Testimony Before the Georgia Senate Committee on Retirement in Support of HB 481

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Chairman Williams and Members of the Committee:

Thank you for holding this hearing on HB 481, the Public Retirement Systems Investment Authority Law, which would combat environmental, social and governance (ESG) scoring systems and ensure state pension funds are invested solely to achieve the maximum return on investment for pensioners, rather than advancing social or political causes that may likely lead to lower returns[i] or underperformance.[ii]

My name is Cameron Sholty, and I am the executive director of Heartland Impact. Heartland Impact is the advocacy and outreach arm of The Heartland Institute. Both are independent, national, nonprofit organizations working to discover, develop, and promote free-market solutions to social and economic problems. Heartland specializes on providing state lawmakers the policy and advocacy resources to advance free-market policies towards broad-based economic prosperity.

ESG scores are essentially a risk assessment mechanism increasingly being used by investment firms and financial institutions that forces large and small companies to focus upon politically motivated, subjective goals which often run counter to their financial interests and the interests of their customers. Companies are graded on these mandated commitments to promote, for example, climate or social justice objectives. Those that score poorly are punished by divestment and reduced access to credit and capital.

To prevent this, the Public Retirement Systems Investment Authority Law declares that each state fiduciary shall discharge their duties regarding the investments and assets of the state's retirement systems "solely in the interests of plan participants and their beneficiaries" and for "the exclusive purpose of providing benefits to plan participants and their beneficiaries." Further, the bill states, fiduciaries "shall not subordinate the interests of the participants and their beneficiaries or sacrifice investment returns or accept increased investment risks in the promotion of any nonpecuniary interests. Such nonpecuniary interests shall include, but shall not be limited to, the furtherance of any social, political, or ideological interests."

As Heritage Action for America notes, "using asset managers that engage and vote shares based on ESG can reduce the value of pension fund assets over the long-term. For example, [the world's largest investment firm] Blackrock has voted against directors for failing to set emissions reduction targets or for increasing exposure to fossil fuel assets such as coal. In 2020, Blackrock voted against the directors of a utility for increasing its exposure to coal related assets, even though such exposure would no doubt have been financially beneficial. Such actions prevent companies from making money during periods when being anti-ESG is profitable. Over time, this will reduce the value of pension fund assets."[iii]

Legislators should also take note of the implications ESG investing could mean for Georgia's agriculture sector. A recently released report from Ohio's Buckeye Institute has found that operating expenses for farmers under an ESG reporting system would increase by 34 percent, leading to more expensive groceries.[iv] Items like American cheese (79 percent), beef (70 percent), strawberries (47 percent), and chicken (39 percent), just to name a few examples, would increase significantly.[v] Overall, the report estimates a 15 percent total increase in household grocery bills if ESG scoring is allowed to be implemented.[vi]

Critics of anti-ESG legislation have charged that bills such as the Public Retirement Systems Investment Authority Law distort the free market and could possibly lower a state's credit rating. However, the true distortion is being perpetrated by those seeking to use the financial agencies as *de facto* governmental regulators. By allowing ESG to gain a foothold in Georgia, Peach State legislators would be perpetuating this distorted marketplace, and nothing in the bill forces Georgia fiduciaries to use uneconomical investment options.

By clarifying the fiduciary duties of Georgia's pension fund managers, and by insisting that maximizing the return on investment for clients be their only guiding principle, Peach State legislators can help ensure the long-term fiscal health of the state's pension systems and make sure that promises proffered to state pensioners will be kept. To do this, you must pass the Public Retirement Systems Investment Authority Law.

Thank you for your time.

Heartland Impact can send an expert to your state to testify or brief your caucus; host an event in your state; or send you further information on a topic. Please don't hesitate to contact us if we can be of assistance! If you have any questions or comments, contact Cameron Sholty, at csholty@heartlandimpact.org or 312/377-4000.

[i] Sanjai Baghat, "An Inconvenient Truth About ESG Investing," *Harvard Business Review*, March 31, 2022. https://hbr.org/2022/03/an-inconvenient-truth-about-esg-investing.

[ii] Brian Ponte, "Sustainable US funds suffer brutal fourth quarter in 2022," *Financial Times*, February 10, 2023. https://www.ft.com/content/153c8555-e4d0-4c59-88f0-368656fbb3ad.

[iii] Heritage Action for America, "Myth vs. Reality: Indiana's Bill to Combat ESG (HB 1008)," February 1, 2023. https://heritageaction.com/blog/myth-vs-reality-indianas-bill-to-combat-esg-hb-1008.

[iv] Trevor W. Lewis and M. Ankith Reddy, *Net-Zero Climate Control Policies Will Fail the Farm*, The Buckeye Institute, February 7, 2024. https://www.buckeyeinstitute.org/library/docLib/2024-02-07-Net-Zero-Climate-Control-Policies-Will-Fail-the-Farm-policy-report.pdf.

[v] *Ibid*.

[vi] *Ibid*.

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