Interim Report

TO THE EIGHTY-NINTH TEXAS LEGISLATURE

HOUSE COMMITTEE ON PENSIONS,
INVESTMENTS & FINANCIAL SERVICES

DECEMBER 2024

HOUSE COMMITTEE ON PENSIONS, INVESTMENTS & FINANCIAL SERVICES
TEXAS HOUSE OF REPRESENTATIVES
INTERIM REPORT 2024

A REPORT TO THE
HOUSE OF REPRESENTATIVES
89TH TEXAS LEGISLATURE

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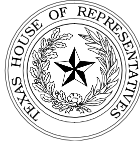


Committee On
Pensions, Investments & Financial Services

December 13, 2024

Giovanni Capriglione
Chairman

P.O. Box 2910
Austin, Texas 78768-2910

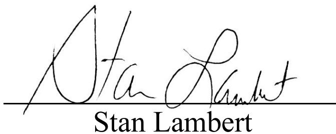
The Honorable Dade Phelan
Speaker, Texas House of Representatives
Members of the Texas House of Representatives
Texas State Capitol, Rm. 2W.13
Austin, Texas 78701

Dear Mr. Speaker and Fellow Members:

The Committee on Pensions, Investments & Financial Services of the Eighty-eighth Legislature hereby submits its interim report including recommendations for consideration by the Eighty-ninth Legislature.

Respectfully submitted,

Giovanni Capriglione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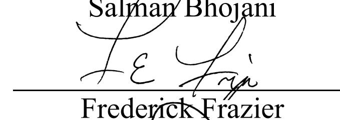
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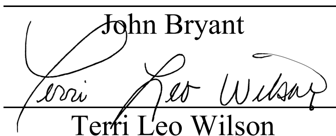
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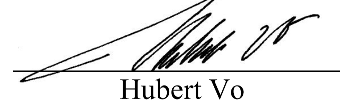
Hubert Vo

Stan Lambert
Vice-Chairman

Members: Salman Bhojani, John Bryant, Frederick Frazier, Terri Leo Wilson, Mihaela Plesa, Gary VanDeaver, Hubert Vo

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INTRODUCTION

At the beginning of the 88th Legislative Session, the Honorable Dade Phelan, Speaker of the Texas House of Representatives, appointed the following nine members, spanning rural, urban, and suburban constituents, to the House Committee on Pensions, Investments, and Financial Services Committee: Chair Giovanni Capriglione, Vice Chair Stan Lambert, Salman Bhojani, John Bryant, Frederick Frazier, Terri Leo Wilson, Mihaela Plesa, Gary VanDeaver, and Hubert Vo.

The Rules of the Texas House grant the Committee jurisdiction over the following matters:

Jurisdiction of the Pensions, Investments, and Financial Services Committee:

1) banking and the state banking system;
2) savings and loan associations;
3) credit unions;
4) the regulation of state and local bonded indebtedness;
5) the lending of money;
6) benefits or participation in benefits of a public retirement system
7) and the financial obligations of a public retirement system;
8) the regulation of securities and investments;
9) privacy and identity theft; and
10) the following state agencies: the Finance Commission of Texas, the Credit Union Commission, the Office of Consumer Credit Commissioner, the Office of Banking Commissioner, the Texas Department of Banking, the Department of Savings and Mortgage Lending, the Texas Treasury Safekeeping Trust Company, the Texas Public Finance Authority, the Bond Review Board, the Texas Emergency Services Retirement System, the Board of Trustees of the Teacher Retirement System of Texas, the Board of Trustees of the Employees Retirement System of Texas, the Board of Trustees of the Texas County and District Retirement System, the Board of Trustees of the Texas Municipal Retirement System, the State Pension Review Board, and the State Securities Board.

INTERIM STUDY CHARGES

CHARGE I:
Monitor & Oversight

Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 88th Legislature. Conduct active oversight of all associated rulemaking and other governmental actions taken to ensure the intended legislative outcome of all legislation, including the following:

- SB 10, relating to certain benefits paid by the Teacher Retirement System of Texas.

CHARGE II:
ESG

Examine the ways in which environmental, social, and governance (ESG) policies are contradictory to fiduciary duties and the resultant detrimental effect on investors.

CHARGE I: Monitor & Oversight

Monitor the agencies and programs under the Committee's jurisdiction and oversee the implementation of relevant legislation passed by the 88th Legislature. Conduct active oversight of all associated rulemaking and other governmental actions taken to ensure the intended legislative outcome of all legislation, including the following:

SB 10, relating to certain benefits paid by the Teacher Retirement System of Texas.

BACKGROUND

Senate Bill 10 provided additional retirement benefits to certain members of the Teacher Retirement System of Texas (TRS). A one-time additional stipend of $7,500 or $2,400 (depending on a retiree's age) was given to retirees who qualified, and a 2%, 4%, or 6% (based on their date of retirement) cost-of-living adjustment (COLA) was provided to eligible retirees who retired prior to December 31, 2021. HB 1, the General Appropriations Act, provided $5 billion in general revenue to pay for the benefit enhancements.

SB 10 was accompanied by HJR 2, which made the COLA contingent upon voter approval during the November 2023 election. HJR 2, which was designated as Proposition 9, was approved by 84% of voters with 2,130,045 yes votes, making it the most successful of all 14 propositions on the ballot[1].

SUMMARY OF COMMITTEE ACTION

The committee held a public hearing on September 19, 2024, with both invited and public testimony. The individuals listed below provided testimony to the committee on this charge.

Public Hearing: September 19, 2024

Witness List: September 19, 2024 – Austin, Texas, Capitol Extension E2.014, at 10:00am.

1) Caasi Lamb (Teacher Retirement System of Texas)
2) Timothy Lee (Texas Retired Teachers Association)
3) Pamela Davis-Duck (Self)
4) Steven Gassenberger (Self; Reason Foundation)
5) Monty Exter (ATPE)
6) James Hallamek (Texas State Teachers Association) (registered but did not testify)

The information below is largely based on the oral and written testimony of the individuals and organizations listed above. The Committee also received written comments on this charge from Jaime Olivo (Next Step Transition), Teri Bates (Self), and Juan Lopez (McAllen AFT/Teachers).

SUMMARY OF TESTIMONY

Teacher Retirement System of Texas

The Teacher Retirement System of Texas (TRS) manages three trust funds to provide pension and health care benefits. The TRS Pension Trust Fund serves over 2 million active and retired members and paid $12.7 billion in retirement benefits in FY 2023, with approximately 96% of public educators not earning Social Security. TRS also manages two healthcare funds, one for retirees (215,824 participants) and one for active employees (424,696 employees and dependents).

According to an independent report from actuary Gabriel, Roeder, Smith & Company (GRS)[2], the TRS Pension Trust Fund is considered actuarially sound with a funding period of 29 years, a funded ratio of 77.5% and an unfunded liability of $57.9 billion. With the fund actuarially sound, the Legislature can now authorize benefit enhancements.

In 2023, the Texas Legislature tasked TRS with implementing two benefit enhancements for certain retirees: A one-time stipend and an ongoing cost of living adjustment.

