



April 21, 2021

Representative Shane Sandridge
Colorado House of Representatives
200 East Colfax Avenue, Room 307
Denver, Colorado 80203

Shane.Sandridge.house@state.co.us

Dear Representative Sandridge:

Thank you for taking the time to hear us out at the HB 1246 committee discussion last night. I'm writing to clarify some of the facts we discussed. I think in the back-and-forth dialogue, some of what I may have been stating was misunderstood.

My organization starts with the divestment premise that the oil and gas sector (the energy sector in the Standard & Poor's 500-stock index) is declining in size, value and relative contribution to institutional investors.¹ This is based on three interrelated facts: 1) the energy sector contributed massively to the world economy for decades and was the No. 1 sector in the S&P 500 for many years; 2) the sector no longer leads the financial markets and in fact lags the market; and 3) this underperformance is likely to continue. The energy sector outlook is negative.

The energy sector contributed massively to the world economy for decades and was the No. 1 sector in the S&P 500 for many years.

I have attached Sibilis Research's "U.S. Stock Market Weightings" from 1979 through 2020. You will see that the energy sector in 1980 held 29% of the S&P 500 and led the market for many years.

You will also see from the link to the ETF database, "Visual History of the SP 500," that seven of the top 10 companies in the S&P 500 in 1980 were oil and gas companies.² If you add General Electric as a very important part of the fossil fuel sector at the time, you could increase that number to eight.

This is evidence of substantial, powerful market leadership.

¹ S&P Global. [S&P Dow Jones Indices](#). Retrieved April 20, 2021.

² ETF Database. [Visual History Of The S&P 500](#). August 26, 2013.

The sector no longer leads the financial markets but in fact lags the market and has lagged the market for most of the last decade.

The Sibilis database shows that at the end of 2020, the energy sector claimed 2.28% of the S&P 500. The most recent fact sheet posted on the S&P website shows that in April 2020, the energy sector claimed 2.8% of the S&P 500, and there were no oil and gas companies in the top 10. In August 2019, you will see that when ExxonMobil lost its position in the S&P top 10, its loss of blue-chip status drew widespread attention.³

The chart below shows that in eight of the last 10 years, the energy sector has lagged the S&P 500. In seven of the last 10 years it has been near or in last place. The sector had one strong year (2016) in the last decade. For most of the last decade, it has performed poorly, at or near the bottom.

S&P 500 Sector Performance

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
ENRS 34.4%	CONS -15.4%	INFT 61.7%	REAL 32.3%	UTIL 19.9%	FINL 28.8%	COND 43.1%	REAL 30.2%	COND 10.1%	ENRS 27.4%	INFT 38.8%	HLTH 6.5%	INFT 50.3%	INFT 43.9%
MATR 22.5%	HLTH -22.8%	MATR 48.6%	COND 27.7%	CONS 14.0%	COND 23.9%	HLTH 41.5%	UTIL 29.0%	HLTH 6.9%	TELS 23.5%	MATR 23.8%	UTIL 4.1%	TELS 32.7%	COND 33.3%
UTIL 19.4%	UTIL -29.0%	COND 41.3%	INDU 26.7%	HLTH 12.7%	REAL 19.7%	INDU 40.7%	HLTH 25.3%	CONS 6.6%	FINL 22.8%	COND 23.0%	COND 0.8%	FINL 32.1%	TELS 23.6%
INFT 16.3%	TELS -30.5%	REAL 27.1%	MATR 22.2%	REAL 11.4%	TELS 18.3%	FINL 35.6%	INFT 20.1%	INFT 5.9%	INDU 18.9%	FINL 22.2%	INFT 22.2%	S&P 31.5%	MATR 20.7%
CONS 14.2%	COND -33.5%	S&P 26.5%	ENRS 20.5%	TELS 6.3%	HLTH 17.9%	S&P 32.4%	CONS 16.0%	REAL 4.7%	MATR 16.7%	HLTH 22.1%	REAL -2.2%	INDU 29.4%	S&P 18.4%
INDU 12.0%	ENRS -34.9%	INDU 20.9%	TELS 19.0%	COND 6.1%	S&P 16.0%	INFT 28.4%	FINL 15.2%	TELS 3.4%	UTIL 16.3%	S&P 21.8%	S&P -4.4%	REAL 29.0%	HLTH 13.5%
TELS 11.9%	S&P -37.0%	HLTH 19.7%	S&P 15.1%	ENRS 4.7%	INDU 15.4%	CONS 26.1%	S&P 13.7%	S&P 1.4%	INFT 13.9%	INDU 21.0%	CONS -8.4%	COND 27.9%	INDU 11.1%
HLTH 7.2%	INDU -39.9%	FINL 17.2%	CONS 14.1%	INFT 2.4%	MATR 15.0%	MATR 25.6%	INDU 9.8%	FINL -1.5%	S&P 12.0%	CONS 13.5%	TELS -12.5%	CONS 27.6%	CONS 10.8%
S&P 5.5%	REAL -42.3%	CONS 14.9%	FINL 12.1%	S&P 2.1%	INFT 14.8%	ENRS 25.1%	COND 9.7%	INDU -2.5%	COND 6.0%	UTIL 12.1%	FINL -13.0%	UTIL 26.4%	UTIL 0.5%
COND -13.2%	INFT -43.1%	ENRS 13.8%	INFT 10.2%	INDU -0.6%	CONS 10.8%	UTIL 13.2%	MATR 6.9%	UTIL -4.8%	CONS 5.4%	REAL 10.9%	INDU -13.3%	MATR 24.6%	FINL -1.7%
REAL -17.9%	MATR -45.7%	UTIL 11.9%	UTIL 5.5%	MATR -9.6%	ENRS 4.6%	TELS 11.5%	TELS 3.0%	MATR -8.4%	REAL 3.4%	ENRS -1.0%	MATR -14.7%	HLTH 20.8%	REAL -2.2%
FINL -18.6%	FINL -55.3%	TELS 8.9%	HLTH 2.9%	FINL -17.1%	UTIL 1.3%	REAL 1.6%	ENRS -7.8%	ENRS -21.1%	HLTH -2.7%	TELS -1.3%	ENRS -18.1%	ENRS 11.8%	ENRS -33.7%

