memorandum provides an update to the thermal coal market and makes recommendations to update the list of thermal coal companies for investment restriction.

### **CRITERIA FOR INVESTMENT RESTRICTION**

As approved at the October 9, 2019 meeting, SFERS shall not invest in public securities of companies, regardless of country of domicile, if the company:<sup>1</sup>

- a. Derives the majority (greater than 50%) of group revenues from thermal coal activities; or
- b. Derives between 10% and 50% of group revenues from thermal coal activities and has not announced plans to substantially reduce or cease its thermal coal activities.

where:

- Thermal coal activities include the mining or production of thermal coal (including lignite, bituminous coal, and anthracite coal) for sale to external parties.
- Thermal coal activities do not include the mining or production of metallurgical coal (aka coking coal), which is used for steelmaking.

A 10% revenue threshold is used as it generally aligns with the quantitative threshold for a reportable business segment.

### **UPDATES TO LIST OF RESTRICTED COMPANIES**

SFERS utilizes its relationship with MSCI ESG Research LLC to obtain data on companies involved in thermal coal production. Staff used this information as well as additional resources

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<sup>1</sup> Staff notes that restriction applies to investments in which SFERS has direct ownership of securities through a separately managed account structure. As with all investment restrictions, these do not apply to investments through commingled vehicles over which SFERS does not have control to restrict investment in certain securities.

to contemplate updates to the thermal coal companies subject to SFERS' investment restriction.

Table 1 lists publicly traded coal companies that derive greater than 50% of their revenues from thermal coal activities (exclusion criteria part a.):

**Table 1: Public Coal Companies with >50% Revenues from Thermal Coal**

Coal Companies	Issuer Country	Currently Restricted (2021)	Recommended for Restriction (2022)
Alliance Resource Partners, L.P.	US	Yes	Yes
Banpu Public Company Limited	TH	Yes	Yes
Bukit Asam Tbk PT	ID	Yes	Yes
Coal India Ltd	IN	Yes	Yes
Consol Energy Inc. (Merger with Consol Coal)	US	Yes	Yes
Exxaro Resources Limited	ZA	Yes	Yes
Geo Energy Resources Limited	SG	Yes	Yes
Gujarat Mineral Development Corp., Ltd.	IN	Yes	Yes
Hallador Energy	US	Yes	Yes
Harum Energy (PT Harum Energy Tbk)	ID	Yes	Yes
Indo Tambangraya Megah Tbk PT	ID	Yes	Yes
Inner Mongolia Yitai Coal Co., Ltd	CN	Yes	Yes
Lubelski Wegiel Bogdanka SA	PL	Yes	Yes
New Hope Corporation Limited	AU	Yes	Yes
Peabody Energy Corporation	US	Yes	Yes
PT ABM Investama Tbk	ID	Yes	Yes
PT Adaro Energy Tbk	ID	Yes	Yes
PT Bumi Resources Tbk	ID	Yes	Yes
PT Delta Dunia Makmur Tbk	ID	Yes	Yes
PT Indika Energy Tbk	ID	Yes	Yes
PT United Tractors Tbk	ID	Yes	Yes
Semirara Mining and Power Corporation	PH	Yes	Yes
Shan XI Hua Yang Group New Energy Co Ltd.	CN	Yes	Yes
Thungela Resources Ltd	ZA	Yes	Yes
Washington H. Soul Pattinson and Company Ltd.	AU	Yes	Yes
Whitehaven Coal Limited	AU	Yes	Yes
Yankuang Energy Group Company Limited	CN	Yes	Yes

The second part of the analysis (see Table 2) examines companies that derive between 10% and 50% of revenues from thermal coal activities based on MSCI data. SFERS researched whether these companies have announced plans to substantially reduce or cease their thermal coal activities.

