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Statement Before the House Committee on Oversight and Accountability

For the Hearing Entitled “ESG Part I: An Examination of Environmental, Social,
and Governance Practices with Attorneys General”

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Good morning, Chairman Comer, Ranking Member Raskin, and Members of the Committee.

My name is Michael Frerichs, and I serve as the Illinois State Treasurer. I am the state's Chief Investment and Banking Officer. In that role, my office manages approximately \$52 billion. The portfolio includes \$26 billion in state funds, \$17 billion in retirement and college savings plans, and \$9 billion on behalf of local and state governments. I also serve as a Trustee on the Illinois State Board of Investment, which manages approximately \$28 billion in pension assets on behalf of over 230,000 beneficiaries.

It is my job to protect and grow the hard-earned savings of families across the state, as well as funds that state and local units of government depend on for building and maintaining the roads, schools, and other public investments that our communities and economy rely upon.

I take this responsibility very seriously. Whether it's the single mom trying to save for her kids' college tuition or the town financing new schools, I know they are trusting the Treasurer's Office to grow returns on those funds over the long-term and ensure they have the money they need in the meantime.

I am tasked with investing not just for the next quarter – but with the goal of maximizing returns over the next quarter century.

This is what brought me here today. We are witnessing a widespread, highly coordinated, politically motivated attack on investors and the hard-working people they serve. This pushback is anti-free market and anti-investor, and it is misleading and harmful. It harms retirement savers, pensioners, working people, businesses, and America.

This coordinated campaign is focused on “ESG” investing. Most people don't know what “ESG” is. ESG is data. ESG is simply additional information that investment professionals use to assess risk and return prospects. It is about value, not values.

In order to maximize returns, an investor must be able to manage and mitigate risk. The more data we as investors have, the better informed our decision is when selecting investments over the long-term.

ESG is about looking at a wider range of risks and value opportunities that can have a material financial impact on investment performance. For example, if you're investing in a car company, it's thinking about whether that company is aligned with market expectations and preparing for the shift to electric vehicles. Or if you're investing in a pharmaceutical company, it's thinking about whether that company has exposure to massive lawsuits because of its role in the opioid epidemic.

Our approach is to integrate material ESG factors into investment decisions along with many other considerations. We are not ignoring traditional financial factors like profitability and creditworthiness. We are integrating more data into our decisions to give us a better idea of risk and growth prospects.

This approach is backed by academic research, but it is also common-sense. Companies that value their workers have less turnover and higher productivity. Companies that build a strong governance structure will be more resilient and valuable over the long-term. Companies that prepare for changing weather patterns and changing market demands will be better protected from physical and transition risks.

While I welcome healthy debate about best practices and fiduciary duty, I do not welcome the deployment of blacklists and overreaching legislation that would strip professionals of their freedom to invest responsibly. I do not welcome decrees that ignore the research, fundamentally misunderstand the role of fiduciaries, and impose real costs on taxpayers, pensioners, and hard-working families.

When it comes to material data, it's irresponsible to tell investment professionals to ignore information that they can use to do their jobs better.

Frankly, I'm deeply concerned by the highly orchestrated attacks on the investment profession and the focus on restricting investors' freedom to exercise their professional discretion and fiduciary duty. To ask investment professionals to ignore materials risks and investment opportunities is asking us to stop doing our jobs.

For example, should we ignore when health-care companies understaff their operations and jeopardize the safety of patients? Would you expect a company that does this to continue to increase in shareholder value? Should we ignore the opportunity to invest in new renewable technologies and make money on firms that could grow immensely in 5 or 10 years? Should we not look at the skills and composition of the people responsible for overseeing the companies in which we invest?

Clearly not. All these issues can be materially significant. It would be irresponsible to ignore these issues, and it would be foolish to hinder professionals' abilities and their freedom to invest responsibly. This astroturf opposition to decades of work by investment professionals is a dangerous intrusion into our free market system.

If unchecked, this war on investors may cost taxpayers and pensioners millions, and in some cases billions of dollars (as studies have found already)¹, which has the potential to obstruct investors' ability to protect and grow people's hard-earned savings.

In closing, now is not the time to stop investors from considering prudent data that can lead to better returns over the long-term. The American economy depends on investors. Let us do our job.

¹ Arkansas Democrat Gazette. (March 7, 2023). "State employees retirement system estimates system could lose as much as \$40M annually if House Bill 1307 passes," available at <https://www.arkansasonline.com/news/2023/mar/07/state-employees-retirement-system-estimates/?news-arkansas>.; Economic Solutions Inc. (January 12, 2023). "ESG Boycott Legislation in States: Municipal Bond Market Impact," available at https://econsultsolutions.com/wp-content/uploads/2023/01/Sunrise-ESG-boycott-Impact_FINAL.pdf.; Legislative Services Agency: Office of Fiscal and Management Analysis. (February 4, 2023). "Fiscal Impact Statement," available at [HB1008.02.COMH.FN001.pdf](https://www.legis.state.tx.us/legis/legis.nsf/02/COMH.FN001.pdf) ([d37sr56shkhro8.cloudfront.net](https://www.legis.state.tx.us/legis/legis.nsf/02/COMH.FN001.pdf)). Kansas Division of the Budget. (March 7, 2023). "Fiscal Note for SB 224 by Senate Committee on Federal and State Affairs," available at http://kslegislature.org/li/b2023_24/measures/documents/fisc_note_sb224_00_0000.pdf ; Wharton School of Business. (July 12, 2022). "Texas Fought Against ESG. Here's What It Cost," available at <https://knowledge.wharton.upenn.edu/podcast/knowledge-at-wharton-podcast/texas-fought-against-esg-heres-what-it-cost/>.

Thank you for your time and attention.