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State treasurers, NYC react to ESG backlash

By Hazel Bradford
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An open letter signed by 13 state treasurers and New York City's comptroller Wednesday takes aim at what they call the "political backlash" against ESG investing by public pension and related funds.

"Several states in our country have started blacklisting financial firms that don't agree with their political views," said the letter signed by state treasurers from California, Colorado, Delaware, Illinois, Maine, Massachusetts, Nevada, New Mexico, Oregon, Rhode Island, Vermont, Washington and Wisconsin, and New York City Comptroller Brad Lander, the fiduciary for the $239.5 billion New York City Retirement Systems.

The letter calls out West Virginia, Idaho, Oklahoma, Texas and Florida for creating new policies and laws "that restrict who they will do business with, reducing competition and restricting access to many high-quality managers. This strategy has real costs that ultimately impact their taxpayers," the treasurers and comptroller said in the letter.

Describing the recent blacklists as "a backlash response on behalf of political and corporate interests," the officials criticized the blacklisting states for apparently believing "despite ample evidence and scientific consensus to the contrary, that poor working conditions, unfair compensation, discrimination and harassment, and even poor governance practices do not represent material threats to the companies in which they invest. They refuse to acknowledge, in the face of sweltering heat, floods, tornadoes, snowstorms and other extreme weather, that climate change is real and is a true business threat to all of us," the letter said.

As more states consider or enact such blacklists, "the evolving divide suggests that there will be two kinds of states moving forward: states focused on short term gains and states focused on long term beneficial outcomes for all stakeholders," it warned.

Focusing on short-term thinking and ideology can negatively impact debt underwriting, undermine cost competitiveness and increases potential risks "that will be left for others to deal with in the future. In the case of state and public pension funds, these losses will be borne by the taxpayers and that means all of us," they said.

"States that focus solely on the short term will fail to compete over the longer time horizon that is necessary for them and their pension funds to succeed. They will miss potential growth because their focus is on preserving the status quo. And they will suffer from possible suits or challenges that longer term players will avoid due to more rigorous oversight," the officials warned.

Back to top