**Table 2: Public Coal Companies between 10-50% Revenues from Thermal Coal**

Coal Companies	Issuer Country	Currently Restricted (2021)	Recommended for Restriction (2022)
Arch Resources, Inc.	US	Yes	No
China Coal Energy Company Limited	CN	Yes	Yes
China Shenhua Energy Company Limited	CN	Yes	Yes
DMCI Holdings Inc.	PH	Yes	Yes
Guanghui Energy Co., Ltd.	CN	Yes	Yes
Huadian Power International Corporation Limited	CN	Yes	Yes
Inner Mongolia Dian Tou Energy Corporation Ltd	CN	No	Yes
Jastrzębska Spółka Węglowa SA	PL	Yes	Yes
Jizhong Energy Resources Co., Ltd.	CN	Yes	Yes
Pingdingshan Tianan Coal Mining Co., Ltd.	CN	No	Yes
PT Astra International Tbk	ID	Yes	Yes
PT Indonesia Asahan Aluminium (Persero)	ID	Yes	Yes
Shaanxi Coal Industry Company Limited	CN	Yes	Yes
Shanxi Coal International Energy Group Co., Ltd.	CN	No	Yes
Shandong Energy Group Co., Ltd	CN	Yes	Yes
Shanxi Coking Coal Energy Group Co., Ltd.	CN	Yes	Yes
Shanxi Lu'an Environmental Energy Dev. Co., Ltd	CN	Yes	Yes
TBEA Co., Ltd.	CN	No	Yes

Note that in 2021, Jardine Cycle & Carriage was removed from the restricted list, but this change was not noted in the investment memo. The company continues to have thermal coal revenues below the 10% revenue threshold and therefore continues to not be subject to investment restriction in 2022.

The following recommendations are based on applying the abovementioned criteria for divestment from thermal coal companies:

- Update Yanzhou Coal Mining Company Limited to Yankuang Energy Group Company Limited on the list of restricted companies as the company changed its name in December 2021.

- Remove Arch Resources, Inc. as the company announced plans to exit thermal coal operations and thermal coal represents less than 50% of company revenues.
- Remove African Rainbow Minerals Limited as the company has less than 10% of revenues from thermal coal.
- Remove Agritrade Resources Limited, Cloud Peak Energy, Westmoreland Coal, and Foresight Energy due to the companies either going private, bankrupt, or having their securities removed from listing.
- Add Inner Mongolia Dian Tou Energy Corporation Limited, Shanxi Coal International Energy Group Co., Ltd., TBEA Co., Ltd, and Pingdingshan Tianan Coal Mining Co., Ltd. due to thermal coal revenues between 10-50% based on MSCI data and no plans to exit thermal coal operations.

As of June 30, 2022, SFERS had no direct exposure to the proposed additions to the restricted securities list.

Staff confirmed that all other companies currently on the List of Companies continue to be engaged in the thermal coal to a degree warranting continued investment restriction.

### **HISTORICAL PERFORMANCE IMPACT**

SFERS has licensed custom indices to approximate the performance impact on the total fund due to restricting investment in thermal coal companies. The methodology and limitations of this approach are detailed in the 2020 Board item, 101420-07 Discussion Item: Annual ESG Update - Fund Performance Impact of SFERS Investment Restrictions.

As shown below, SFERS' decision to restrict its managers from investing in thermal coal companies has likely had a negligible measurable impact since 2018.

