Retirement News Highlights

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Oklahoma pension system strikes back at anti-ESG treasurer over BlackRock, SSGA funds

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Oklahoma Public Employees Retirement System fired back at Oklahoma Treasurer Todd Russ in a letter rebuffing Russ' accusations that the $10.3 billion pension fund violated the law when it voted to keep BlackRock and State Street as asset managers.

The two firms, which manage roughly 60% of Oklahoma City-based OPERS' assets, are among six firms that Oklahoma's public pensions are prohibited from doing business with because they're on a blacklist for allegedly boycotting the oil and gas industry.

In the l6-page letter sent to Russ and other members of the Oklahoma State Pension Commission on Nov. 15, the OPERs board argued that its decision in August to exercise a fiduciary exemption from having to terminate contracts with BlackRock and State Street was "legally consistent and in compliance with the Energy Discrimination Elimination Act," a law implemented in 2022 to punish firms for factoring environmental, social and governance issues into their investment decision-making.

The board voted 9 to 1 in favor of the exemption, with Russ — who serves on the board — casting the only vote against the exemption.

"This position is supported by facts, reviewed by legal counsel representing the board, and was thoroughly, thoughtfully and publicly discussed by the board at meetings held in April, June, July and August," OPERS said in the letter.

In preparation for a possible divestment of investments with BlackRock and State Street, OPERS issued three requests for proposals in July seeking potential replacements for the two asset managers on eight investment funds. It determined that an investment case could not be made for dropping the firms, saying that they were more advantageous from a pricing and performance standpoint than any of the bidding firms.

OPERS also estimated that it would cost about $10 million to transition the funds plus an additional amount in "implicit costs" that could be determined only after the transition had taken place.

In a letter to the OPERS board in September, Russ faulted its RFP process as incomplete, biased and rushed and demanded that the board "immediately begin a new RFP process."

In its letter to Russ and other members of the Oklahoma State Pension Commission, the board refuted all claims Russ made in his September letter, including Russ' characterization of transaction costs as a simple administrative cost.

"Divesting over $6 billion is assets is not free," the board said. The transitioning of even the index funds OPERS holds would result in an increase in ongoing annual advisory fees, which alone is "reason enough for the board to invoke its fiduciary duty," it said.

The board also ridiculed Russ' assertion that the deadline for RFP was too short.

The timeline, the board argued, was established to adhere to the Energy Discrimination Elimination Act's divestiture schedule, which mandated that at least 50% of assets to be divested had to occur by the end of November.

"The timeline for the issuance of the RFPs for mandates impacted by the EDEA was under highly unusual circumstances — circumstances that obviously did not exist for any of the timelines for the issuance of prior RFPs," the OPERS board said.

OPERS also dismissed the suggestion that the tighter time frame narrowed the number of respondents.

"Additional time would not have guaranteed more submissions," it said, noting that the RFPs generated a total of 51 responses, more than for other RFPs with more relaxed time frames.

OPERS also stood by its investment consultant, Verus Investments, which Russ attacked as being a "collaborator in the ESG movement" given its role as a founding member of the Investment Consultants Sustainability Working Group.

OPERS noted that the Oklahoma State Pension Commission's investment consultant, RVK, is also a member of the steering committee of the ICSWG.

"Membership in the ICSWG appears to be the only rationale for declaring Verus biased, but RVK is not subject to allegations of bias even though it serves in the same capacity for the same group," OPERS said in the letter.

The letter comes after the Oklahoma Public Employees Association, a group created in 1975 to protect the interests of state employees, published a blistering op-ed piece in Oklahoma newspaper Pawhusksa Journal-Capital, criticizing Russ for choosing to "undermine the will and fiduciary duty of Oklahoma's pensions."

"We have made great progress for state employees and refuse to stand idly by as Treasurer Russ diminishes our members' hard-earned retirement funds, and the promises made by the state to public-sector employees, in the name of political activism," Tony DeSha, OPEA's executive director, wrote in the editorial on Oct. 30.

DeSha blasted Russ for trying to override OPERS' settled decision to "rightly apply a fiduciary exemption to ensure pensioners and Oklahoma taxpayers did not incur substantial costs or lower returns."

"This post-decision challenge of the board's near-unanimous decision — which aligned with the recommendations of its independent consultants — is unprecedented," he said.