



STATE OF VERMONT
VERMONT PENSION INVESTMENT COMMISSION

TO: Senator Ruth Hardy, Chair
Vermont Senate Committee on Government Operations

FROM: Thomas J. Golonka, Chair
Kimberly G. Gleason, Vice Chair

DATE: March 16, 2023

RE: S. 42 Amended Legislation

The Vermont Pension Investment Commission met today and discussed S.42 regarding divestment of fossil fuel companies.

S.42 asks VPIC to study our carbon footprint and we support that idea. We agree that climate change is a universal problem and that we ought to use all means, including the capital of the three statewide pension plans to address it, specifically, to reduce CO2 emissions.

S.42 asks us to define “fossil fuel company”, which we think makes sense if we’re going to focus our efforts on fossil fuel companies.

S.42 asks us to identify metrics to measure “carbon footprint”, which we think makes sense if our goal is to reduce the carbon footprint of our portfolio investments.

In VPIC’s view, completing this study and defining fossil fuel company and carbon footprint metrics should be completed before setting the goal of divesting of anything:

- First, the bill presumes that divesting is more effective in reducing CO2 emissions than engagement. Our success with methane in the Bakken region shows otherwise.
- Second, we don’t see the rationale for the bill’s 2030 and 2040 timelines without having first studied the complexities of decarbonizing our portfolio.
- Private markets are exempted; yet there is a 2040 divestment date for them. If the 2040 date holds, we would begin to unwind our private market programs at the end of next year. Doing so would have a material and immediate impact on state and municipality budgets.
- All of this is subject to our fiduciary duty which, in VPIC’s view, prevents divestment except of those companies that present too high a risk profile vis-à-vis their return prospects. We already divest of such companies. Our active managers screen for such, as do the index providers.

In VPIC's view, S.42 puts the cart before the horse and presupposes that divesting of fossil fuel companies is the best way to reduce our portfolio's carbon footprint. As we have discussed, divesting removes our vote in how these companies are run and eliminates the prospect of future wins, as outlined in our annual sustainability report. For this reason, we suggest an approach that studies the issue comprehensively and allows us to set thoughtful and meaningful goals to reduce our portfolio's carbon footprint. We are concerned that S.42 uses the "divestment" word but has enough exemptions that we likely would not need to divest of anything. Specifically, we are concerned about future and potential conflicts between our fiduciary duty and the intent of S.42. While this does allow us to continue our engagement efforts and to maintain our private market portfolios, we believe it misses an important opportunity to thoughtfully study the issue and set thoughtful, meaningful, and measurable goals. We believe we could complete a thoughtful and comprehensive study by January 15, 2024, for consideration in the next legislative session.

VPIC had a fulsome discussion of the bill and its merits and expressed concerns primarily over the decision to divest in the absence of a comprehensive study. At the conclusion of its meeting, VPIC passed the following motion:

"VPIC supports the spirit of the bill and our efforts to address climate change in our behavior as a commission.

However, we oppose it as written based on our fiduciary duty to maximize returns for the underlying retirement boards and the costs charged back to the underlying retirement boards, lacking a full and comprehensive study conducted in advance before setting any policy positions or taking any investment actions."

VPIC hopes to continue our partnership with you and your Committee over this very important issue and we will make ourselves available at your convenience to continue our dialogue and collaboration.