**Table 3: Custom Index Relative Returns and Volatility - Total returns (net dividends) in USD**

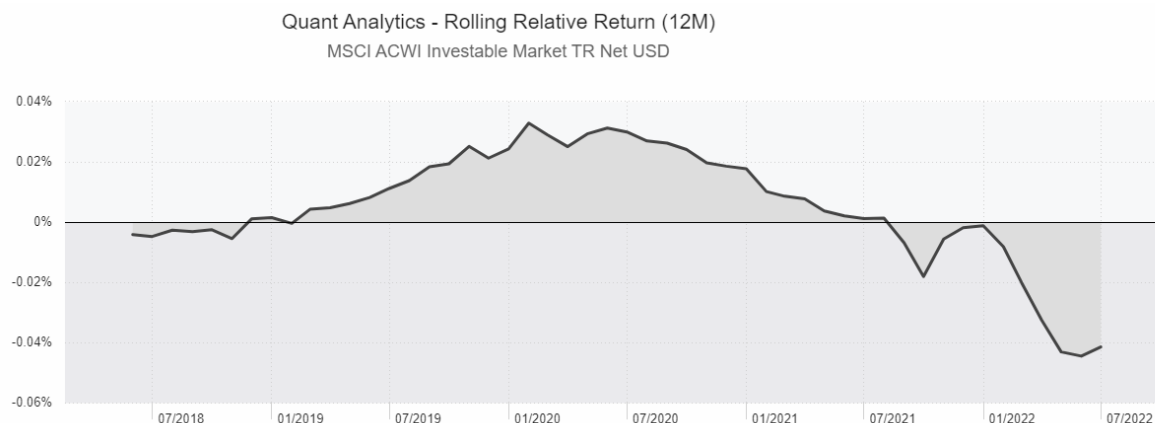
<b>Index Name</b>	<b>Restriction Weighting*</b>	<b>Cumulative Return**</b>	<b>Annualized Return**</b>	<b>Annualized Volatility**</b>	<b>Approx. Cumulative Dollar Impact</b>
ACWI IMI ex Thermal Coal	0.11%	-0.02%	0.00%	0.00%	-\$1.3mm

\* Weightings of restricted stocks in the generic MSCI ACWI IMI Index as of June 30, 2022.

\*\* Relative returns and volatility are against the MSCI ACWI IMI Index from custom index inception (May 31, 2017) through to June 30, 2022.

Source: MSCI. Refer to disclaimer below.

**Graph 1: ACWI IMI ex Thermal Coal Rolling 12 Month Relative Returns**



Note: Versus MSCI ACWI IMI - total returns (net dividends) in USD.

Source: Caissa with MSCI data. The MSCI data is comprised of a custom index calculated by MSCI for, and as requested by, SFERS. The MSCI data is for internal use only and may not be redistributed or used in connection with creating or offering any securities, financial products or indices. Neither MSCI nor any other third party involved in or related to compiling, computing or creating the MSCI data (the "MSCI Parties") makes any express or implied warranties or representations with respect to such data (or the results to be obtained by the use thereof), and the MSCI Parties hereby expressly disclaim all warranties of originality, accuracy, completeness, merchantability or fitness for a particular purpose with respect to such data. Without limiting any of the foregoing, in no event shall any of the MSCI Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.

**UPDATE ON PEER FUNDS**

Thermal coal divestment remains an ongoing area for divestment among asset owners and managers alike. The Institute for Energy Economics and Financial Analysis counts over 100 asset managers and owners with AUM greater than US\$50 billion that have announced divestment from coal mining and/or coal-fired power plants.<sup>2</sup> These entities include CalSTRS and CalPERS, which continue to have revenue-based thresholds to divest from thermal coal companies.

**SECTOR DEVELOPMENTS**

The last year continued the reversal in fortune for coal companies that began in 2021. In the July 2022 Coal Report, the International Energy Agency (IEA) projects that total global coal demand will increase by 0.7%, and specifically that thermal coal demand for power generation will increase by 1%, in 2022.<sup>3</sup>

<sup>2</sup> "Coal Divestment." IEEFA, <https://ieefa.org/coal-divestment>.

<sup>3</sup> IEA. "Coal Market Update – July 2022." IEA, July 2022, <https://www.iea.org/reports/coal-market-update-july-2022/demand>.