Of the $5 billion appropriation, HB 1 designated $1.6 billion for the one-time stipends to certain retirees. Based on age, by August 31, 2023, those 75 years and older would receive a $7,500 stipend, while those between the ages of 70-74 would receive a $2,400 stipend. In September 2023, TRS issued the one-time stipends to 285,205 eligible annuitants. Those who were 75 years of age and older accounted for 62% of the recipients, while 38% of recipients were between the ages of 70 and 74.

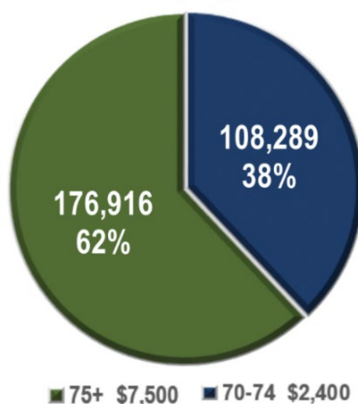


Figure 1: Explanation of Annuitants Receiving Stipend (provided by TRS)

HB 1 designated the remaining $3.4 billion for a cost-of-living adjustment (COLA) to eligible TRS retirees. In January 2024, TRS issued the COLA to 398,211 retirees. Those who retired September 1, 2013, through August 31, 2020 received a 2% COLA; those who retired September 1, 2001 through August 31, 2013, received a 6% COLA; and those who retired on or before August 31, 2001 received a 6% COLA.

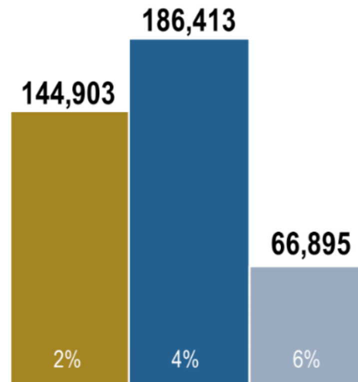


Figure 2: Explanation of Annuitants Receiving a COLA (provided by TRS)

In recent history, the Texas Legislature has provided three benefit enhancements to TRS members:

- In 2019, a supplemental payment capped at $2,000 for those who retired on or before December 2018, funded with $589 million from the Economic Stabilization Fund;
- In 2021, another supplemental payment of $2,400 for those who retired on or before December 2020, funded with $701 million in general revenue; and
- In 2023 a stipend and COLA, funded with $5 billion in general revenue.

In all, since 2019, the Legislature has provided almost $6.3 billion in benefit enhancements to retired teachers.

Texas Retired Teachers Association

The Texas Retired Teachers Association (TRTA), on behalf of its 96,000 members, asked the committee and the 89th legislature to consider four main priorities:

- Maintain a solvent TRS pension fund by fully funding statutory contribution rates and using excess state revenues to help reduce the unfunded liability;
- Provide a benefit enhancement to help offset the negative impact of inflation; and
- Maintain and protect TRS-Care by fully funding the current statutory contribution rates; and

Timothy Lee, Executive Director of TRTA, expressed their members' gratitude for the benefit enhancements passed in SB 10. TRTA members campaigned and worked to reach voters in their communities to ensure the passage of Proposition 9. However, retirees waited for up to 20 years between the two most recent permanent COLAs while facing cumulative price inflation of over 50% during that period[3]. Additionally, for the 71,000 retirees who retired between September 2020 and July 2024 and did not qualify to receive a COLA under SB 10, the cumulative price inflation reached 21%[4].

Mr. Lee advocated for Texas to include some type of state-defined mechanism tied into an automatic COLA to offset the effects of inflation over time, as Texas is the only state that does not. While Social Security does provide an automatic COLA adjusted for inflation, 96% of retired teachers do not participate in the program; their TRS fixed income pension represents the bulk of their retirement security. In his oral testimony, Mr. Lee mentioned the filed version of HB 600 (88R), which included an annual gain-sharing COLA beginning in September 2028, contingent on TRS's investment earnings, as something to study further.

According to TRTA, Texas has the lowest total contribution rate in the nation, even with the steady increase in rates provided through SB 12 (86R), which will culminate in 2025 with a combined 18.5% employer-employee rate. Mr. Lee stressed that the Legislature needs to ensure steady contributions to keep the fund actuarially sound while also making progress toward paying off the total unfunded liability.

TRS Pension Trust Fund Contribution Rates

Fiscal Year	Active Employees	State	- Districts*
1986	6.40%	8.00%	
1987	6.40%	8.00%	
1988	6.40%	7.20%	
1989	6.40%	7.20%	
1990/91	6.40%	7.65%	
1992/1995	6.40%	7.31%	
1996/2007	6.40%	6.00%	
2008/09	6.40%	6.58%	
2010/11	6.40%	6.64%	
2012	6.40%	6.00%	
2013	6.40%	6.40%	
2014	6.40%	6.80%	
2015	6.70%	6.80%	1.50%
2016	7.20%	6.80%	1.50%
2017	7.70%	6.80%	1.50%
2018	7.70%	6.80%	1.50%
2019	7.70%	6.80%	1.50%
2020	7.70%	7.50%	1.50%
2021	7.70%	7.50%	1.60%
2022	8.00%	7.75%	1.70%
2023	8.00%	8.00%	1.80%
2024	8.25%	8.25%	1.90%
2025	8.25%	8.25%	2.00%

*ISDs pay only up to statutory minimum - Higher Ed pays nothing

Fig 3. Pension Contribution History since 1986 (provided by TRTA)

From 1995 to 2001, the Legislature used excess income from the "dotcom boom" to enact a series of COLA increases meant to catch all retirees up to inflation while at the same time decreasing the state's contribution rate from 7.31% to 6%. If the contribution rate had stayed the same, the TRS fund would have gained an additional $21 billion to date[5].

Overall, TRTA recommended building on recent accomplishments, ensuring retirees receive inflation relief, and studying how to manage automatic benefit enhancements while keeping the fund actuarially sound.

Public Testimony

Ms. Pamela Davis-Duck, a retired teacher and member of the Texas American Federation of Teachers, is thankful to the committee and Legislature for passing a COLA for retired teachers but explained a concern regarding those who chose to stay in the workforce longer than when they were eligible for retirement and missed the cutoff to receive the COLA. Ms. Davis-Duck could have chosen to retire in the middle of the school year, but for the benefit of her students, she chose to delay her retirement to the end of the school year, which was after the August 31, 2020, cut-off to receive the 2% COLA.

She continued her oral testimony to express concerns regarding retired teachers affording their healthcare premiums on top of increased inflationary costs and other expenses, like homeowners insurance. To help offset these rising costs, Ms. Davis-Duck advocated for a permanent, automatic COLA tied into inflation so retired teachers don't have to keep advocating every session for an increase in their annuities.

Mr. Steven Gassenberger, a policy analyst with the Reason Foundation, expressed concerns about the fund's actuarial soundness without a higher employer contribution rate from the state, and how that could affect a potential permanent COLA tied into inflation. He recommended the Legislature consider a new defined benefit tier for TRS that includes a reoccurring COLA tied to either the rate of inflation or a 1.5% increase, with the Legislature choosing whether to go with the higher of the two numbers or lower, which is similar to a recent change made in Michigan.

