



**RETIREMENT BOARD MEETING CALENDAR SHEET**

**December 11, 2024**

**To:** Retirement Board

**Through:** Alison Romano  
CEO & CIO

Kurt Braitberg, CFA, CAIA  
Managing Director, Public Markets

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

Blake Broadnax  
Investment Officer, ESG Investing

**Date:** December 11, 2024

**Agenda Item** Annual Report and Recommendation on Thermal Coal Companies Subject to Investment Restriction

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**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 2024 List of Thermal Coal Companies presented in Table 1.*

**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 two companies whose thermal coal revenues dropped below the investment restriction threshold;

- The addition of one company that derives over 50% of revenues from thermal coal;
- 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.

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.

**Attachment:** Staff Memorandum



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**Date:** December 11, 2024

**To:** The Retirement Board

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

**From:** Andrew Collins  
Director of ESG Investing  
Blake Broadnax  
Investment Officer, ESG Investing

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

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**RECOMMENDATION**

If the Board wishes to remain divested from thermal coal companies according to the criteria described in this memo, 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 2024 List of Thermal Coal Companies presented in Table 1.*

**Table 1. 2024 List of Restricted Thermal Coal Companies**

African Rainbow Minerals Limited	Pingdingshan Tianan Coal Mining Co., Ltd.
Alliance Resource Partners, L.P.	PT ABM Investama Tbk
Banpu Public Company Limited	PT Adaro Energy Tbk
Brickworks LTD	PT Astra International Tbk
Bukit Asam Tbk PT	PT Astrindo Nusantara Infrastruktur Tbk
China Coal Energy Company Limited	PT Bumi Resources Tbk
China Shenhua Energy Company Limited	PT Delta Dunia Makmur Tbk
CHN Energy Investment Group Co.	PT Indika Energy Tbk
Coal India Ltd	PT Indonesia Asahan Aluminium (Persero)
Consol Energy Inc.	PT Petrindo Jaya Kreasi Tbk
DMCI Holdings Inc.	PT United Tractors Tbk
Exxaro Resources Limited	Semirara Mining and Power Corporation
Geo Energy Resources Limited	Shaanxi Coal and Chemical Industry Group Co., Ltd. (Shaanxi Coal Industry Company Limited)

Golden Energy and 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.	Shanxi Coal International Energy Group Co., Ltd.
Hallador Energy	Shanxi Coking Coal Energy Group Co., Ltd.
Harum Energy (PT Harum Energy Tbk)	Shanxi Lu'an Environmental Energy Dev. Co., Ltd
Indo Tambangraya Megah Tbk PT	Siam City Cement Public Company Limited
Inner Mongolia Dian Tou Energy Corporation Limited	Sumiseki Holdings, Inc
Inner Mongolia Yitai Coal Co., Ltd	TBEA Co., Ltd.
Jardine Cycle & Carriage Limited (Jardine Matheson Holdings Limited)	Terracom Limited
Jizhong Energy Resources Co., Ltd.	The Tata Power Company Limited
Kinetic Development Group Ltd	Thungela Resources Ltd
Lubelski Wegiel Bogdanka SA	Washington H. Soul Pattinson and Company Limited
New Hope Corporation Limited	Whitehaven Coal Limited
NLC India Limited	Yancoal Australia Ltd.
Peabody Energy Corporation	Yankuang Energy Group Company Limited

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

Table 2 lists publicly traded coal companies that derive greater than 50% of their revenues from thermal coal activities (exclusion criteria part a.):

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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.

**Table 2: Public Coal Companies with >50% Revenues from Thermal Coal**

<b>Coal Companies</b>	<b>Issuer Country</b>	<b>Currently Restricted (2023)</b>	<b>Recommended for Restriction (2024)</b>
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
Golden Energy and 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
Kinetic Development Group Ltd	CN	No	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 Petrindo Jaya Kreasi 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
Shandong Energy Group Co., Ltd	CN	Yes	Yes
Terracom Limited	AU	Yes	Yes
Thungela Resources Ltd	ZA	Yes	Yes
Whitehaven Coal Limited	AU	Yes	Yes
Yancoal Australia Ltd.	AU	Yes	Yes
Yankuang Energy Group Company Limited	CN	Yes	Yes

The second part of the analysis (see Table 3) 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 3: Public Coal Companies between 10-50% Revenues from Thermal Coal**