This trajectory is mis-aligned with the Net Zero Emissions by 2050 Scenario which requires an average 9% reduction in unabated coal fired generation from 2022-2030.<sup>4</sup>

The recent increase is based on growing demand for thermal coal in India and Europe, even in the face of declines in China during the first half of 2022. Europe is experiencing increased demand for coal due to the conflict with Russia and the resulting pressures on energy supplies. Countries including Germany and France are prolonging the lifetimes of coal plants to reduce gas consumption given the uncertainty of continued supplies from Russia.<sup>5</sup>

However, as Wood Mackenzie notes, “this will be a short-lived bump [for the coal sector] and provide no significant opportunities to expand existing coal infrastructure, as global demand will continue to trend downward.” Wood Mackenzie further posits that this short-term pressure may speed up the switch to renewables in Europe, as it clearly demonstrates the need for energy independence.<sup>6</sup>

Asia will be critical to determining the future of thermal coal. China represents over half of global coal consumption.<sup>7</sup> The country now expects coal consumption to rise through 2025 despite plans for significant new additions of renewables.<sup>8</sup> Meanwhile, India, which represents over 14% of global coal consumption<sup>9</sup>, plans on a 25% increase in the country’s coal power by 2030.<sup>10</sup>

Staff continue to have significant concerns around the thermal coal industry’s long-term viability. As S&P Global highlights, renewables will continue to replace coal as part of the global energy mix, while countries in Asia will face challenges including growing power demand and newer coal power plants, in making the transition.<sup>11</sup>

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<sup>4</sup> IEA. “Coal-Fired Electricity – Analysis.” IEA, 1 Sept. 2022, <https://www.iea.org/reports/coal-fired-power>.

<sup>5</sup> IEA. “Coal Market Update – July 2022.” IEA, July 2022, <https://www.iea.org/reports/coal-market-update-july-2022/demand>.

<sup>6</sup> Mackenzie, Wood. “14% Increase in European Coal Demand to Be Short-Term Trend.” Wood Mackenzie, 21 Sept. 2022, <https://www.woodmac.com/press-releases/14-increase-in-european-coal-demand-to-be-short-term-trend/>.

<sup>7</sup> IEA. “Coal Market Update – July 2022.” IEA, July 2022, <https://www.iea.org/reports/coal-market-update-july-2022/demand>.

<sup>8</sup> Stanway, David. “Analysis: China No Closer to Peak Coal despite Record Renewable Capacity Additions.” Reuters, Thomson Reuters, 22 Aug. 2022, <https://www.reuters.com/world/china/china-no-closer-peak-coal-despite-record-renewable-capacity-additions-2022-08-22/>.

<sup>9</sup> IEA. “Coal Market Update – July 2022.” IEA, July 2022, <https://www.iea.org/reports/coal-market-update-july-2022/demand>.

<sup>10</sup> Singh, Rajesh Kumar, and Anna Kitanaka. “India May Boost Coal Power Fleet 25% by 2030 amid Rising Demand.” Bloomberg.com, Bloomberg, 23 Sept. 2022, <https://www.bloomberg.com/news/articles/2022-09-23/india-may-boost-coal-power-fleet-25-by-2030-amid-rising-demand#xj4y7vzkg>.

<sup>11</sup> Kramarchuk, Roman. “Energy Transition: Thermal Coal Will Remain Important in Asia-Pacific.” S&P Global, 20 July 2022, <https://www.spglobal.com/en/research-insights/featured/special-editorial/energy-transition-thermal-coal-will-remain-important-in-asia-pacific>.

## **RECOMMENDATION**

If the Board wishes to remain divested from thermal coal companies according to the criteria described in the memo above, then the following motion is recommended:

*Move that the San Francisco Employees' Retirement System reaffirm its intent to remain divested from thermal coal companies and adopt the 2022 List of Thermal Coal Companies presented in Appendix B.*

