House Financial Institutions Committee
Opposition Testimony on Senate Bill 6
Cathy Becker, Green America
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Chairman LeRe, Vice Chair Pizzulli, Ranking Member Dell'Aquila, and members of the House Financial Institutions Committee,

Thank you for the opportunity to testify today in opposition to Senate Bill 6. My name is Cathy Becker, and I am the Responsible Finance Campaign Director at Green America. Founded in 1982, Green America is the nation's leading green economy organization, providing the economic strategies, organizing power and practical tools for businesses, investors, and consumers to solve today's social and environmental problems.

I am also a proud graduate of The Ohio State University's John Glenn College of Public Affairs and School of Environment and Natural Resources. And because I worked at Ohio State for 14 years, I have a sizable investment in the Ohio Public Employee Retirement Systems (OPERS). So I have a lot of reasons, both personal and professional, to care about environmental, social, and governance investing in Ohio.

As written, SB 6 is predicated on the assumption that including environmental, social, or governance (ESG) factors in investment decisions necessarily conflicts with maximizing return. This assumption is faulty. A long list of studies, as well as practical experience, show that ESG criteria go hand in hand with financial performance to lower risk and increase return in sustainable or responsible portfolios-- especially in long-term investments such as retirement funds.

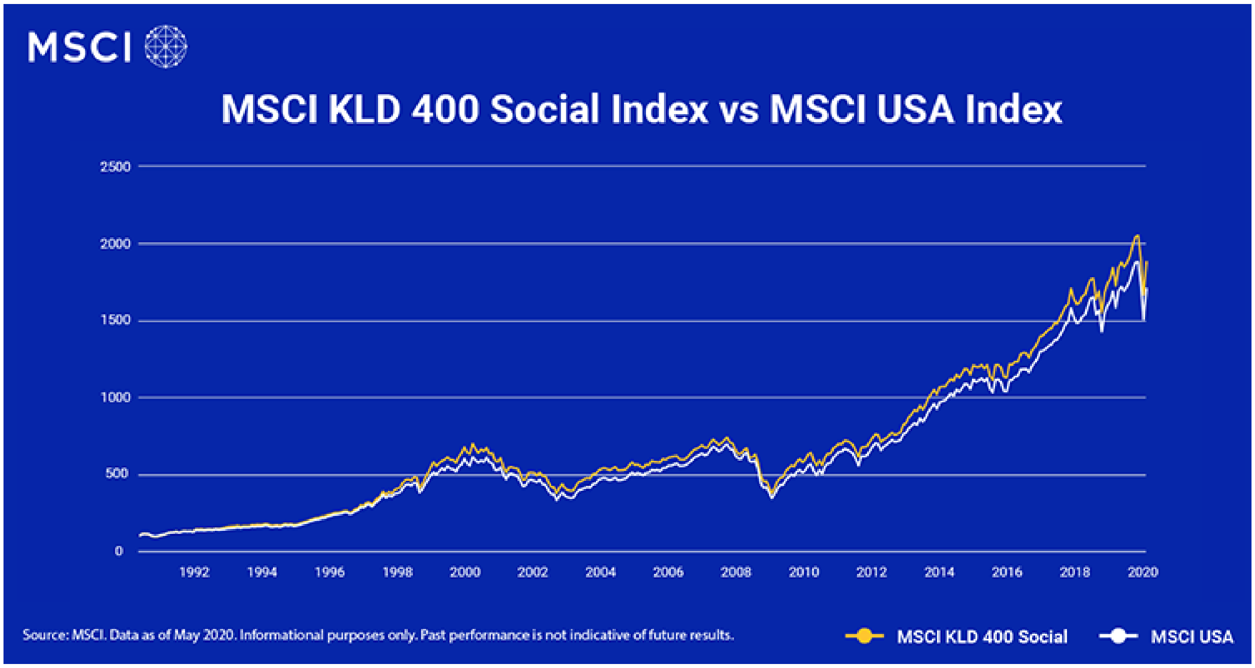
For example:

- Morningstar's 2022 Sustainable Funds US Landscape Report found that "In 2021, most sustainable funds delivered **stronger total and risk-adjusted returns** ... than their respective Morningstar Category indexes."

