



**Testimony for House Bill 1455  
State Retirement and Pension System – Divestment from Israel**

**House Appropriations Committee  
March 19, 2026  
1:00 P.M.**

**Jonathan Martin  
Acting Executive Director  
State Retirement Agency**

**Dianne Sandoval  
Chief Investment Officer  
State Retirement Agency**

**Anne Gawthrop  
Director of Legislative Affairs  
State Retirement Agency**

The Board of Trustees for the State Retirement and Pension System (System) wishes to provide informational testimony for House Bill 1455, State Retirement and Pension System – Divestment from Israel.

House Bill 1455 would require the Board of Trustees (Board) to divest from any actively managed separate accounts that include Israel-restricted investments. Additionally, this legislation would prohibit the Board from making any new Israel-restricted investments in any actively managed separate accounts. An “Israel-restricted investment” is defined in House Bill 1455 as any investment in:

1. the Development Corporation for Israel;
2. any security or asset held in *or associated with* the government of Israel; or
3. any bond or sovereign debt issued by the government of Israel.

Additionally, the bill includes language that states that this legislation does not require the Board to take divestment action that is not consistent with its fiduciary responsibilities as provided under Title 21, Subtitle 2 of the State Personnel and Pensions Article.

To provide the Committee with helpful information regarding House Bill 1455, this testimony will address: (1) the projected impact divestment under the provisions of this legislation will have on the System; (2) a brief discussion of the Board’s fiduciary responsibilities; (3) on overview of past divestment bills passed by the Legislature; and (4) Executive Order 01.01.2017.25, issued by Governor Hogan on October 23, 2017.

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Jonathan D. Martin, *Acting Executive Director*

## ***Impact to the State Retirement and Pension System***

The Investment Division (Division) has reviewed its holdings in Israel bonds and any security or asset held in or associated with the government of Israel. Although the bill does not specify which companies are associated with the government of Israel, it is notable that included among the companies featured in widely publicized “Boycott Israel” lists are four of the System’s five largest stock and bond holdings at market as of June 30, 2025, as reflected in the System’s Annual Comprehensive Financial Report. The Division has determined that, as of March 5, 2026, the System has over \$1.8 billion in exposure to securities that would be subject to the divestment provisions of HB 1455.

To evaluate the potential impact of divestment on the System’s historical performance as of December 31, 2025, the Board’s general investment consultant, Meketa Investment Group, looked at two widely publicized boycott lists and conducted an attribution analysis looking at three major indexes. Although past returns are not indicative of future results, the analysis provides insight into the significant potential opportunity cost of forgoing investments in these companies. This analysis considered the five-year trailing returns of each company and their average weight within the respective indexes over the period estimating both the impact of divestment and the opportunity cost of not owning these stocks. Because the list includes five of the top ten holdings of major market indices (Russell 3000 and MSCI ACWI) divestment could result in meaningful differences in portfolio positioning.

- **MSCI ACWI:** the Investment Division identified 56 stocks within the MSCI ACWI index, representing 24.4% of the index. On a weighted average basis, these stocks delivered a return of 28.3% during the period, compared to the index's overall return of 11.2%. Due to their substantial weighting within the index (24.4%), these stocks had a significant impact on the index's performance, contributing an overall effect of +4.1% for the period.
- **Russell 3000:** the Investment Division identified 40 stocks within the Russell 3000 index, representing 31.9% of the index. On a weighted average basis, these stocks delivered a return of 29.0% during the period, compared to the index's overall return of 13.2%. Due to their substantial weighting within the index (31.9%), these stocks had a significant impact on the index's performance, contributing an overall effect of +5.4% for the period.
- **MSCI ACWI ex US:** the Investment Division identified 28 stocks within the MSCI ACWI ex US index, representing 5.4% of the index. On a weighted average basis, these stocks delivered a return of 24.1% during the period, compared to the index's overall return of 7.9%. Due to their weighting within the index (5.4%), these stocks had a less significant impact on the index's performance, contributing an overall effect of +0.7% for the period. While these stocks outperformed the market, their lower weight mitigated the impact.

As a result of this analysis, the Division has determined that divestment from and non-investment in companies publicized as associated with the government of Israel would have had a significant negative impact on the historic performance of the broad equity markets, as well as a portfolio with meaningful allocations to these markets. For the five years ending December 31, 2025, it is estimated that the System would have lost over \$3 billion by not having exposure to the companies on these divestment lists.