Abbr.	Sector Index	Annual	Best	Worst
COND	S&P 500 Consumer Discretionary Index	13.05%	43.1%	-33.5%
CONS	S&P 500 Consumer Staples Index	10.40%	27.6%	-15.4%
ENRS	S&P 500 Energy Index	0.86%	34.4%	-34.9%
FINL	S&P 500 Financials Index	3.13%	35.6%	-55.3%
HLTH	S&P 500 Health Care Index	11.00%	41.5%	-22.8%
INDU	S&P 500 Industrials Index	8.95%	40.7%	-39.9%
INFT	S&P 500 Information Technology Index	15.21%	61.7%	-43.1%
MATR	S&P 500 Materials Index	8.49%	48.6%	-45.7%
REAL	S&P 500 Real Estate Index	5.38%	32.3%	-42.3%
TELS	S&P 500 Communication Services Index	8.92%	32.7%	-30.5%
UTIL	S&P 500 Utilities Index	8.75%	29.0%	-29.0%
S&P	S&P 500 Index	9.88%	32.4%	-37.0%

Past performance does not guarantee future returns. The historical performance is meant to show changes in market trends across the different S&P 500 sectors over the past ten years. Returns represent total annual returns (reinvestment of all distributions) and does not include fees and expenses. The investments you choose should reflect your financial goals and risk tolerance. For assistance, talk to a financial professional. All data are as of 12/31/20.

If you compare the MSCI fossil-free index with the MSCI ACWI parent index, you will see that the fossil-free index had superior results for the last 10 years.⁴

³ Bloomberg. [Exxon Poised to Drop From S&P 500's Top 10 for First Time Ever](#). August 31, 2019.

⁴ Morgan Stanley Capital International. [MSCI ACWI ex Fossil Fuels Index \(GBP\)](#). March 31, 2021.

This underperformance is likely to continue. The outlook for the energy sector is negative.

As I stated at the hearing, the case of Norway is an on-point illustration of a negative outlook. The government of Norway, which has benefited richly from its investments in oil and gas for the last 30 years, has now declared that the era of robust revenues is over.⁵ Its 2021 budget is quite instructive, and a review of budgets during the last four years provides a sense of how its economy is moving.

The risk identified by Norway that drives its negative outlook is the same risk that you will find outlined in the BlackRock studies I discussed with the committee.⁶ Their three-volume treatment of the issue found: 1) No fund that divested was harmed financially; 2) the costs of divestment were within policy ranges already established by the funds; and 3) tracking errors were also within policy range of the funds. All of the divestment options allowed the funds to re-invest in companies as conditions changed and the companies complied with the mandates of the pension funds.

I appreciate the time you have taken to consider these facts. What concerns me most is not that the Legislature and PERA staff are refusing to divest from fossil fuels. That's a policy prerogative. What concerns me most is that by stopping HB 1246, the Legislature and PERA staff have prevented a full discussion of the material risk facing the fund and the people of Colorado. Whether the answer to a question drives your decision-making in one direction or another is not the issue. The unwillingness to ask if the fund can achieve its financial targets if it divests, however, is outside the bounds of sound fiduciary practice.

Sincerely,



Tom Sanzillo
Director of Financial Analysis

⁵ Government of Norway. [The National Budget 2021](#). Retrieved April 20, 2021, p. 21.

⁶ [Investment and Fiduciary Analysis for Potential Fossil Fuel Divestment - Phase One - Survey of Divestments and Identification of Securities](#);
[Investment and Fiduciary Analysis for Potential Fossil Fuel Divestment - Phase Two - Identification, Analysis and Evaluation of Investment Risks](#);
[Investment and Fiduciary Analysis for Potential Fossil Fuel Divestment - Phase Three Identification, Analysis and Evaluation of Prudent Strategies](#).