Submitter: D Torres

On Behalf Of:

Committee: Senate Committee On Finance and Revenue

Measure, Appointment or Topic: SB681

Committee Members,
I would I express my strong opposition to SB 681. This Act presents a series of challenges that are not only impractical but could have unintended negative consequences on our state's financial health and fiduciary responsibilities.

Fiduciary Duty to Maximize Returns for the People of the State
The primary responsibility of the State Treasurer is to act in the best financial interest of the state and its beneficiaries, as stipulated by fiduciary duties. This includes the duty to maximize investment returns. Fossil fuel investments, despite concerns over environmental impact, are a key component of global energy markets and are often critical drivers of economic growth. Excluding private market funds that engage in fossil fuel investments may significantly limit the state's access to potentially high-performing investment opportunities that could outperform alternatives.

The Act, if passed, would impose artificial restrictions that could prevent the state from diversifying its investment portfolio in a way that best serves the long-term interests of taxpayers and pension beneficiaries. By restricting access to private market funds based on their managers' intentions, the state risks forgoing significant investment opportunities that could ensure the financial security of essential public services and retirement funds for our state employees.

The Complexity of the Global Investment Landscape
The global financial markets are interconnected, and many of the largest, most successful private market funds have exposure to fossil fuel investments in some capacity. Private equity, venture capital, and infrastructure funds, among others, often invest in sectors that are closely tied to the fossil fuel industry, including energy production, transportation, and manufacturing.

Forcing the State Treasurer to avoid all funds that involve fossil fuel investments may narrow the scope of possible investments to a degree that undermines the state's ability to participate in critical sectors of the global economy. This could limit access to funds that, while not exclusively focused on fossil fuels, may invest in other important, non-fossil sectors that are essential for broader economic growth and stability.

Fossil fuels continue to play a vital role in global economies, particularly in emerging markets and developing countries where alternatives are still in their nascent stages. Private market funds that focus on fossil fuels are increasingly evolving to include more environmentally sustainable projects and investments.

The Risk of Exclusion from Market-Driven Solutions

Finally, it is important to consider that markets, not political mandates, drive the most effective solutions for the challenges facing our society. Excluding investments in funds based on fossil fuel intentions may reduce the state's ability to leverage market-driven innovations and solutions to environmental concerns. Many private market funds are at the forefront of technological advancements and sustainability initiatives. The government's role should be to enable and support such efforts, rather than create barriers that may stifle innovation or restrict the state's ability to access cutting-edge, forward-thinking investment opportunities.

Conclusion

I strongly urge the committee to reconsider this proposed Act. This Act risks undermining our fiduciary duties, limiting access to diverse and high-performing investment opportunities. I recommend that we focus on allowing the free market to drive any necessary changes and stop with the political fodder intent on politicizing investments that stand the chance of hindering the state's access to potentially high-performing investment opportunities that could outperform alternatives.

Thank you for your time and consideration.