Retirement News Highlights

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Pension divestment: Profitable altruism is possible | COMMENTARY

By Editorial Board
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Once Russian military forces began their invasion of Ukraine, it didn't take long for the cry to rise up from Maryland political circles for the Maryland State Retirement and Pension System to divest itself of Russian assets. On Monday, there was the call from Comptroller Peter Franchot for an "immediate" divestment of Russian holdings as not to "embolden a brutal dictator and the legion of oligarchs." And there was Gov. Larry Hogan's letter similarly urging the pension system to divest, to demonstrate how the state stands "shoulder to shoulder with Ukraine against Russian aggression. " Since Mr. Franchot is chair of the pension system's governing board of trustees, he had essentially urged himself to divest. As for the governor, he does not have direct control of the pension, so what he later described on Fox News as an "order" was simply an informed suggestion.

None of that makes either Comptroller Franchot or Governor Hogan wrong exactly. Maryland's $70 billion pension shouldn't be heavily invested in Russian assets — and it isn't. What was in dispute amounted to about one-third of 1% of the system's holdings. And those involved in governing the pension says that's mostly a product of "passive" equity holdings, meaning broader investments in instruments like emerging market stock funds, for example. So why not sell? The pension system took similar action against brutal regimes in Sudan and Iran in the past. But here is where things get complicated. As was evident during a briefing before the Maryland General Assembly's Joint Committee on Pensions on Thursday, the trustees are legally obligated to put the financial interests of pensioners first, and while this is a great time to show solidarity with Ukraine, it's a lousy moment to sell Russian holdings at rock-bottom valuations.

This raises the question of why the system owned such assets in the first place. The easy answer is that it owns a broad assortment of investments — as most large investors do — to reduce risk and maximize returns. The alternative, of course, would have been for the Maryland State Retirement and Pension System to never put money in assets that are linked to bad behavior by a country or a private firm or perhaps even a CEO. This kind of socially responsible approach to investing has become increasingly popular. Should Maryland be putting pension money in fossil fuel companies that worsen climate change? In countries with poor human rights records like China? In producers of toxic materials that pollute the Chesapeake Bay and other waterways?

The challenge here is that drawing the line is highly subjective and often at odds with the agency's fiduciary role. In the case of Russia, it should have been a relatively easy call. Martin Noven, the pension

agency's executive director, reported Thursday that total Russian investments have already been reduced from $197 million to $32 million, a product of both the agency selling off assets and cratering values. But what if much of Big Tech or Big Pharma made the irredeemable list? From drug prices to peddling misinformation on the internet, the argument could be made. But those are also highly profitable industries. Mr. Noven could face lawsuits from pensioners for such choices. And taxpayers could be on the hook for shortfalls in pension returns.

So what is the answer? We would advocate for making investment decisions that at the very least account for unsustainable business models. Russian President Vladimir Putin's aggressive behavior toward Crimea in 2014 should have signaled an end to investment there long before the Ukraine invasion. And there are probably many other examples where socially responsible investing (known in the trade as ESG for environmental, social and governance) is also smart investing. Last year, MSRPS bragged about its 5-year average annual return of 10.7% while BlackRock's ESG exchange traded fund claims annualized returns of 19.2% since 2016. State pension funds can't cure the world's ills, but they can stop investing in business models (and nations) that are doomed to fail.

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Back to top