Mr. Monty Exter, testifying on behalf of the Association of Texas Professional Educators (ATPE), also advocated for the ongoing, automatic COLA included in the filed version of HB 600 (88R), accompanied by ongoing funding in the General Appropriations Act. ATPE does not want to see a scenario of the benefit and contribution structures becoming out of line with one another if funding is not appropriated for a benefit enhancement. He also expressed concern for the funding of Texas' retired teacher pension, which is considerably lower than any other state. However, Mr. Exter explained that if Texas wanted to increase funding percentages, the maximum funding rates are set in the state's Constitution and would require a constitutional amendment to change.

RECOMMENDATIONS

- The Legislature should explore ways to offset inflationary increases for TRS retirees on a fixed income, including how an inflation-based permanent COLA would affect the pension's actuarial soundness, funding period, and unfunded liability.
- The Legislature should maintain an actuarially sound fund, reduce unfunded liabilities, and support additional benefit enhancements.

CHARGE II: ESG

Examine the ways in which environmental, social, and governance (ESG) policies are contradictory to fiduciary duties and the resultant detrimental effect on investors.

BACKGROUND

Environmental, Social, and Governance Policies

The ESG movement is an approach to investing and corporate strategy that considers a company's impact on the environment, its social responsibility, and the strength of its governance. Having begun in the 1960s and 1970s[6], investors began avoiding sectors like tobacco, weapons, and alcohol. With the rise of various environmental and social movements, the attention on investments and shareholder governance increased. ESG criterion guides investors in evaluating the long-term sustainability and ethical impact of investments beyond financial performance. Environmental components could include climate change, resource usage, pollution & waste, and biodiversity; social impacts would consider diversity & inclusion, labor standards, community relations, and consumer protection; and governance evaluates leadership, transparency, anti-corruption, and shareholder rights.

Conversations around ESG investment policies came to a head in Texas prior to 2021, when financial institutions began prohibiting investments in the oil and gas industry. According to the Texas Oil and Gas Association, data from fiscal year 2022 shows the Texas oil and natural gas industry has paid $24.7 billion in state and local taxes and state royalties[7], with a total of over $203 billion since they first started tracking this data in 2007[8].

Texas leads the nation in oil and gas jobs, with 471,631 Texans employed in the industry[9]. Texas also had the largest number of oil and gas businesses in the nation in 2023, with the next largest states trailing far behind with less than half the number of businesses[10]. In recent years, major financial firms have considered moving away from investments in the fossil fuel sector, despite the industry's importance. Some institutions have announced they will not finance oil and gas projects, citing support for long-term net-zero emissions goals.

Concerned about the impact the divestments would have on Texas' oil and gas industry, the Texas Legislature pursued two major pieces of legislation in recent legislative sessions, SB 13 (87R), and SB 1446 (88R), that would curb the state's use of investment firms who boycott or divest from fossil fuels and limit the state's use of investment managers outspoken on political issues.

Senate Bill 13 (87R)

Senate Bill 13, passed and signed into law in 2021, prohibits Texas state agencies that invest funds from investing in financial companies that boycott energy companies. Specifically, it requires the Comptroller of Public Accounts to maintain a list of all financial companies that refuse to deal with, terminate business activities with, or otherwise take any action that is, solely or primarily, intended to penalize, inflict economic harm on, or limit commercial relations with a financial company because the company engages in the exploration, production, utilization, transportation,

sale, or manufacturing of fossil fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law.

If the Comptroller determines a company should be included on the list, the company is notified they have 90 days to stop boycotting energy companies, after which, if they have not changed their policies, state investment funds must divest any holdings. SB 13 applies these provisions to the following state investments:

- Permanent School Fund
- Texas Retirement System of Texas
- Employees Retirement System of Texas (including the Law Enforcement and Custodial Officer Supplemental Retirement Fund and Judicial Retirement System Plans 1 and 2)
- Texas County and District Retirement System
- Texas Municipal Retirement System
- Texas Emergency Services Retirement System

Senate Bill 1446 (88R)

Senate Bill 1446 would have required investments of public retirement system assets to be based solely on financial factors and that the assets not be used to further social, political, or ideological interests. The bill would have required that any investment agent act exclusively based on financial factors and instruct asset managers and proxy advisory firms to vote the shares owned or held by public pension systems in a way that focused on financial returns.

While this bill was the focus of much debate, it did not pass and is not current law.

SUMMARY OF COMMITTEE ACTION

The committee held a public hearing on September 19, 2024, with both invited and public testimony. The individuals listed below provided testimony to the committee on this charge.

Public Hearing: September 19, 2024

Witness List: September 19, 2024 – Austin, Texas, Capitol Extension E2.014, at 10:00am.

1) Jase Auby (Teacher Retirement System of Texas)
2) Brent Bennett (Texas Public Policy Foundation)
3) Whitney Blanton (Texas Treasury Safekeeping Trust Company)
4) Eric Bledsoe (The Foundation of Government Accountability)
5) Chris Bryan (Texas Comptroller of Public Accounts)
6) Pamela Davis-Duck (Self)
7) Steven Friedman (Institutional Shareholder Services)
8) Steven Gassenberger (Self; Reason Foundation)
9) Robert Gordon (American Property Casualty Insurance Association)
10) Glenn Hegar (Texas Comptroller of Public Accounts)
11) Jared Stout (Texas PSF Corporation)

The information below is largely based on the oral and written testimony of the individuals and organizations listed above. The Committee also received written comments on this charge from Janet Jones (Retired teacher in Texas), Andrea Titus (Self), Melissa Menchaca (Self – Texas pensioner), Suzanne Southerland (Self, retired teacher), Carolyn Morris (Self – retired teacher), Sylvia Coulson (Self), Lisa Healy (Self), Linda Ricks (Self), Sherry McCoy (Self – retired teacher and school counselor), Kathy Ponce (Self), and Teri Bates (Self).

SUMMARY OF TESTIMONY

Comptroller of Public Accounts of Texas

The Texas energy sector is foundational to the state's economy, contributing over $26 billion in taxes, surpassing the tax revenue of many other states, according to Texas Comptroller Glenn Hegar. He emphasized that protecting this sector ensures sustained economic growth and regional stability, particularly in rural and energy-reliant communities. The Texas economy, the ninth-largest in the world, benefits significantly from the energy sector. SB 13 put in place safeguards for Texas' fiscal health by mitigating the financial risks of ESG-driven divestment.

The office of the Comptroller has issued four versions of the list required by SB 13, establishing a transparent and consistent framework for companies' inclusion. Comptroller Hegar clarified that the list undergoes periodic updates to ensure it accurately reflects financial firms' policies, with the process designed to provide public accountability and ensure affected companies are informed of criteria for removal. The list currently includes high-profile financial institutions such as BlackRock and UBS Group, which have engaged in selective fossil fuel investments in the past.

