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Testimony by
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Before the Colorado House Committee on Finance
HB 1246
Divestment from Fossil Fuel Companies
April 19, 2021

Madame Chair, thank you for allowing me to speak today in full support of HB 1246.

My name is Tom Sanzillo, director of financial analysis for the Institute for Energy Economics and Financial Analysis (IEEFA).

My organization currently works with nonprofit, business, labor and governmental organizations in 30 countries to facilitate the energy transition from fossil fuels. Among my responsibilities, I have produced memos and reports on the topic of the financial rationale for the decarbonization of pension fund portfolios; commentaries on aspects of divestment related to the financial performance of fossil fuel industries; and advisory pieces of a public and confidential nature for a dozen public, university and corporate funds.

Prior to my tenure with IEEFA, I spent 17 years (1990-2007) as a senior executive working for the elected chief financial officer of New York City, then New York State. Our responsibilities included administering the city fund, along with five boards of trustees that included administrators, teachers, firefighters, police and transit employees. At the state level, the comptroller serves as the sole trustee of the state's pension system. When I left state service, I was the first deputy comptroller of New York State (and served a short time as state comptroller due to an early resignation). At the time, the New York State Common Retirement Fund was valued at $156 billion.

During my years of service, the City of New York executed its responsibility to divest funds from companies doing business in South Africa and considered the question of divestment from individual companies and industries related to guns, pornography, tobacco and the Arab boycott of Israel. After consideration, the city fund did not divest from equities in these areas. At the state level, we considered and partially divested from tobacco companies and companies doing business with Sudan. We also rejected pleas to divest from guns, pornography and companies involved in research related to abortifacients.

HB1246 directs the Colorado Public Employees Retirement Association Board (PERA, or, the "fund") to create an exclusion list of companies involved with fossil fuels. Upon publication of the exclusion list, companies will be notified and the fund will divest its holdings. Each company on the exclusion list has the right to petition the board to be taken off the exclusion list when the company meets PERA's standards. PERA is required to assess the consistency of its decisions with its fiduciary obligation and to regularly report to the Colorado Legislature.

In January 2019, PERA published a policy statement that opposed divestment as a general proposition. The statement expressed a general concern that the fund lacked authority to act on matters of social, foreign or economic policy. The fund said such investment actions would impair its obligation to achieve maximum returns, incur additional costs, breach its obligation to protect employee benefits and have unintended consequences.

Current market factors and recent support for divestment actions by the world's largest and most prestigious investment advisor (BlackRock) have shed new light on these concerns. Taken together, the best analysis of current market forces suggests that the arguments for divestment from fossil fuels—and particularly the rationale and methods outlined in HB 1246—are powerful and compelling. They make a clear case that passage of HB 1246 is likely to improve performance, incur modest costs and offer a prudent approach to manage risks faced by the fund and its existing employees and retirees.

Fossil Fuel Underperformance

The oil and gas sector, once the leader of the world economy, is now among the worst performers. This has been true for almost a decade, and its long-term outlook is negative.

- In 1980, oil and gas stocks constituted 28% of the Standard & Poor's 500-stock index. Today, it constitutes less than 3%.
- In 1980, seven of the top 10 companies in the S&P 500 were oil and gas stocks. Today, there are none.
- For the last 10 years, the MSCI fossil-free index of global equities outperformed the MSCI with fossil fuels.

Norway has declared that its decades-long run of oil and gas revenues that support 25% of the revenue base of its annual budget and economy is over. They are projecting structural budget deficits and a weakened oil and gas outlook through 2050.

BlackRock's Fiduciary Advice to New York City

New York City reviewed its portfolio and decided that it was unprepared to address the financial headwinds facing the oil and gas industry. Two of the city's funds—the New York City Teachers Retirement System and the New York City Employees Retirement System—have decided to move forward with divestment. They issued a request for proposals to financial advisors to offer ideas for divesting in a manner allowing them to meet financial targets.

Financial firms BlackRock and Meketa were selected to conduct parallel studies. Both studies found:

- None of the funds that have divested from fossil fuels have suffered negative financial outcomes.
- Funds adopted a wide variety of fossil fuel divestment approaches; all were well-managed and met financial targets.
- Costs to divest and tracking errors were all within existing policy frameworks.
- Funds that divested had provisions in their investment strategies that allowed excluded companies to return.

BlackRock's analysis starts from the fact that the fossil fuel sector has underperformed on the stock market for the last five years, and the outlook is clouded by market and environmental factors. BlackRock also tested for the "transition readiness" of the fossil fuel companies. It is widely understood that the negative outlook for these companies is tied to price risks that are related to a whole new energy commodity landscape being driven by technological progress in wind, solar, battery storage, transport and petrochemicals. It is a landscape that the oil and gas companies are, for the most part, not prepared to handle. Investors who remain in the sector must be prepared to address a host of social, foreign and economic policy questions that are beyond the normal scope of investment due diligence.

The market message is clear: The fossil fuel sector has historically contributed handsomely to pension funds across the world. It can no longer do so. Today, it is a much smaller industry, with high risks, low profits and a troubling outlook.

BlackRock, with $8.6 trillion in assets under management, is considered one of the big three index funds, along with State Street and Vanguard. They are advisors to many of the world's largest funds.