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## APPENDIX A

### List of Restricted Thermal Coal Companies, Reflecting Recommended Changes from 2021 to 2022

<del>African Rainbow Minerals Limited</del>	Lubelski Wegiel Bogdanka SA
<del>Agritrade Resources Limited</del>	New Hope Corporation Limited
Alliance Resource Partners, L.P.	Peabody Energy Corporation
<del>Arch Resources, Inc.</del>	<del>Pingdingshan Tianan Coal Mining Co., Ltd.</del>
Banpu Public Company Limited	PT ABM Investama Tbk
Bukit Asam Tbk PT	PT Adaro Energy Tbk
China Coal Energy Company Limited	PT Astra International Tbk
China Shenhua Energy Company Limited	PT Bumi Resources Tbk
<del>Cloud Peak Energy</del>	PT Delta Dunia Makmur Tbk
Coal India Ltd	PT Indika Energy Tbk
Consol Energy Inc.	PT Indonesia Asahan Aluminium (Persero)
DMCI Holdings Inc.	PT United Tractors Tbk
Exxaro Resources Limited	Semirara Mining and Power Corporation
<del>Foresight Energy</del>	Shaanxi Coal Industry Company Limited
Geo Energy Resources Limited	Shan Xi Hua Yang Group New Energy Co Ltd.
Guanghui Energy Co., Ltd.	Shandong Energy Group Co., Ltd
Gujarat Mineral Development Corp., Ltd.	<del>Shanxi Coal International Energy Group Co., Ltd.</del>
Hallador Energy	Shanxi Coking Coal Energy Group Co., Ltd.
Harum Energy (PT Harum Energy Tbk)	Shanxi Lu'an Environmental Energy Dev. Co., Ltd
Huadian Power International Corporation Limited	<del>TBEA Co., Ltd.</del>
Indo Tambangraya Megah Tbk PT	Thungela Resources Ltd
<del>Inner Mongolia Dian Tou Energy Corporation Limited</del>	Washington H. Soul Pattinson and Company Limited
Inner Mongolia Yitai Coal Co., Ltd	<del>Westmoreland Coal</del>
Jastrzębska Spółka Węglowa SA	Whitehaven Coal Limited
Jizhong Energy Resources Co., Ltd.	<del>Yanzhou Coal Mining Company Limited</del> <del>Yankuang Energy Group Company Limited</del>

Updated: November 2022

Note 1: MSCI ESG Research data was used to create the information provided.

Note 2: Companies in red font indicate those that have been added to the restricted list.

## **APPENDIX B**

### **2022 List of Restricted Thermal Coal Companies**

Alliance Resource Partners, L.P.	Peabody Energy Corporation
Banpu Public Company Limited	Pingdingshan Tianan Coal Mining Co., Ltd.
Bukit Asam Tbk PT	PT ABM Investama Tbk
China Coal Energy Company Limited	PT Adaro Energy Tbk
China Shenhua Energy Company Limited	PT Astra International Tbk
Coal India Ltd	PT Bumi Resources Tbk
Consol Energy Inc.	PT Delta Dunia Makmur Tbk
DMCI Holdings Inc.	PT Indika Energy Tbk
Exxaro Resources Limited	PT Indonesia Asahan Aluminium (Persero)
Geo Energy Resources Limited	PT United Tractors Tbk
Guanghui Energy Co., Ltd.	Semirara Mining and Power Corporation
Gujarat Mineral Development Corp., Ltd.	Shaanxi Coal Industry Company Limited
Hallador Energy	Shan XI Hua Yang Group New Energy Co Ltd.
Harum Energy (PT Harum Energy Tbk)	Shandong Energy Group Co., Ltd
Huadian Power International Corporation Limited	Shanxi Coal International Energy Group Co., Ltd.
Indo Tambangraya Megah Tbk PT	Shanxi Coking Coal Energy Group Co., Ltd.
Inner Mongolia Dian Tou Energy Corporation Limited	Shanxi Lu'an Environmental Energy Dev. Co., Ltd
Inner Mongolia Yitai Coal Co., Ltd	TBEA Co., Ltd.
Jastrzębska Spółka Węglowa SA	Thungela Resources Ltd
Jizhong Energy Resources Co., Ltd.	Washington H. Soul Pattinson and Company Limited
Lubelski Wegiel Bogdanka SA	Whitehaven Coal Limited
New Hope Corporation Limited	Yankuang Energy Group Company Limited

Updated: November 2022

Note 1: MSCI ESG Research data was used to create the information provided.