## ***Fiduciary Responsibility***

Provisions of House Bill 1455 state that nothing in the bill shall require the Board to take divestment action unless the Board determines in good faith that the action is consistent with the fiduciary responsibilities of the Board. We appreciate the sponsors’ recognition that any investment strategy employed by the Board must be consistent with its fiduciary duties. However, in light of the restrictions House Bill 1455 places on the Board’s management of System assets, we believe it would be helpful to provide the Committee with a brief discussion of what is included in the Board’s fiduciary duties.

In accordance with Sections 21-202 and 21-203 of the State Personnel and Pensions Article, as fiduciaries, the Board and the Investment Division of the State Retirement Agency (Agency) are required to discharge their duties “solely in the interest of the participants” and “for the exclusive purposes of providing benefits to the participants and for reasonable expenses of administration.” As qualified plans under the Internal Revenue Code (IRC), plan assets may not be used or diverted for purposes other than the exclusive benefit of the participants. Specifically, IRC § 401(a)(2) provides that the trust instrument governing a qualified plan must make it impossible, at any time before satisfaction of all liabilities to the participants, for the assets of the trust to be used for or diverted to purposes other than for the exclusive benefit of the participants.

Like a majority of states, Maryland has adopted fiduciary standards that are very similar to the ERISA standards. Consequently, the Department of Labor (DOL) interpretations of ERISA provide useful guidance to the System regarding issues addressing fiduciary standards. The DOL has interpreted fiduciary duties under ERISA as prohibiting fiduciaries from subordinating the interest of participants in their retirement income to unrelated objectives. The DOL further explains that “the focus of plan fiduciaries on the plan’s financial returns and risk to beneficiaries must be paramount,” and fiduciaries “may not accept lower expected returns or take on greater risks in order to secure collateral benefits.” (29 CFR 2509.2015-01) According to Department of Labor guidance, “[a] fiduciary’s evaluation of the economics of an investment should be focused on financial factors that have a material effect on the return and risk of an investment based on appropriate investment horizons consistent with the plan’s articulated funding and investment objectives.” (See Field Assistance Bulletin No. 2018-01, available at: <https://www.dol.gov/agencies/ebsa/employers-and-advisers/guidance/field-assistance-bulletins/2018-01>).

House Bill 1455 provides that the Board is not required to take divestment action that cannot be executed for fair market value or greater. As noted above, divesting from the assets included under this legislation could result in selling nearly \$2 billion in assets.

### ***Previous Divestment Actions and Federal Sanctions***

Over the last 25 years, the Legislature has taken the position that the Board should take divestment action only when such action follows corresponding federal sanctions regarding the same issue. Chapter 342 of the Acts of 2008 requires the Board to notify any company whose shares are held in an actively traded separate account in its portfolio that is doing business in either Iran or Sudan that the Board will divest all holdings in the company unless the company releases a plan to cease its business with Iran or Sudan within one year. Chapter 342 specifically requires the Board to act in good faith and in a manner consistent with its fiduciary responsibilities in carrying out the bill’s divestment requirement. At the time Chapter 342 was enacted, federal sanctions had been placed on both Iran and Sudan. Accordingly, Chapter 342 prohibits the application of the bill if the U.S. Congress or President makes certain declarations regarding Iran or Sudan.

Chapter 343 of the Acts of 2022 requires the Board to (1) review its investment holdings in specified accounts to determine the extent to which those funds are invested in specified Russian businesses and (2) take divestment action with respect to investments in certain Russian businesses. Similar to Chapter 342, this legislation also requires the Board to act in good faith and in a manner consistent with its fiduciary responsibilities in carrying out the bill’s divestment requirement. At the time Chapter 343 was enacted, federal sanctions had been placed on the Russian Federation regarding its invasion of and violation of the sovereignty of Ukraine. Provisions of this legislation provide that the legislation does not apply if the U.S. government declares an end to these financial sanctions.

At this time, we are unaware of any federal sanctions that have been issued against the State of Israel. In sharp contrast to Iran, Sudan, and Russia, the U.S. Congress has designated Israel as a major non-NATO

ally of the United States. (22 U.S.C. § 2321k(b)) Major non-NATO ally status is a designation under U.S. law that provides foreign partners with certain benefits in the areas of defense trade and security cooperation. According to the U.S. Department of State's website, the designation "is a powerful symbol of the close relationship the United States shares with those countries and demonstrates our deep respect for the friendship for the countries to which it is extended." Considering this federal designation, we would encourage the Committee to consult with its legal counsel regarding whether enactment of House Bill 1455 might raise any issues under federal law, including, but not limited to the Supremacy Clause.