Several studies, including those from the Wharton School[11] and the Brookings Institute, have speculated on the potential negative economic impacts of Texas' anti-ESG policies. Critics have argued that limiting financial partnerships could raise taxpayer costs by increasing municipal bond fees. However, Comptroller Hegar contested these findings, arguing that they rely on hypothetical assumptions rather than empirical data. He noted that the first studies criticizing SB 13 were published before the policy took full effect, making it premature to conclude adverse impacts. Additionally, the Comptroller suggested that ESG policies may harm the state more than protect it and that SB 13's restrictions have limited, if any, financial drawbacks for Texas.

Comptroller Hegar pointed out that SB 13 allowed flexibility for Texas entities to engage with listed firms if required by fiduciary duty, providing a safeguard to ensure the policy remains adaptive, countering critics who labeled the law overly restrictive. This approach exemplifies a balanced regulatory framework, affirming Texas' right to protect its interests without completely severing ties with all ESG-compliant firms. This policy promotes economic stability, enabling Texas to maintain essential financial partnerships when needed while adhering to the broader legislative intent.

A blanket ESG approach by these companies will not work in Texas, underscoring their misalignment with Texas' economic needs. This approach fails to account for the tangible reliance on fossil fuels across various sectors, from transportation to manufacturing. In Comptroller

Hegar's view, ESG policies often oversimplify the complex role of energy in the economy, potentially harming sectors dependent on fossil fuels. He also argued that SB 13 enables "an intellectually honest discussion" about energy dependence and responsible economic evolution, rejecting hasty divestment strategies that may compromise Texas' fiscal health.

By placing Texas' economic stability above conformity to global ESG trends, SB 13 underscores the importance of local sovereignty and economic pragmatism. Texas' anti-ESG stance emphasizes that responsible stewardship of taxpayer funds and state resources should not be subject to external ideological pressures. Previous legislation has reflected an approach to economic governance that prioritizes Texas' interests while allowing flexibility for fiduciary responsibilities.

Comptroller Hegar's testimony reinforced the necessity of SB 13, which prioritizes Texas' economic independence and challenges the ESG mandates that conflict with the state's priority of return on investments. While challenges persist, SB 13 represents a proactive stance to ensure Texas' long-term economic health and sustainability.

American Property Casualty Insurance Association (APCIA)

In his testimony, Robert Gordon, Senior Vice President of the APCIA voiced concerns over the escalating influence of activist shareholders on ESG issues within the insurance sector. He highlighted that ESG initiatives often collide with insurers' fiduciary duties and operational mandates. These conflicts create significant challenges for companies like insurers, whose decisions should be based on quantifiable, risk-based assessments rather than activist-driven agendas.

The APCIA represents insurers across the U.S., a competitive industry with nearly 3,000 companies. Gordon expressed frustration that activist shareholders increasingly pressure insurers to adopt positions on issues such as environmental impact and racial equity, even when those positions may conflict with established actuarial practices or anti-discrimination laws. This pressure to adopt ESG standards often leads to contradictory demands, where insurers must account for social concerns while adhering strictly to risk-based pricing – a balance that, Gordon asserts, is nearly impossible to achieve.

Activist shareholders acquire small, often nominal stakes in companies solely to advance specific political or ideological objects rather than to improve corporate profitability or long-term value. Many of these activists, Gordon noted, lack a vested interest in the companies' financial success. Some activist-driven ESG proposals, for instance, impose restrictive conditions on insurers' investment portfolios or dictate how companies should approach issues like climate change, regardless of the operational realities and market constraints these firms face.

Gordon raised particularly critical issues with the role of proxy advisory firms – specifically Institutional Shareholder Services (ISS) and Glass Lewis – play in shaping ESG agendas within corporate governance. These two firms control nearly the entire market for proxy advisory services, giving them substantial power over voting recommendations for large asset managers. He pointed out that these firms operate with minimal oversight or transparency, raising concerns

about conflicts of interest. According to Gordon, ISS owns an ESG consulting firm and has the ability to recommend companies adopt certain ESG standards while simultaneously offering consulting services to help them meet those standards. Gordon argued that such arrangements distort the purpose of corporate governance, prioritizing external agendas over shareholder value and fiduciary duty.

Moreover, Gordon explained that proxy advisors often employ a "one-size-fits-all" approach, applying the same ESG standards to diverse industries without regard for sector-specific needs or regulatory requirements. For the insurance industry, which is already heavily regulated at the state level, this approach can create conflicts. He warned that applying uniform ESG criteria could lead to regulatory inconsistencies and increase insurers' liability risks, especially as regulatory agencies like the U.S. Securities and Exchange Commission (SEC) begin scrutinizing companies for "greenwashing" – making environmental claims they cannot substantiate.

Another problem with the current ESG landscape, according to Gordon, is that activist shareholders and proxy firms sometimes push companies to set unrealistic goals, such as achieving net-zero emissions by 2050. He pointed out that these goals may be infeasible for certain industries, particularly petroleum companies whose existence relies on fossil fuel production. This creates a paradox where companies are pressured to commit to objectives that are financially and operationally unviable, potentially leading to economic harm and misalignment with fiduciary responsibilities.

Throughout his testimony, Gordon emphasized that policymaking should reside with legislative bodies, not shareholders or proxy advisors pushing ideological agendas. He asserted that activist shareholders and proxy advisors wield outsized influence, often backed by foreign funding sources, which allows them to push agendas that may not align with American corporate or legislative priorities. For example, Gordon mentioned how foreign entities fund nonprofit groups dedicated to promoting ESG standards in the U.S., allowing international interests to influence domestic corporate policies. Gordon viewed this as an abuse of the shareholder process, one that places American companies in the crossfire between activist agendas and regulatory compliance.

In closing, Gordon urged legislators to intervene to prevent activist shareholders from using the corporate governance process to impose non-financial policies on insurers and other companies. He contended that decisions about environmental and social policies should be made by lawmakers accountable to the public rather than by activists with narrow, often ideological, interests. By reinforcing legislative oversight and reducing the power of activist shareholders and proxy advisors, he argued, Texas can protect its industries from being co-opted by agendas that may not reflect the state's economic needs or values.

Teacher Retirement System of Texas (TRS)

In his testimony, Jase Auby, Chief Investment Officer at TRS, provided a detailed overview of TRS's governance and investment policies, emphasizing the system's commitment to fiduciary duty amidst increasing ESG pressures. Auby explained how TRS, which manages funds for millions of Texas teachers and retirees, upholds strict standards to maximize returns and manage risks, a balance complicated by the rise of ESG initiatives in the broader investment landscape.

TRS is governed by a board of trustees appointed by the Governor and is guided by legislative directives regarding benefit payouts and contributions. The primary investment framework for TRS is its Investment Policy Statement (IPS), which defines the fund's goals: achieving a return rate that exceeds inflation by 5%, surpassing actuarial targets (currently set at 7%), and outperforming relevant market benchmarks. This rigorous IPS framework reflects TRS's dedication to safeguarding the financial future of its members, focusing on returns rather than external social or political agendas.

