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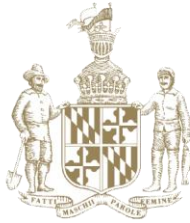
Land Use and Ethics Subcommittee

Joint Committee on Administrative,
Executive, and Legislative Review

Joint Committee on Ending
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Joint Committee on Pensions



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THE MARYLAND HOUSE OF DELEGATES
ANNAPOLIS, MARYLAND 21401

Testimony in Support of HB 740

State Retirement and Pension System - Investment Climate Risk - Fiduciary Duties
Appropriations Committee * February 22, 2022

What this bill does

This bill, approved with bipartisan support by the Joint Committee on Pensions, requires the Maryland State Retirement and Pensions System (MSRPS) to consider the impact of climate change on investment risk and to monitor net-zero aligned investments and climate solutions to ensure long-term sustainability of the investment portfolio. Over time, it encourages Maryland state pension investment funds to move away from fossil fuels and towards green and renewable energy.

In order to support this transition, the bill requires MSRPS to conduct a climate risk assessment that: (1) reviews investment portfolio to determine climate risk across industry sectors and sectors responsible for greenhouse gas emissions, (2) identifies investment opportunities in emerging renewable energy technologies and reducing carbon-emitting technology, and (3) establishes a process for regular reassessment or potential climate risks.

Further, the bill requires MSRPS to identify investment opportunities that support a low-carbon economy, develop transition assessments for investments in high-impact sectors, and evaluate whether internal and external investment managers are taking steps towards a low-carbon economy. This bill also requires that the policies of MSRPS mitigate climate risk through engagement with managers and brokers, proxy voting, periodic review of procedures, and when practicable, the establishment of an advisory panel of climate risk experts. The findings of the climate risk assessment and associated investment decisions will be submitted in a report to the General Assembly annually.

This bill will codify the understanding that major institutional investors agreed to around the world - "climate risk is investment risk."

Why this bill matters

With 3,100 miles of shoreline, Maryland is the fourth most vulnerable state to sea-level rise associated with [climate change](#). Rising sea levels and increased storm intensity could have devastating and far-reaching impacts on the Atlantic coast and the Chesapeake Bay ecosystem that affect the environmental, recreational, and economic benefits enjoyed by Maryland and her visitors.

These effects from climate change pose not only a threat to our livelihood and wellbeing, but also pose great financial risk as economies move away from fossil fuels and towards sustainable, renewable energy technologies. In light of this, major institutional investors around the country are recognizing that climate-related risk is investment risk. [Reports](#) have shown that investors are increasingly considering sustainability and environmental risk in their investment decisions and investment management companies have published [action plans and guidance](#) for a transition to a net-zero economy.

The data are indisputable. [Renewable energy investments](#) increased from \$45 billion to over \$270 billion in the 10 year period from 2004 to 2014. Renewable energy accounted for [48% of global new generating capacity](#) during this same period, increasing the global share of renewable energy for electricity to over 9%. Environmental risk factors could leave [\\$545 billion](#) at risk in the United States' oil sector alone.

Why you should vote for this bill

State, national, and global transitions to increased use of renewable technology present a significant investment opportunity that can be harnessed to support the retirement security of the over 400,000 participants in the State Retirement and Pension System.

On May 20, 2021, President Biden released an [executive order](#) on climate-related financial risk highlighting the physical risk to assets, publicly traded securities, private investments, and companies. The pension systems of other states like New York have already executed [action plans](#) to address and mitigate the effects of climate change on the environment and on the stability of their retirement securities.

This legislation, if passed, will assure our retirees that we are taking proactive measures to keep their pension dollars safe and protect the financial future of Maryland.

I urge you to vote favorably on HB740.