

TESTIMONY BY WESLEY K. MACHIDA
ADMINISTRATOR, EMPLOYEES' RETIREMENT SYSTEM
STATE OF HAWAII
TO THE HOUSE COMMITTEE ON LABOR AND PUBLIC EMPLOYMENT
ON
HOUSE CONCURRENT RESOLUTION NO. 123
AND
HOUSE RESOLUTION NO. 94

MARCH 23, 2012

ENCOURAGING AND REQUESTING A REPORT ON SOCIALLY RESPONSIBLE
INVESTMENTS

Chair Rhoads and Members of the Committee:

HCR 123 and HR 94 encourage the Chief Investment Officer, Administrator and Board of Trustees of the Employees' Retirement System (ERS) to apply the principles of Socially Responsible Investment (SRI) to their investment practices and decisions.

In response to this proposed legislation, ERS plans to review and discuss its existing policies and procedures to determine whether any enhancement is required to meet the intent and requirements of the two resolutions. It is important to note, however, that over the last few years, the ERS has already implemented certain SRI-related policies and procedures to meet key SRI objectives. These aspects are addressed on five levels:

1. A pre-established proxy voting policy that stipulates specific corporate governance and corporate practices positions that ERS would take when voting shares of its public-company holdings. Such positions evolve over time, reflecting changing societal concerns and corporate values;
2. Adoption of the United Nation's Global Sullivan Principles which establish basic corporate practices standards with respect to human rights and employee fair-treatment issues;
3. An anti-terrorism policy that seeks to avoid investing in countries and companies that are deemed by the appropriate U.S. agencies to be sponsors of terrorism or are supporting sponsors of terrorism;
4. A clear approach to divestment strategy that can be applied when warranted. Currently, ERS applies its divestment strategy as it relates to Sudan human rights violations; and

5. An explicit Hawaii-specific targeted investment program that seeks to direct capital into the Hawaii economy while also seeking to achieve competitive investment returns that meets ERS' sole purpose mandate.

Clearly, the ERS' investment policies have reflected the intent of SRI while engaging in some level of prudent economically-targeted investing. While the proposed legislation highlights the attractiveness of the "triple-bottom-line" feature of SRI investing, the danger is that SRI approaches may be designed to meet certain societal or governance-related objectives, but in turn, end up sacrificing the fiduciary's sole purpose investment mandate. In addition, the administrative requirements of implementing SRI policies and procedures would be extremely difficult given the limited resources of the ERS. To the extent that the ERS and its Board of Trustees have a fiduciary responsibility to meet certain performance objectives with an acute awareness of its growing pension and unfunded liabilities, formalizing all SRI restrictions may make it difficult to achieve these performance objectives.

Thank you for the opportunity to testify on these important resolutions.

Charlotte A. Carter-Yamauchi
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Written Comments

HCR 123/HR 94

**ENCOURAGING AND REQUESTING A REPORT ON SOCIALLY RESPONSIBLE
INVESTMENT**

Testimony by the Legislative Reference Bureau
Charlotte A. Carter-Yamauchi, Acting Director

Presented to the House Committee on Labor and Public Employment

Friday, March 23, 2012, 11:00 a.m.
Conference Room 309

Chair Rhoads Members of the Committees:

I am Charlotte Carter-Yamauchi, Acting Director of the Legislative Reference Bureau.

Thank you for this opportunity to comment on H.C.R. No. 123/H.R. No. 94.

Among other things, the Concurrent Resolution/Resolution:

- (1) Encourages the Chief Investment Officer, Administrator, and Trustees of the State Employees' Retirement System to apply the principles of Socially Responsible Investment (SRI) in their investment practices and decisions, and encourages other investment counselors and money managers to also apply SRI to their investment portfolios; and
- (2) Requests that the Legislative Reference Bureau submit a report of findings and recommendations to the Legislature no later than twenty days prior to the convening of the 2013 Regular Session.

While the Bureau takes no position on the merits of the measures, as currently drafted, the measures do not provide any instruction on exactly what is the subject of the requested report. If the intent is to have the Bureau report on if and how the Employees' Retirement System is applying SRI, it may be both more appropriate and efficient to have the System report directly on their actions, decisions, and investment practices.

If, rather, the intent is to have the Bureau report on whether SRI should be incorporated in the Employees' Retirement System's investment practices, then we

recommend the measures be amended accordingly. We note, however, that in a study by the Bureau in 2001 on Socially Responsible Investing, we recommended that the Legislature refrain from mandating the Employees' Retirement System or any other public institution to adopt either social screening or shareholder advocacy as investment strategies. (The complete text of the report (Socially Responsible Investing) can be found online at <http://Irbhawaii.info/Irbprts/01/sri.pdf>.)

Finally, if the intent is to have the Bureau update its 2001 report, then we recommend that the measures be amended to clarify this intent.

Thank you for the opportunity to provide written comments on these measures.

March 21, 2012

House Committee on Labor and Public Employment

Re: HCR No. 123 and HR No. 94

Chair Rhoads and Members of the Committee,

Please accept this letter of support for HCR 123 and HR 94 to authorize a Legislative Reference Bureau study on whether or not socially responsible investments should be an available option within the state employee retirement system.

A similar LRB study was conducted in 2001 using data from the 1990's. Since then, as sustainability has moved more into the forefront of the public eye, hundreds of socially responsible investment products have launched in the past 15 years, allowing for both asset class diversification and financially competitive performance. Many important studies have been published in the past years that clearly indicate that financial performance is not compromised when fund managers integrate social, governance, and environmental performance into the holdings selection process. Even Bloomberg, the leading database used by financial analysts, now has social and environmental performance information, which truly reflects the mainstreaming of the approach.

Most investors are not aware of what is in their mutual funds. Many are often dismayed to find companies that do not align with their values. For those who want more responsible and greener funds, this option should be made available to them. It is important that employees save for their retirement and that they feel comfortable with what they own.

I urge you to pass these two resolutions so that the LRB can conduct their analysis.

Thank you,

A handwritten signature in cursive script that reads "Michael Kramer".

Michael Kramer, Accredited Investment Fiduciary
Natural Investments LLC