As ESG considerations gain traction in some investment communities, TRS has faced challenges in balancing these factors within its mandate. Auby explained that while the board acknowledges ESG's prominence, it explicitly adheres to fiduciary principles, ensuring that TRS remains focused on maximizing member returns rather than pursuing unrelated policy objectives. He highlighted a significant IPS amendment that reaffirmed TRS's primary commitment to risk and return objectives, underscoring that TRS will not promote interests unrelated to portfolio performance. This policy is particularly critical given the wide array of ESG-focused proposals and pressures that may not align with the fiduciary duty of public pension funds like TRS.

One critical area where ESG issues intersect with TRS operations is proxy voting. With over 60,000 proxy votes across nearly 6,000 annual meetings worldwide, TRS relies on proxy advisory firm ISS to manage its voting process. Traditionally, proxy voting focused on fundamental governance issues – such as board elections and executive compensation. However, Auby noted that proxy voting has increasingly shifted toward ESG issues, with ISS and other advisory firms reflecting broader client demand for ESG-aligned voting. Recognizing this trend, TRS worked with ISS to establish a customized voting policy prioritizing fiduciary standards over ESG-driven considerations.

ISS developed the "Global Board-Aligned Policy," a proxy-voting framework tailored to clients like TRS, who prioritize shareholder value over activist agendas. This policy empowered TRS to align its votes with the recommendations of corporate boards, which are often more attuned to fiduciary responsibilities than activist-driven proposals. Auby asserted that this approach allows TRS to maintain control over its proxy votes while ensuring adherence to its strict fiduciary mandate. Moreover, TRS retains the flexibility to override ISS recommendations when necessary, ensuring that all votes reflect TRS's commitment to maximizing fund value for its members.

Auby also addressed concerns about how further ESG regulation might impact TRS's investment strategy. When asked whether TRS could face challenges from legislative restrictions on investments in ESG-aligned funds, Auby emphasized that the fund's fiduciary standard provides exemptions where necessary to maintain investment flexibility. This safeguard underscores TRS's focus on balancing legislative compliance with investment goals, ensuring that regulations do not unduly compromise its ability to achieve optimal returns.

Reflecting on broader changes in public pension investment over the past several decades, Auby explained that TRS has diversified its portfolio to enhance returns while managing risk. Originally focused on bonds, TRS has since expanded into public equities and alternative assets, including private equity, real estate, infrastructure, and hedge funds. This diversification has provided the

fund with higher returns, particularly in alternative investments that outperform public markets on a risk-adjusted basis. Such a strategy demonstrates TRS's adaptability and commitment to pursuing profitable, long-term investments for its beneficiaries.

Throughout his testimony, Auby reaffirmed TRS's dedication to serving its members while remaining cautious about the influence of external ESG agendas. The global shift toward ESG has introduced complexities in investment and corporate governance, with activists pushing for policy changes that may not align with the best interests of all stakeholders. Auby contends that while some ESG factors can be relevant to investment decisions, they must be evaluated within the framework of fiduciary responsibility rather than being dictated by external pressures. He emphasized that TRS's guiding principle is to apply all considerations strictly in terms of risk and return, focusing solely on the financial well-being of Texas teachers and retirees.

In conclusion, Auby's testimony underscored TRS's commitment to a strict fiduciary standard, navigating the complexities of ESG without compromising its primary mission. By prioritizing shareholder value over activist demands, TRS protects the long-term financial security of its members, upholding a conservative investment approach that aligns with its obligations under Texas law. Through disciplined governance, transparent investment policies, and strategic proxy voting, TRS aims to shield the fund from ideological influence, ensuring that all decisions serve the best interests of its members.

Texas Permanent School Fund Corporation (PSF)

Jared Stout, the Managing Director of Risk for the PSF, outlined the Fund's mission, governance structure, and approach to investment management, particularly in light of ESG issues. The PSF, one of the largest educational endowments in the nation with $57 billion in assets, provides critical funding for public education in Texas. Stout explained that the fund's primary duty is to maximize returns to support K-12 education, a goal that remains paramount as it navigates legislative and ESG-related requirements.

The PSF has a unique structure, which became a unified investment entity under the management of the Texas PSF Corporation in 2021. This consolidation combined assets previously managed separately by the State Board of Education (SBOE) and the General Land Office, enabling a more streamlined and effective investment strategy. The fund is overseen by a nine-member board with substantial professional investment experience, including members appointed by the Governor, SBOE representatives, and appointees from the Commissioner of the Texas Education Agency. This governance structure reflects a commitment to maintaining high standards of financial stewardship for the benefit of Texas students.

The PSF's primary mission is to generate long-term financial returns to support public education, a purpose reflected in its recent record distribution proposal of $4.8 billion for the upcoming biennium. Stout emphasized that this achievement is directly tied to the PSF's disciplined investment strategies, enabling the fund to grow sustainably while managing risks. For instance, the fund recently made strategic adjustments to its asset allocations, such as reallocating investments from emerging market equities into more stable asset classes. This reallocation is projected to increase returns without adding risk, thereby boosting distributions to Texas schools

by approximately $250 million annually.

In discussing ESG, Stout underscored the PSF's strict adherence to fiduciary duty, which mandates that all investment decisions are made with the sole purpose of maximizing returns for Texas students. He asserted that the PSF's fiduciary responsibility precludes it from promoting non-financial agendas or prioritizing ESG factors that do not directly impact investment performance. For example, while the PSF is actively engaged in proxy voting, its policy dictates that votes must align with maximizing shareholder value rather than advancing specific social or environmental initiatives. Stout clarified that the PSF is particularly cautious about anti-oil and gas proposals, as these could undermine the fund's revenue base, which includes significant contributions from Texas' oil and gas industry.

The PSF's approach to ESG is further illustrated by its proactive compliance with SB 13, which mandated adherence to certain restrictions in investment and proxy voting decisions. According to Stout, the PSF's proxy voting policy ensures that it supports boards and proposals that enhance shareholder value and rejects those that detract from it or conflict with the interests of Texas' energy sector. Given that oil and gas revenue generates around $1 billion annually for the PSF, any proposal that threatens this revenue stream is closely scrutinized. Stout maintains that this approach aligns with the fund's obligation to Texas students by prioritizing sustainable financial growth over external agendas.

In addition to fulfilling its fiduciary duties, the PSF has also significantly increased its investments within Texas. Over the past year, the PSF has invested approximately $19 billion with firms based in Texas, marking a fivefold increase in Texas-based investments. These investments encompass a broad range of sectors, including private equity, real estate, and energy infrastructure, thereby contributing to Texas' economic development while enhancing the fund's portfolio. Stout highlights that the PSF's Texas-focused investments include $3.3 billion in private market assets and $1.2 billion in public companies like Tesla and ExxonMobil, underscoring the PSF's commitment to both state growth and fund performance.