Coal Companies	Issuer Country	Currently Restricted (2023)	Recommended for Restriction (2024)
Allete Inc.	US	Yes	No
African Rainbow Minerals Limited	ZA	No	Yes
Arch Resources, Inc.	US	No	No
Brickworks LTD	AU	No	Yes
CHN Energy Investment Group Co.	CN	Yes	Yes
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
Inner Mongolia Dian Tou Energy Corporation Ltd	CN	Yes	Yes
Jardine Cycle & Carriage Limited (Jardine Matheson Holdings Limited)	HK	Yes	Yes
Jastrzębska Spółka Węglowa SA	PL	Yes	No
Jizhong Energy Resources Co., Ltd.	CN	Yes	Yes
NLC India Limited	IN	Yes	Yes
Pingdingshan Tianan Coal Mining Co., Ltd.	CN	Yes	Yes
PT Astra International Tbk	ID	Yes	Yes
PT Astrindo Nusantara Infrastruktur Tbk	ID	Yes	Yes
PT Indonesia Asahan Aluminium (Persero)	ID	Yes	Yes
Shaanxi Coal and Chemical Industry Group Co., Ltd. (Shaanxi Coal Industry Company Limited)	CN	Yes	Yes
Shanxi Coal International 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
Siam City Cement Public Company Limited	TH	No	Yes
Sumiseki Holdings, Inc	JP	No	Yes
TBEA Co., Ltd.	CN	Yes	Yes

The Tata Power Company Limited	IN	Yes	Yes
Washington H. Soul Pattinson and Company Ltd.	AU	Yes	Yes

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

- Add Kinetic Development Group Ltd as thermal coal represents more than 50% of revenues for the company.
- Add African Rainbow Minerals Limited, Brickworks LTD, Siam City Cement Public Company Limited, and Sumiseki Holdings, Inc. as thermal coal represents 10%-50% of revenues for each company.
- Remove Allete Inc. and Jastrzębska Spółka Węglowa SA, as thermal coal represents less than 10% of company revenues.

As of June 30, 2024, 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 4: Custom Index Relative Returns and Volatility - Total returns (net dividends) in USD**

Index Name	Restriction Weighting*	Cumulative Return**	Annualized Return**	Annualized Volatility**	Approx. Cumulative Dollar Impact
ACWI IMI ex Thermal Coal	0.09%	0.00%	0.00%	0.01%	+\$0.11mm

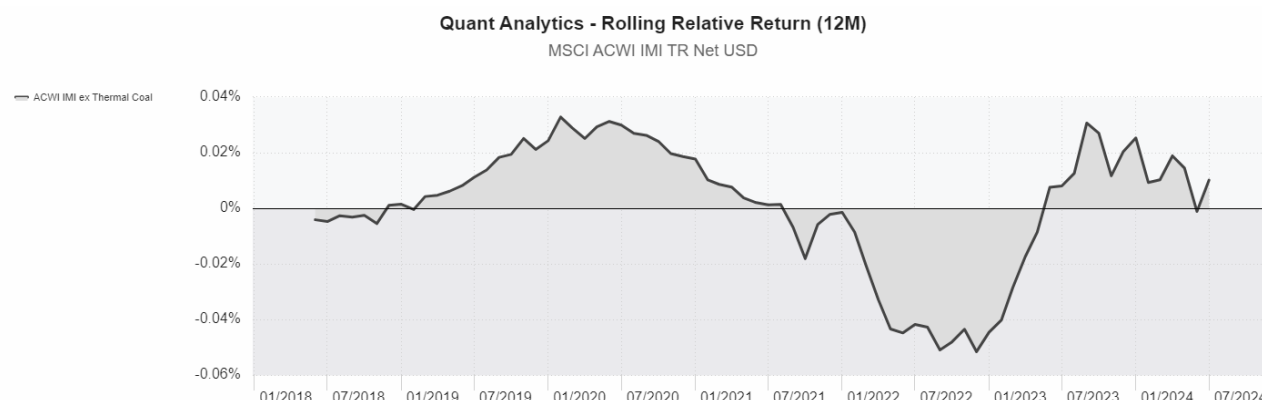
\* Weightings of restricted stocks in the generic MSCI ACWI IMI Index as of June 30, 2024.

\*\* Relative returns and volatility are against the MSCI ACWI IMI Index from custom index inception (May 31, 2017) through to June 30, 2024.

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.

## **ACTIONS TAKEN BY SELECT 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 200 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> Many peer funds, including CalSTRS and CalPERS, continue to have revenue-based thresholds to divest from thermal coal companies.

## **SECTOR DEVELOPMENTS**

In a memo presented at the May 17, 2016 Board Meeting, Staff noted that, "the thermal coal mining industry will face significant financial and environmental hurdles going forward, which will limit the potential for positive investment returns." These hurdles included bankruptcy risk, asset impairments, regulatory uncertainty, and coal substitution options.

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

The same investment risks persist across the market environment today, and the thermal coal industry faces significant investment headwinds given it is in secular decline.

