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Hearing on the Treasury Investment and
Climate Protection Act of 2023. (HB 2601)
before the
House Committee on Emergency Management, General Government and Veterans
February 16, 2023

Ms. Chairperson, thank you for allowing me to speak today in support of HB 2601.

My name is Tom Sanzillo, I am the Director of Financial Analysis for the Institute for Energy Economics and Financial Analysis (IEEFA.org).[1]

Prior to my work at IEEFA I spent 17 years in senior public finance positions in the City and State of New York, including oversight for their respective pension systems.

My organization has reviewed numerous proposed and actual statutes and even more institutional fund proposals to create exit strategies similar to the ones proposed in HB 2601. HB 2601 is a realistic plan; in contrast the Treasurer's proposed framework fails to take into account the experience of some 1500 funds that have already adopted divestment strategies and the experience of leading shareholders who have adopted divestment precisely because the engagement strategies proposed by the Treasurer have failed when applied to the fossil fuel industry. In short his plan is outdated and uninformed.

The bill protects the value of assets under the control of the State Treasurer and Council. This provision is essential as the assets of the fund must be invested and then used for the sole benefit of the members – Oregon's public servants and their families.

Fortunately there is now ample investment experience by various institutional funds – experience that provides reasonable certainty that the provisions of HB 2601 can be implemented and investment targets achieved.

In January 2021 Blackrock, one of the world's leading investment houses prepared a report for the Teachers fund in New York City.[2] The report contained a summary of financial results of funds that exited fossil fuels. The report found that those funds experienced either neutral or positive financial results and they did not incur fees that burdened administrative budgets. New York City's Teacher's fund, using those findings, is divesting its fossil fuel holdings and has stopped new investments.

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[1] We are energy and finance experts working around the world to accelerate the energy transition.

[2] Blackrock, Investment and Fiduciary Analysis for Potential Fossil Fuel Divestment – Phase One – Survey of Investments and Identification of Securities, January 2021.

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Recently the State of Maine passed divestment legislation. A consultant's implementation report also concludes that a well-managed exit strategy should result in either neutral or positive financial performance.

The New York State Common Retirement Fund ($232 billion) has announced a comprehensive review of its fossil fuel holdings and has exited from coal, oil sands and shale oil drillers. The review and exit strategy is to be completed by 2025 - an expeditious timeline.

Financial performance data is not publicly available for every institution that has adopted an exit strategy. However, over 1500 institutional investors with $40.4 trillion in assets have adopted some form of fossil fuel exit strategy.[3]

And what to invest in instead? It is no accident that every major investment house in the world now has a menu of climate sensitive stock and bond funds organized under the headings of Low Carbon, Decarbonized, Low Emissions, Paris compliant.[4] These indexes are diversified, profitable and capable.

A close look at coal, oil and gas portfolio performance provides overwhelming financial evidence that the industry has declined precipitously and that the outlook for oil and gas companies is negative. This fundamental financial reality is completely missing from the Treasurers analysis

- In 1980 the energy sector commanded 29% of the United States Standard and Poors 500. Today it commands 5.1%. [5]
- Over the last 12 years, the MSCI All-Country World Index (ACWI) without fossil fuels outperformed the MSCI ACWI with fossil fuels. The gap exists even after accounting for the substantial oil price increases that occurred after the invasion of Ukraine.[6]

Fossil fuels have been major contributors to investment portfolios and the world economy for decades. This is no longer the case. Exiting from fossil fuels is a strategy designed to protect institutional investment funds from losses.

HB 2601 is a legislative solution to investment risks created by fossil fuel companies. Climate risk is a financial risk. Financial risks need to be addressed with financial actions.

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[3] InvestDivest.org, InvestDivest 2021: A decade of Progress Toward A Just Climate Future, September 2021.

[4] For a clear example of how the existence of these index funds are used by investment funds seeking to implement fossil fuel exit and emission reduction strategies see: CalSTRS. Investment Committee Item Number 3a – Open Session. August 31, 2022 and CalSTRS, Item 3a CalSTRS Net Zero Strategy First Year Progress and Planning Update, August 31, 2022

[5] Sibilis, U.S. and Global Stock Indices Constituents and Changes, S&P 500 Sector Weightings (Proprietary, available upon request)

[6] MSCI, MSCI ACWI ex Fossil Fuels (USD), last visited January 16, 2023.

It is not uncommon for professional staff to oppose fossil fuel exit strategies. It is also not uncommon for Boards of Directors to balk at investment restrictions on fossil fuels. As pointed out by your State Treasurer, statutory interventions into the investment process is an extraordinary step.

Climate change is an extraordinary phenomenon. No country on earth has found it easy to adopt solutions. The legislature's consideration of HB 2601 is a recognition that the climate issue is serious and the choices difficult – difficult but necessary. Stopping new investments is the first place to start.

HB 2601 places a restriction on future carbon intensive investments reflecting over a decade of financial decline and a negative outlook. It then establishes a planning process to be completed by 2035. These provisions provide the kind of policy leadership needed -- clear and decisive -- and give the professional staff marching orders -- orders that have been successfully carried out by increasing numbers of professional staff and money managers around the world.

Again, my thanks for allowing me to testify today. I am available for questions.