Stout further discussed the implications of recent legislative restrictions, particularly SB 13. While acknowledging that BlackRock was placed on Texas' "boycotting energy" list, Stout clarifies that the PSF's recent decision to terminate its BlackRock mandate was primarily driven by a strategic reallocation away from emerging markets rather than solely due to legislative restrictions. He noted that the PSF undertook a rigorous selection process to replace BlackRock, ultimately choosing two new managers – one of which is Texas-based – to manage the reallocated assets. This decision aligns with the PSF's objective of security high risk-adjusted returns while adhering to state policies.

Importantly, Stout emphasized that anti-ESG laws do not rigidly constrain the PSF's approach, as these laws include fiduciary exemptions that allow the PSF to prioritize financial performance over strict compliance with certain restrictions. Should a listed company offer substantial financial benefits to the fund, the PSF's fiduciary duty could allow it to engage with that company if it serves the best interests of Texas students. This flexibility is vital for a fund like the PSF, which must balance state mandates with its duty to maximize returns for its beneficiaries.

In conclusion, Stout's testimony illustrates the PSF's commitment to delivering strong financial returns for Texas education while navigating complex ESG and legislative landscapes. The PSF's disciplined investment approach, combined with its substantial investments in Texas, ensures that it remains a reliable funding source for the state's public schools. By maintaining a strict focus on fiduciary duty and exercising prudence in ESG considerations, the PSF protects the interests of Texas students and taxpayers alike. Through transparent governance, strategic asset management, and responsible proxy voting, the PSF embodies a conservative investment philosophy prioritizing long-term financial stability for Texas' educational system.

Institutional Shareholder Services, Inc. (ISS)

Steven Friedman, General Counsel at ISS, focused on his company's operational principles and approach to proxy voting. Contrary to accusations of activist behavior, Friedman emphasized that ISS is an advisory service, facilitating informed decision-making for institutional investors while respecting their autonomy. He explained that ISS's mission is to help clients exercise their shareholder rights by providing research, recommendations, and logistical support in a transparent, unbiased manner.

Friedman outlined the scope of ISS's operations, which, in 2023, included support for approximately 1,600 clients, covering 50,000 shareholder meetings worldwide. To meet the complex and diverse requirements of these clients, ISS offers a range of proxy voting policies. The most common is the "benchmark" policy, shaped by client feedback on standard governance issues. Additionally, ISS provides specialty policies that cater to specific investor preferences, such as ESG considerations, labor union interests, and religious guidelines. Notably, according to Friedman, 91% of the shares processed by ISS in 2023 were linked to customized policies set by clients rather than ISS's own standard policies, demonstrating the firm's commitment to accommodating client-specific priorities over enforcing its own.

Proxy voting is a mechanism by which shareholders, including large institutional investors, vote on corporate governance matters at shareholder meetings. ISS assists with this process by offering independent research and recommendations, but clients retain full control over whether to follow these recommendations or even vote at all. ISS's client base includes a broad spectrum of institutional investors, such as public pension funds, labor unions, faith-based organizations, and private corporations, each with unique voting policies and interests.

Responding to recent concerns about ESG influence in proxy voting, Friedman noted that ISS has adapted to offer policies that support clients skeptical of ESG initiatives. For instance, ISS recently introduced a policy created by a third-party provider, Boyer Research, that encourages "neutrality" on political and cultural issues, catering to clients who prefer to focus solely on financial metrics. Additionally, ISS provided a tailored proxy voting policy to TRS, which recently sought a "Global Board-Aligned Policy" to ensure voting practices align strictly with corporate governance principles. This policy shift highlights ISS's flexibility in providing clients with a range of options that align with their individual mandates, allowing for a nuanced approach to controversial governance topics.

Addressing accusations of activist influence, Friedman emphasized that ISS does not push political

or social agendas but instead facilitates clients' voting decisions in accordance with their selected policies. ISS's role is to support investor autonomy, not to dictate voting outcomes. Each client has the freedom to modify ISS's recommendations or ignore them entirely, even after votes are initially cast.

Friedman also provided context on the types of issues typically addressed in proxy votes. Traditionally, proxy voting focused on governance fundamentals, such as board elections, auditor selection, mergers, and bylaw amendments. However, in recent years, shareholder proposals have increasingly included ESG-focused items. Recent changes to SEC guidelines have facilitated more ESG-related proposals, as the SEC's rules on what qualifies for the ballot have become less restrictive, contributing to a rise in social and environmental proposals initiated by shareholders rather than corporate boards.

To facilitate this complex voting environment, ISS offers a web-based platform called ProxyExchange, which clients use to access ISS's research and manage their voting activities. Through ProxyExchange, clients can review ISS's research, cast their votes, and modify votes up until the night before a shareholder meeting. This system empowers clients to make timely adjustments as needed, reinforcing ISS's commitment to respecting client autonomy in the voting process.

ISS operates under strict regulatory standards, including registration with the SEC as an investment advisor, which subjects ISS to a fiduciary duty under the Investment Advisors Act of 1940. This fiduciary duty mandates that ISS prioritize its clients' interests and remain impartial in its advice. According to Friedman, ISS's role is to act as a neutral facilitator, enabling clients to make informed, independent voting decisions without exerting pressure or advocating specific outcomes.

In conclusion, Friedman's testimony aimed to dispel misconceptions about ISS's influence in proxy voting. He stressed that ISS is not an activist organization and does not push clients toward ESG or any other agenda. Instead, ISS provides customizable voting options that reflect clients' diverse objectives, whether aligned with traditional governance principles or neutral on contentious issues. By prioritizing client control, transparency, and regulatory compliance, ISS positions itself as a supportive partner in the proxy voting process, ensuring that institutional investors can exercise their shareholder rights in a way that aligns with their unique priorities and fiduciary obligations.

Texas Public Policy Foundation (TPPF)

Brent Bennett, Policy Director for Life:Powered at TPPF, addressed the impact and implications of ESG activism in the investment sector, particularly as it affects Texas and its policies. Bennett's testimony underscored concerns about the growing influence of ESG agendas in corporate governance, which, he argued, often extend beyond standard investor preferences and may constitute a form of "collusion" among activist groups. This coordinated pressure, he explained, risks distorting free market dynamics by driving corporate policies that may not align with the best interests of all shareholders or the fiduciary responsibilities of investment managers.

Bennett noted that while consumer and investor preferences have always played a role in shaping company policies, the ESG movement introduced a new layer of coordinated activism. He highlighted that organizations aligned with ESG goals, such as endorsing the Paris Climate Agreement or enforcing diversity mandates, attempt to use their influence to drive uniform policies across sectors. He warned that these policies often extend beyond traditional financial interests, crossing into regulatory and social agendas that may not serve all stakeholders equally. Bennett argued that the recent exodus of companies like BlackRock from groups like Climate Action 100 illustrates an acknowledgment among major financial players that aligning too closely with enforceable ESG mandates can potentially violate antitrust laws.

Bennett framed this shift as a positive development, signaling that some corporations recognize the legal and financial risks associated with coordinated ESG efforts. He credits investigations by state attorneys general, including Texas', with helping curb these activities by increasing scrutiny of potential antitrust violations within the ESG movement. This oversight, Bennett argues, is essential to protecting both consumers and the broader economy from undue influence by activist-driven agendas that might compromise free market principles.