BlackRock and Meketa's advice to the City of New York was transmitted under contract to city pension funds after assessing the current holdings of its funds and assessing the new investment instructions provided by the board. This was not a policy document, a marketing report or even an investment outlook. It is specific information given to a specific fiduciary board to help them carry out their legal responsibilities as they execute investments that protect them from risks associated with continued holdings in the oil, gas, and coal sectors.

This is vital information for the Legislature as it considers HB 1246. It is perhaps even more important for the PERA board and staff as they review their January 2019 statement in light of these market changes and new analytical conclusions being offered.

Thank you for allowing me the time to testify. My organization is ready to answer any questions you might have regarding the bill and its implementation.

Appendix
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IEEFA Divestment Reports, Commentaries and Articles

3/22/2021	IEEFA: Major investment advisors BlackRock and Meketa provide a fiduciary path through the energy transition
1/7/2021	IEEFA: NYS Comptroller DiNapoli's bold divestment plan may inspire investors to follow suit
12/21/2020	IEEFA: AIA too important to lag global insurers in coal investment, divestment, and exclusion
12/10/2020	IEEFA: New York State Comptroller DiNapoli takes the lead on fossil fuel divestment
12/8/2020	IEEFA: Malaysia's CIMB announces coal financing phase-out by 2040 as Asia's fossil fuel divestment drive accelerates
10/19/2020	IEEFA: From zero to fifty, global financial corporations get cracking on major oil/gas lending exits
9/29/2020	IEEFA op-ed: It's time for New Jersey to divest from fossil fuels
6/8/2020	IEEFA: Renewables continue to break records despite COVID-19
4/29/2020	IEEFA Asia: Asian financial institutions also beginning to exit coal financing
2/24/2020	IEEFA: Nordic region leading by example since 2013
1/30/2020	IEEFA update: BlackRock to investors: sustainable portfolios provide stronger risk-adjusted returns
1/22/2020	IEEFA update: BlackRock decision on climate change–it's about business
1/20/2020	IEEFA update: Capital flight from thermal coal is accelerating
1/16/2020	IEEFA update: BlackRock takes first step towards aligning US$7 trillion fund with Paris Agreement
11/27/2019	IEEFA testimony: Support for Massachusetts bills allowing fossil fuel divestment
10/22/2019	IEEFA update: Fiduciary duty and fossil fuel divestment
10/17/2019	IEEFA update: AXIS joins 28 global insurers exiting coal financing
8/26/2019	IEEFA update: IFM Investors is the latest asset manager moving to align with Paris

8/1/2019	IEEFA report: BlackRock's fossil fuel investments wipe US$90 billion in massive investor value destruction
5/14/2019	IEEFA update: Asian banks add to growing number of major financial institutions exiting coal – now 112 and counting
4/5/2019	IEEFA update: Norway's GPFG sovereign fund to invest up to $14bn in unlisted renewables
3/20/2019	IEEFA op ed: New York State pension fund should divest from fossil fuels
3/19/2019	IEEFA update: First Chinese major joins over 100 global financial institutions restricting coal finance
3/14/2019	IEEFA update: Get out now — Norway's fossil fuel epiphany
2/15/2019	IEEFA Japan: ITOCHU Corporation announces coal exit
2/8/2019	IEEFA report: Financial case builds for fossil fuel divestment
12/21/2018	IEEFA update: Norway's recognition of a declining oil and gas sector sends a message
9/19/2018	IEEFA update: As Marubeni distances itself from coal, other industrial behemoths will follow
9/18/2018	IEEFA op-ed: Colorado's pension fund shouldn't bank on the future of oil and gas
9/12/2018	IEEFA update: Six real-world rebuttals to divestment naysayers
8/31/2018	IEEFA update: Divestment 101
7/10/2018	IEEFA report: Fund trustees face growing fiduciary pressure to divest from fossil fuels
5/11/2018	IEEFA Update: As ExxonMobil Doubles Down on Oil and Gas, Investors Go Elsewhere
1/4/2018	IEEFA Op-Ed: Cuomo Is Right on Fossil Fuel Divestment
1/2/2018	IEEFA Update: Financial Facts Don't Support Coal Industry's Claims of 2017 Recovery
11/22/2017	IEEFA Update: Norway Shows What to Do With Fading Oil and Gas Holdings
1/31/2017	IEEFA Op-Ed: Investors Should Steer Clear of the Keystone Pipeline
7/25/2016	IEEFA New York: NYC Pension Funds Begin to Craft a Fossil-Fuel Divestment Path Others Can Follow

4/22/2016	Institutional Investors Are Walking Away From Ohio Utility Companies That Insist on Coal
10/7/2015	A Shrinking Industry in Dire Straits
7/1/2015	Global Coal Markets: When Does a Seasonal Trend Become a Structural Decline?
6/5/2015	In Norway's Divestment, Consequences for Almost 50 Coal-Burning U.S. Utilities
6/1/2015	For U.S. Coal, Market Realities Grow Increasingly Harsh
5/28/2015	Where Norway Leads on Coal Divestment, Others Will Follow
5/17/2015	"Case for Divesting Coal from the Norwegian Government Pension Fund Global"
5/8/2014	Report - NYC and NYS pension funds should divest coal stocks: A shrinking industry, weak upside, and wrong on climate change
11/14/2013	Power Point: Presentation to Faith Community on Coal Divestment