Coal prices increased 7.1% from 131.9 USD/T in January 2024 to 141.2 USD/T in November 2024.<sup>3</sup> This increase was driven by strong demand growth in China and India of 6% and 9% respectively. Global coal demand grew by 2.6% in 2023, to reach a new record of 8.7 billion tons. The increases in China and India more than offset significant demand declines in the European Union of -22.5% and the United States of -17.3%. Global coal demand is expected to remain broadly unchanged in 2025 compared with 2024, at around 8.7 billion tons.<sup>4</sup>

A recovery in hydropower in China combined with significant expansion of wind and solar is expected to slow the growth of coal power generation globally in 2024, albeit with contrasting trends across different regions. Since April, hydropower production in China has rebounded, but electricity consumption in China has grown strongly due to robust increases in demand both in the services sector and industry.<sup>5</sup>

Coal demand increased in both India and Vietnam in the first half of 2024 due to strong electricity demand and low hydropower output. Meanwhile, India's economy is growing rapidly, pushing up industrial coal consumption. However, India's coal demand growth is expected to slow in the second half of 2024, as the unusually strong increase in demand in the first half of the year was driven by exceptional weather conditions.<sup>6</sup>

In the United States, where coal use has been in decline since 2008, coal demand remained almost unchanged year-on-year in the first half of 2024 due to lower switching from coal to natural gas in the electricity sector. In the European Union, after a 22% decline in coal demand in 2023, the International Energy Agency expects a decrease of 19% in 2024, mostly driven by the electricity sector, where the expansion of renewables continues while demand remains relatively weak.<sup>7</sup>

Based on current assumptions, the International Energy Agency expects that global coal demand will remain broadly flat for the full year. However, weather, economic activity, natural gas prices and other factors could still result in slight fluctuations. This is particularly true for China's electricity, sector which accounts for one-third of global coal demand.<sup>8</sup>

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<sup>3</sup> "Coalprice - Chart - Historical Data - News." Coal - Price - Chart - Historical Data - News, 20 Nov. 2024, [tradingeconomics.com/commodity/coal](https://tradingeconomics.com/commodity/coal).

<sup>4</sup> IEA (2024), Coal Mid-Year Update - July 2024, IEA, Paris <https://www.iea.org/reports/coal-mid-year-update-july-2024>

<sup>5</sup> Ibid.

<sup>6</sup> Ibid.

<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

In 2023, production by the three largest coal producers, accounting for 70% of global output, grew considerably: China (3.4%), India (12%) and Indonesia (13%). As a result, global coal production reached an all-time high of 8.9 billion tons.<sup>9</sup>

Fundamental drivers such as the production of clean energy technologies like electric vehicles or global trends like AI propelling demand from data centers, will have a significant impact on electricity demand, and in turn, coal demand in the coming years. Electricity consumption from data centers, AI, and cryptocurrency could reach double 2022 levels by 2026, according to projections from the International Energy Agency.<sup>10</sup> Policies to phase out coal and reduced support for coal from institutions like banks or insurers in many parts of the world are going to put further pressure on coal demand.<sup>11</sup>

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<sup>9</sup> Ibid.

<sup>10</sup> IEA (2024), Electricity 2024, IEA, Paris <https://www.iea.org/reports/electricity-2024>

<sup>11</sup> Ibid.

## APPENDIX A

### List of Restricted Thermal Coal Companies, Reflecting Recommended Changes from 2023 to 2024

African Rainbow Minerals Limited	Peabody Energy Corporation
<del>Allete Inc.</del>	Pingdingshan Tianan Coal Mining Co., Ltd.
Alliance Resource Partners, L.P.	PT ABM Investama Tbk
Banpu Public Company Limited	PT Adaro Energy Tbk
Brickworks LTD	PT Astra International Tbk
Bukit Asam Tbk PT	PT Astrindo Nusantara Infrastruktur Tbk
China Coal Energy Company Limited	PT Bumi Resources Tbk
China Shenhua Energy Company Limited	PT Delta Dunia Makmur Tbk
CHN Energy Investment Group Co.	PT Indika Energy Tbk
Coal India Ltd	PT Indonesia Asahan Aluminium (Persero)
Consol Energy Inc.	PT Petrindo Jaya Kreasi Tbk
DMCI Holdings Inc.	PT United Tractors Tbk
Exxaro Resources Limited	Semirara Mining and Power Corporation
Geo Energy Resources Limited	Shaanxi Coal and Chemical Industry Group Co., Ltd. (Shaanxi Coal Industry Company Limited)
Golden Energy and 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.	Shanxi Coal International Energy Group Co., Ltd.
Hallador Energy	Shanxi Coking Coal Energy Group Co., Ltd.
Harum Energy (PT Harum Energy Tbk)	Shanxi Lu'an Environmental Energy Dev. Co., Ltd
Indo Tambangraya Megah Tbk PT	Siam City Cement Public Company Limited
Inner Mongolia Dian Tou Energy Corporation Limited	Sumiseki Holdings, Inc
Inner Mongolia Yitai Coal Co., Ltd	TBEA Co., Ltd.
Jardine Cycle & Carriage Limited (Jardine Matheson Holdings Limited)	Terracom Limited
<del>Jastrzębska Spółka Węglowa SA</del>	The Tata Power Company Limited
Jizhong Energy Resources Co., Ltd.	Thungela Resources Ltd
Kinetic Development Group Ltd	Washington H. Soul Pattinson and Company Limited
Lubelski Węgiel Bogdanka SA	Whitehaven Coal Limited
New Hope Corporation Limited	Yancoal Australia Ltd.
NLC India Limited	Yankuang Energy Group Company Limited