The testimony also highlights the progress Texas has made in establishing alternatives to traditional ESG-influenced proxy voting policies. Bennett emphasized that Texas' approach to proxy voting, shaped by legislation like SB 13, has led to a diversification of voting policies. By exercising its authority as a significant consumer investor, Texas has compelled the financial industry to offer new proxy policies that respect the state's unique economic interests. This, he asserts, aligns with Texas' role as a consumer in the market rather than a regulatory enforcer, reinforcing its autonomy in determining which companies it will engage with based on their alignment with Texas' values and economic needs.

Bennett provided data from TRS and the Employees Retirement System (ERS), showing a shift in proxy voting behavior as Texas pension funds increasingly adopt policies that exclude support for resolutions promoting specific environmental and social agendas. He argued that these changes reflect a more balanced and "neutral" stance that aligns with Texas' economic priorities without pushing an anti-ESG or politically driven position. However, Bennett warned that while Texas and other states have made progress, federal regulatory bodies like the SEC continue to allow an increasing number of ESG resolutions on shareholder ballots, complicating efforts to maintain a balanced approach to proxy voting.

In addition to legislative measures, Bennett advocated for transparency and oversight in investment decisions, particularly in private markets. He referenced SB 1446 as a necessary step in ensuring that Texas can monitor and control how ESG considerations impact both public and private investments. He shared his opinion that the bill should be reintroduced and passed in the next legislative session to further reinforce Texas' ability to manage ESG influence in state funds.

Bennett's testimony addressed concerns raised by lawmakers about the potential for overreach in Texas' ESG legislation. He argued that Texas' laws, including SB 13, have built-in fiduciary exceptions, allowing state investment funds to prioritize financial returns over strict adherence to ESG policies if those returns serve the best interest of Texas beneficiaries. This flexibility, he asserted, is critical for maintaining a free-market approach in public investments. Bennett

contended that the state's approach is not about dictating private business practices but about Texas making its own investment decisions as a large consumer in the marketplace.

When questioned about whether the state's restrictions limit public funds from maximizing returns, Bennett responded that Texas' fiduciary exceptions allow investment managers to bypass restrictions if necessary to achieve the best financial outcomes. He clarified that SB 13's "blacklist" of companies that boycott fossil fuels does not rigidly prohibit state funds from engaging with these companies. Instead, funds can invoke fiduciary exceptions when doing business with a blacklisted entity if it demonstrably benefits the fund's financial performance.

Additionally, Bennett stressed that Texas' stance is not intended to create conflict but rather to promote a dialogue that encourages companies to consider policies that align with Texas' economic priorities. He supports a market-driven approach where companies evaluate the costs and benefits of complying with Texas' requirements if they wish to do business with the state. In this regard, Bennett argued that the state's approach ultimately seeks mutual benefit rather than coercion, encouraging companies to adapt their policies voluntarily to maintain business relationships with Texas.

Concluding his testimony, Bennett reiterated that Texas' policies provide a model for balancing economic priorities with corporate governance considerations without compromising fiduciary responsibilities. He argued that Texas has successfully maintained a conservative approach that respects market dynamics while standing firm against ESG-driven collusion. By focusing on transparency, accountability, and market-driven solutions, Texas upholds a regulatory environment that both protects its economic interests and supports the long-term financial health of its public funds. Through legislative efforts and vigilant oversight, Bennett believes Texas can continue to safeguard its economy against the potentially distortive effects of activist-driven ESG agendas.

Foundation for Government Accountability (FGA)

Eric Bledsoe, a Senior Fellow at FGA, argued that ESG-driven investments often prioritize social and political agendas over financial performance, thus compromising the fiduciary responsibility to maximize returns for pension beneficiaries, such as teachers, law enforcement officers, and other public employees.

According to Bledsoe, approximately half of the nearly $6 trillion in public pension assets in the U.S. are allocated to ESG-related investments. Despite this, he argues, ESG funds often underperform relative to traditional investment strategies, which raises concerns about the financial future of those who rely on these pensions. Citing various studies, Bledsoe noted that non-ESG funds consistently outperform their ESG counterparts, with ESG funds lagging behind the S&P 500 and other conventional benchmarks. He referenced specific data, including a study[12] in which 82 out of 146 Morningstar Sustainability indexes underperformed their non-ESG counterparts in 2023, making it the second consecutive year of significant underperformance for ESG funds.

Bledsoe explained that ESG investments frequently incur higher fees than standard funds, typically

charging about 40% more to clients[13]. This fee disparity, combined with lower returns, presents an added financial burden to public pension funds and, by extension, their beneficiaries. He highlighted a Barclays study that established hypothetical portfolios matching for risk and sector, with one portfolio maximizing ESG scores and the other avoiding ESG considerations. In this study, the ESG-focused portfolios underperformed across all three environmental, social, and governance categories, reinforcing the argument that ESG criteria may not yield optimal financial results.

The underperformance of ESG funds has also led some hedge funds, including Texas-based Blue Orca Capital, to bet against ESG stocks, a practice known as "shorting." This trend, Bledsoe suggests, reflects market skepticism about ESG's ability to deliver competitive returns, especially as investors focus increasingly on financial rather than ideological outcomes.

When it comes to fiduciary duty, Bledsoe contended that by prioritizing non-financial factors, investment managers who promote ESG may be in violation of their legal obligations to their clients. In 2022, the Texas Attorney General, along with 18 other state attorneys general, sent a letter to BlackRock, highlighting potential breaches of fiduciary duty in managing public pensions with an ESG focus. According to Bledsoe, this letter argued that implementing ESG policies in public pension management could violate both the duty of care and the duty of loyalty owed to beneficiaries. The duty of care requires investment decisions to prioritize the financial well-being of beneficiaries, while the duty of loyalty demands that managers act in the beneficiaries' best interests, free from conflicts influenced by political or social considerations.

To address these issues, Bledsoe commended Texas' proactive stance in creating safeguards against ESG's influence on public pensions. He praised TRS and ERS for collaborating with proxy advisors to develop voting policies that focus on financial security for beneficiaries. However, he noted that these practices have yet to be codified into state law and called for legislative action to formalize them. Bledsoe endorsed SB 1446, proposed last session to establish a clearer definition of fiduciary duty, protecting proxy voting, and implementing accountability measures like reporting and oversight. By enacting these provisions, Bledsoe argued that Texas would join other states, including Florida, Tennessee, and South Carolina, that had implemented similar reforms.

Bledsoe further asserted that ESG's ambiguity – stemming from the lack of a universally accepted definition – introduces significant risks to investment portfolios. He argued that the subjective nature of ESG metrics creates uncertainty, as different asset managers and indices may classify ESG investments differently. This inconsistency, Bledsoe contends, amplifies portfolio risk, as it becomes challenging to evaluate the actual financial impact of ESG investments when there is no objective standard for comparison.

During questioning, Bledsoe clarified that his opposition on ESG is not a blanket condemnation of socially responsible investments but rather a critique of prioritizing non-financial considerations over financial returns. He argued that if an investment aligns with ESG principles and maximizes returns, it should be pursued based on fiduciary grounds. His position, therefore, is not against ESG per se but against making investment choices based on ideological factors at the expense of beneficiaries' financial security.