- Morgan Stanley's Institute for Sustainable Investing study analyzed 3,000+ US mutual funds and ETFs, finding that sustainable equity funds **outperformed non-ESG funds by a median of 4.3 percent** in 2020.

- NYU Stern Center for Sustainable Business conducted a meta-analysis of 1000+ studies from 2015-2020, finding that "**59% showed similar or better performance for ESG funds** relative to conventional investment approaches."

A good measure of the performance of sustainable investing is the MSCI KLD 400 Social Index, the very first socially responsible index fund launched by Amy Domini in 1990. The KLD 400 has consistently outperformed the general index of large and mid-cap US stocks for more than 30 years – showing returns better than the market rate, especially over time.



Responsible investing has rapidly increased over the past three decades. According to the most recent Trends Report from the US Sustainable Investment Forum, sustainable investing accounted for **$8.4 trillion** in 2022 – or 1 in 8 dollars under management.

Responsible investing is also extremely popular. The Morgan Stanley Sustainable Signals 2024 report found that **84% of individual investors** in the United States are interested in sustainable investing, with almost half saying they are very interested. Young people especially care about sustainable investing and want the option for their retirement plans.

Changes to language of SB 6

While Green America does not advocate for requiring fund managers to take ESG factors into account in investment decisions, we believe they should have the **option** to consider ESG factors alongside traditional considerations such as financial performance.

Curtailing the ability of investors to make investment decisions based on all factors of risk and return diminishes the number of quality investments available and is antithetical to a free market. Far from promoting fiduciary duty, limiting the criteria that pension fund managers can consider would constitute interference with fiduciary duty.

For these reasons, we would like to see two changes to some of the language in SB 6:

- Where SB 6 says, “The board … shall make investment decisions with the **sole** purpose of maximizing the return on its investments,” we would like to see that changed to “**primary** purpose.” This would give fund managers the option – though not a requirement -- to include other considerations as they see fit. So, SB 6 would say, “The board … shall make investment decisions with the **primary** purpose of maximizing the return on its investments.”

- Where SB 6 says, “the board shall not adopt a policy … with the primary purpose of influencing any social or environmental policy or attempting to influence the governance of any corporation,” we would like to drop the last clause on influencing the governance of a corporation. The reason is, shareholders have a direct stake in the governance of any corporation they invest in. Whether they include ESG in their investment decisions or not, investors deserve a voice in how a company is run. So, SB 6 would say “the board shall not adopt a policy … with the primary purpose of influencing any social or environmental policy.”

Costs of anti-ESG state laws

Finally, I would like to highlight some of the costs of anti-ESG state laws around the country. These laws are costly to state taxpayers and retirees. For example:

- In **Texas,** legislation blacklisting certain companies for their supposed boycott of fossil fuels could cost the state as much as $821.1 million and 8,800 jobs by the end of this year, according to a report by the Perryman Group.

- In **Oklahoma,** a law prohibiting pension funds and cities from doing business with financial firms accused of boycotting fossil fuels cost over $180 million. A judge issued a permanent injunction barring enforcement of the law in July.

- In **Indiana**, the state budget office found that a bill forcing pension funds to divest from asset managers who consider ESG factors would cost $6.7 billion over the next decade in sub-par returns.

- In **Kansas**, the budget division found that an anti-ESG bill could cost public service retirees up to $3.6 billion in lower returns over 10 years.

Due in large part to these material costs, states passed many fewer anti-ESG bills this year than last year, according to research and advising firm Pleiades Strategy.

- In 2023, 165 anti-ESG bills and resolutions were proposed in the states; of those, 31 ultimately passed.
- In 2024, 161 anti-ESG bills and resolutions were proposed in the states; of those, only six passed.

Ohio should look into the costs of this kind of legislation in states where it has passed, and the reasons why this legislation is stalling in states where it has been proposed. Without amendments giving fund managers the option – again not a requirement – to consider all factors in investment decisions, SB 6 is bad for retirees and bad for Ohio.