

Maine Public Employees Retirement System
LD 1461 Testimony
January 9, 2014

Good afternoon, Members of the Joint Standing Committee on Appropriations and Financial Affairs. I am Sandy Matheson, Executive Director of the Maine Public Employees Retirement System.

MainePERS appreciates the work of the bill sponsor, Rep. Brian Jones, the co-sponsors, 350.org and associated asset managers specializing in sustainable investing. We are pleased to have met with Rep Jones and representatives from the organizations supporting LD 1461 and to learn from them the reasons they sponsored and support this bill.

First, let us clearly state we appreciate and share their concern for the environment, and the potential negative impact a global movement away from fossil fuels could have on market investments, including those in the MainePERS fund. We shared with supporters of LD 1461, and are sharing with you today, that we have for some time been and continue to carefully monitor these risks as we invest. Further, we carefully consider all market risks of which we are aware in order to protect and grow the trust fund assets.

Our testimony today is exclusive of the Treasurer's Office. MainePERS is testifying against this bill today for three reasons. The first is that we believe that a categorical decision to divest from fossil fuels arguably violates the state constitution. This is because the constitution requires such decisions be made for the exclusive purpose of providing retirement and related benefits to members. We do not believe sufficient market data and analysis exists to demonstrate that divestment would be for the exclusive benefit of the members.

The second reason is that in passing this bill, we believe the Legislature itself becomes responsible for the decision that divesting from fossil fuels would be for the exclusive purpose of providing retirement and related benefits to the members. Such a conclusion requires extensive market analysis and certainty that within a specific time frame, that is five years, fossil fuel investments will sustain an irrevocable loss. MainePERS investment staff and consultants study these issues on a regular and on-going basis and cannot definitively draw this conclusion.

The third reason is that while we agree that it is possible to construct a responsible portfolio that excludes fossil fuels or any other category of investments, doing so without a clear indication that the investments will diminish in value restricts the opportunity set with which to create returns for the benefit of the members. Further, our investment process includes continuous review of our investments in order to avoid losses where necessary, including fossil fuels. Our index fund, which includes some of the top 200 companies recommended by 350.org for divestment, operates to increase or decrease ownership in various stocks as their market value increases or decreases.

This being said, we are keenly aware that we need to continue to be constantly mindful of all risks to our investments, including the risk of a decline in the use of fossil fuels due to a change in demand or regulatory requirements. In fact, we actively seek and have invested over 34%, or \$66 million, of our private market energy holdings in alternative and renewable energy investments. We appreciate the discussions we have had to date on this issue with LD 1461 supporters and look forward to continuing

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communication with Representative Jones and 350.org or other organizations that have information that might enable us to better assess risk and make changes in our investment portfolio at the appropriate time. We also appreciate their offer to assist us in communicating with those corporations we invest in so that we can encourage stronger business practices on their part, which we hope will increase the value of our investments. In our work there are often two sides to the story. Ownership in these stocks enables us to actively encourage their management to protect our investment.

In conclusion, in your consideration of this bill, we strongly suggest that you seek the advice of the Attorney General consistent with our first two reasons for opposing this bill.

Thank you for your time and attention.