When asked about the potential subjectivity of ESG classifications, Bledsoe underscored that the variability in ESG criteria adds complexity and risk to investment portfolios. This subjectivity, he asserts, makes it difficult for pension funds to accurately assess the performance and risk profile of ESG assets, which is particularly concerning given their growing role in public pension portfolios.

Bledsoe addressed concerns about potential contradictions in Texas' anti-ESG policies, such as whether restrictions on companies that avoid fossil fuel investments could themselves be seen as an ideological stance. He argued that Texas' approach aims to maintain a "neutral" market position by opposing collusive activities rather than imposing specific investment requirements. In his view, Texas' policy is intended to preserve market openness and prevent activist organizations from unduly influencing corporate decisions.

Concluding his testimony, Bledsoe reiterated his support for Texas' legislative efforts to reinforce fiduciary duty and financial accountability in public pensions. By implementing clear standards through legislation like SB 1446, he argued, Texas can shield its public servants' pensions from the financial risks associated with politically motivated philosophy focused solely on maximizing returns for beneficiaries, ensuring that Texas' public funds prioritize financial security over social or political agendas.

Public Testimony

Ms. Pamela Davis-Duck, a retired teacher and member of the Texas American Federation of Teachers, shared her deeply held concerns about proposals restricting TRS when working with firms that consider ESG factors. She believes pension funds should prioritize maximizing returns, securing the beneficiaries' retirement, and keeping costs low for taxpayers.

Mr. Steven Gassenberger, a policy analyst with the Reason Foundation, explained that as public pension funds increasingly shift assets from public markets to private ones, transparency diminishes, creating significant challenges for watchdog organizations and policymakers trying to ensure the funds are managed prudently and in the best interest of beneficiaries. He shared that TRS currently allocates nearly 45% of its portfolio to private assets. This shift concerns transparency advocates, as private assets are inherently less visible to the public and regulatory entities, making it difficult to assess their performance, risk profiles, and adherence to fiduciary responsibilities.

The root of Gassenberger's argument is that the lack of transparency in private markets contributes to unease around ESG factors in public pension management. When pension funds invest in private assets, they rely on general partners to report investment performance, typically using complex metrics like internal rate of return (IRR) that are difficult to verify independently. These calculations are not publicly disclosed, which limits watchdogs' ability to evaluate the true performance and risk of these investments. For public pension systems, which serve teachers, law enforcement officers, and other state employees, this opacity raises concerns about whether fiduciary responsibilities are being upheld and whether beneficiaries' interests are truly prioritized over ESG or other non-financial considerations.

Without a clear understanding of how funds are allocated and performing, stakeholders, including beneficiaries and oversight bodies, cannot ascertain whether ESG factors are influencing investment decisions in a way that compromises financial returns. He argued that increasing transparency would help allay concerns about potential ESG influence by providing a clearer view of fund allocations, performance metrics, and investment objectives.

To address these transparency issues, Gassenberger recommended adopting reporting standards similar to those used by public pension funds in states like Florida and California. He pointed out that both the Florida Retirement System (FRS) and California State Teachers' Retirement System (CalSTRS) produce annual reports detailing their private investments. These reports disclose key information about each general partnership, including the amount committed, amount distributed, and IRR for each private investment. By providing this level of detail, these states offer a model of transparency that enables better oversight and fosters greater confidence in the management of public pension assets. Gassenberger referenced SB 1446, which although the bill addressed ESG issues, he emphasized the importance of separating transparency measures from the ESG debate. By implementing a standardized reporting requirement, Texas could bring its pension funds in line with best practices observed in other large public pension systems, promoting accountability and protecting beneficiaries.

In response to a question on how Texas could reduce tensions around ESG, Gassenberger reiterated that improving transparency in private asset holdings would allow the public to better understand the investments' performance and potential ESG influence. By providing annual reports on private investments, Texas pension funds would allow watchdog organizations, legislators, and the public to see whether ESG considerations are influencing investment decisions in ways that either align with or diverge from financial goals.

RECOMMENDATIONS

- The Legislature should ensure public funds are not used to further ESG initiatives by codifying recent state agency directives ensuring shareholder votes are used for the sole purpose of maximizing returns for beneficiaries.

APPENDIX

HOUSE OF REPRESENTATIVES
AUSTIN

November 15, 2024

Honorable Giovanni Capriglione
Chair, House Committee on Pensions,
Investment and Financial Services
P.O. Box 2910
Room E2.164
Austin, Texas 78768

Dear Chairman Capriglione and Fellow Members:

After reviewing the House Committee on Pensions, Investments & Financial Services Interim Report 2024, we submit the following comments to include within the report:

This report falls short in its goals for retirees, and stands to prioritize short-term anti-ESG policies over the future of Texans.

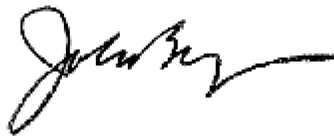
Retired teachers are currently living on an average of $2,000 per month, less than twice the average price of a one bedroom apartment in Texas. We are causing retired teachers to have to choose between paying rent and buying groceries.

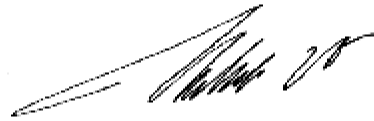
Regarding the recommendations, we appreciate the stated intent to explore a permanent cost-of-living adjustment (COLA). However, exploration was the purpose of the interim committee. The recommendation should be a policy solution, not a suggestion that we keep looking into the problem. Before 2023, nearly two decades had passed without a COLA for retirees, which should have provided ample time to address the clear need for retired teachers' pensions to keep pace with inflation. During the hearing, the Texas Retired Teachers Association specifically called for a mechanism tied to an automatic COLA that adjusts for inflation. With last year's CPI at 2.5%, the recent 2% COLA has already fallen short. We no longer have the luxury of simply exploring options; we must take action to protect Texas retirees.

The recommendations concerning ESG initiatives are contradictory. Suggesting that these agencies should focus solely on maximizing returns for their beneficiaries while potentially blocking these agencies from partnering with institutions that do exactly that prioritizes political

ideology over Texans. Texas investment experts should have the flexibility to invest funds where they see the best returns for beneficiaries, regardless of whether the institution employs ESG initiatives. Furthermore, there is research confirming that the relationship between ESG initiatives and financial performance is positive, and that ESG initiatives appear to provide downside protection during crises. We should use every tool at our disposal to maximize the return on Texas' public funds.

Respectfully,





John Bryant
State Representative, District 114

Hubert Vo
State Representative, District 149

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ENDNOTES

[1] https://www.texastribune.org/2023/11/07/texas-constitutional-amendment-election-results/
[2] https://www.trs.texas.gov/TRS%20Documents/2023-actuarial-valuation-pension-fund.pdf
[3] Written testimony of Timothy Lee, Texas Retired Teachers Association
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[5] Written testimony of Timothy Lee, Texas Retired Teachers Association
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