The Committee should also note that passing legislation requiring the Board to take divestment action that does not follow federal sanctions will set a new precedent allowing for divestment legislation for any ethical, social, or political reason. Examples of these issues may include climate change and environmental degradation, human rights violations, labor practices, or firearms and defense. As previously discussed, the Board and the Investment Division are required to discharge their duties "solely in the interest of the participants" and "for the exclusive purposes of providing benefits to the participants and for reasonable expenses of administration." It is not unreasonable to assume that if the door were open to legislation requiring the Board to take divestment action on any ethical, social, or political cause where corresponding federal sanctions were not already in place, the impact on the System could be significant.

The Agency is also unaware of any legislation that has been enacted that would direct a U.S. public pension plan to take divestment action against Israel. The Agency believes it would be helpful to clarify recent news that the North Carolina Retirement System (NCRS), the Minnesota State Board of Investments (SBI), and the State of Michigan Retirement System (SMRS) have each divested from Israel bonds. The North Carolina Treasurer's Office reported that the NCRS sale of \$6.4 million in Israel bonds was not influenced by divestment efforts but was instead "part of a rebalancing which sold bonds with shorter maturities." (Warrayat, A. (2025, Nov 25) North Carolina sells \$6.4 million in Israeli government bonds. *WCNC Charlotte*. <https://www.wcnc.com>) The SBI reported that it has "not changed its investment policy regarding permitted investments." It further reported that the recent reduction in Israel bonds was in part due to the maturity and payment of one 10-year bond. (Medina, R. (2025, Nov 11) Activists claim divestment win, but Minnesota board says policy hasn't changed. *MPR News*. <https://www.mprnews.org>) Similarly, the Michigan Treasury reported that a \$10 million two-year State of Israel Bond matured on November 1, 2025. The Michigan Treasury further reported that "the standard process of repayment of a bond does not reflect any change or position regarding the State of Israel. The State of Michigan Investment Board has not adopted any policies that discourage or prohibit future investments in Israel bonds. Investment decisions are made continuously, based on market conditions, risk assessments, and expected returns." (Mauger, C. and LeBlanc, B. (2025, Nov 29) Insider: State of Michigan's Israel investment move causes a commotion. *The Detroit News*. <https://www.detroitnews.com>)

### ***Executive Order 01.01.2017.25***

On October 23, 2017, Governor Hogan signed Executive Order 01.01.2017.25, prohibiting all executive branch agencies from entering into contracts or conducting official State business with any entity unless they certify that they will not engage in a boycott of Israel during the duration of the contract. Specifically, this Executive Order states:

Executive agencies may not execute a procurement contract with a business entity unless it certifies, in writing when the bid is submitted or the contract is renewed, that:

1. it is not engaging in a boycott of Israel; and
2. it will for the duration of its contractual obligations, refrain from a boycott of Israel.

While provisions of § 11-203 of the State Finance and Procurement Article provide that the Board is generally exempt from State procurement laws for investment purposes, House Bill 1455 would put the Board and the Investment Division at odds with the public policy position conveyed by Executive Order 01.01.2017.25. This legislation would require the Board and the Investment Division to divest from Israel-restricted investments and prohibit its investment managers from making any future investments in these assets, while Executive Order 01.01.2017.25 directs all executive branch agencies to boycott any business entity that, itself, is boycotting Israel. If House Bill 1455 were to pass and the Board were to divest Israel-restricted investments, there would be little difference between the Board and the conduct of business targeted by this Executive Order. Moreover, it is important for the Committee to understand that while the Board is exempt from State procurement laws for investment-related procurements, it is not exempt from State procurement laws for all other Agency procurements. For non-investment related Agency procurements, the Board is subject to Executive Order 01.01.2017.25. Consequently, House Bill 1455 would create a dichotomy within the Agency requiring the Board, on the one hand, to boycott future Israel-restricted investments, while on the other hand, boycotting any non-investment related procurements with business entities that are engaged in a boycott of Israel. As a result of the internal policy conflict House Bill 1455 and Executive Order .01.01.2017.25 would create within the Agency, it may be helpful for the Committee to work with the Governor's Office to address this particular issue prior to moving forward with House Bill 1455.

We appreciate being given the opportunity to provide this information to the Appropriations Committee and stand ready to provide any further information or services the Committee might request regarding House Bill 1455.