H.B. NO. <sup>1511</sup> H.D. 1 PROPOSED

# A BILL FOR AN ACT

RELATING TO THE EMPLOYEES' RETIREMENT SYSTEM.

#### BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF HAWAII:

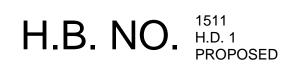
SECTION 1. The employees' retirement system currently
 invests public funds in fossil fuel companies that are
 contributing to rising costs to taxpayers and losses to Hawaii's
 largest public-sector pension plan.

Fossil fuel investments are already a liability. Over the past five years, the Dow Jones Energy Sector of the S&P 500 has underperformed the broader market by more than thirteen per cent, providing a return of -3.41 per cent versus the broader market, which provided a return of +10.07 per cent. The energy sector also underperformed the broader market at every milestone including ten years, five years, three years, and one year.

Furthermore, investments in the fossil fuel coal sector have already collapsed over the course of just a few years. A \$1,000 investment in the nation's three largest coal companies in 2011 was worth less than \$3 in 2015.

16 Studies by MSCI, Fossil Free Indexes, Aperio Group, Advisor
17 Partners, and Impax all demonstrate that fossil fuel divestment



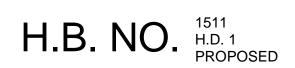


is not risky; does not weaken returns on investments; and can,
 in fact, protect investments and increase returns. In addition,
 Citigroup, AXA Investment Managers, Goldman Sachs, Standard and
 Poor's, and HSBC have all warned of the carbon bubble and
 ensuing stranded assets.

6 Paul Fisher of the Bank of England has stated that "As the 7 world increasingly limits carbon emissions, and moves to 8 alternative energy sources, investments in fossil fuels -- a 9 growing financial market in recent decades -- may take a huge 10 hit." Former United States Treasury Secretary Hank Paulson has 11 observed that "We're staring down a climate bubble that poses 12 enormous risks to both our environment and economy". Former 13 Securities and Exchange Commissioner Bevis Longstreth has 14 commented that "The risks [to portfolios] are many and growing" 15 and "Fiduciaries have a compelling reason, on financial grounds 16 alone, to divest these holdings before the inevitable correction 17 occurs". Mark Carney, Governor of the Bank of England, has 18 warned investors of "potentially huge" losses and the danger of 19 the assets of fossil fuel companies being left "stranded" by 20 tougher rules to curb climate change. The former chairman of Royal Dutch Shell remarked that selling oil stocks is a rational 21

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1	response to the failure of the oil industry and stated that
2	"Divestment is an entirely rational market approach if you think
3	that there are better uses for your funds."
4	Over five hundred institutions have or are divesting their
5	funds, notably the Norwegian Sovereign Wealth Fund
6	(\$900,000,000,000); the Rockefeller Brothers Fund
7	(\$860,000,000,000); the Dutch Pensions Fund; CalPERS and
8	CalSTRS, the two largest state pension funds in the United
9	States; major cities, such as San Francisco, Cambridge, Seattle,
10	Portland, Boulder, Santa Fe, Madison, Oxford, Palo Alto, and
11	Melbourne. The University of Hawaii board of regents voted
12	unanimously in 2014 to divest, as have dozens of other
13	universities and faith-based institutions, such as the United
14	Church of Christ, totaling \$3,400,000,000,000 already divested
15	from investments in fossil fuels.
16	The legislature finds that it is the mission of the

17 employees' retirement system to support its beneficiaries
18 without harming taxpayers. However, the employees' retirement
19 system currently invests public funds in fossil fuel companies
20 that are contributing to rising costs to the public. Fossil
21 fuel companies are a significant source of greenhouse gases that



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accelerate climate change, which is eroding beaches, diminishing
 freshwater supplies, and already costing taxpayers millions of
 dollars annually to mitigate its effects.

4 Carbon regulations continue to grow globally. The world 5 now has over eight hundred laws regarding climate change, a near 6 doubling since 2009. China, the world's biggest greenhouse gas 7 emitter, plans to cap coal consumption in 2020 and allow carbon 8 dioxide emissions to peak by 2030. By 2030, President Barack 9 Obama's administration's Clean Power Plan will reduce power 10 plant emissions by thirty-two per cent from 2005 levels. Within 11 a decade, automobiles sold in the United States must achieve an 12 average of 54.5 miles per gallon, nearly double current 13 standards. Automobiles consume over sixty per cent of the oil 14 used in the United States. These legislative and regulatory 15 restrictions on fossil fuels will inevitably and greatly 16 increase after the international agreement reached at the 17 December 2015 United Nations Climate Change Conference in Paris. 18 Further evidence of this growing regulatory regime, which will 19 continue to undermine the value of fossil fuel stocks, is shown 20 by President Obama's recent moratorium on new leases for coal mines on federal land, the source of forty per cent of U.S. 21

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coal. Overall, the majority of the \$48,000,000,000,000 needed
 to meet global power demand over the next twenty years will come
 from renewable sources, not fossil fuels.

4 Hawaii's one hundred per cent renewable portfolio standards pursuant to section 269-92, Hawaii Revised Statutes, create the 5 6 opportunity for Hawaii to lead the nation in the shift to 7 renewable fuels and to create a new economic sector of well-8 paying jobs. As Hawaii's largest public-sector pension plan, 9 the employees' retirement system has already adopted socially 10 responsible investing as a goal. These socially responsible 11 investing rules give the employees' retirement system a duty to 12 invest in ways that support the State's energy priorities,

13 The legislature finds that it is in the public interest to 14 examine the feasibility of the divestment of the employees' 15 retirement system from fossil fuel investments and assess the 16 financial risk of delaying divestment from fossil fuels.

SECTION 2. (a) The board of trustees of the employees' retirement system shall, working in conjunction with a reputable firm of investment consultants with experience in managing fossil fuel-free portfolios, prepare and submit a report to the

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legislature prior to the convening of the regular session of
 2017.

3 (b) The report shall:

4	(1)	Assess the impact on the employees' retirement
5		system's portfolio of investments in scrutinized
6		companies over the past one, three, and five years and
7		quantify the losses or gains incurred by such
8		investments, compared to the portfolio rebalanced with
9		those investments distributed in other sectors; and
10	(2)	Assess the future of fossil fuel investments on the
11		basis of analyses by reputable investment advisors and
12		assess the potential range of effects of fossil fuel
13		divestment on the employees' retirement system over
14		the next five years.
15	(C)	As used in this section, "scrutinized companies" means
16	a company	identified by a Global Industry Classification

17 Standard code in one of the following sectors:

- 18 (1) Coal and consumable fuels;
- 19 (2) Integrated oil and gas; or
- 20 (3) Oil and gas exploration and production.

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1	(d) The report shall be submitted to the legislature no
2	later than December 1, 2016.
3	SECTION 3. There is appropriated out of the general
4	revenues of the State of Hawaii the sum of \$ or so much
5	thereof as may be necessary for fiscal year 2016-2017 for the
6	report required by section 2 of this Act.
7	The sum appropriated shall be expended by the employees'
8	retirement system for the purposes of this Act.
9	SECTION 4. This Act shall take effect on July 1, 2016.





#### Report Title:

Employees' Retirement System; Investments; Fossil Fuels; Study

#### Description:

Requires the ERS to prepare and submit a report to the Legislature regarding divestment from fossil fuel investments.

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