

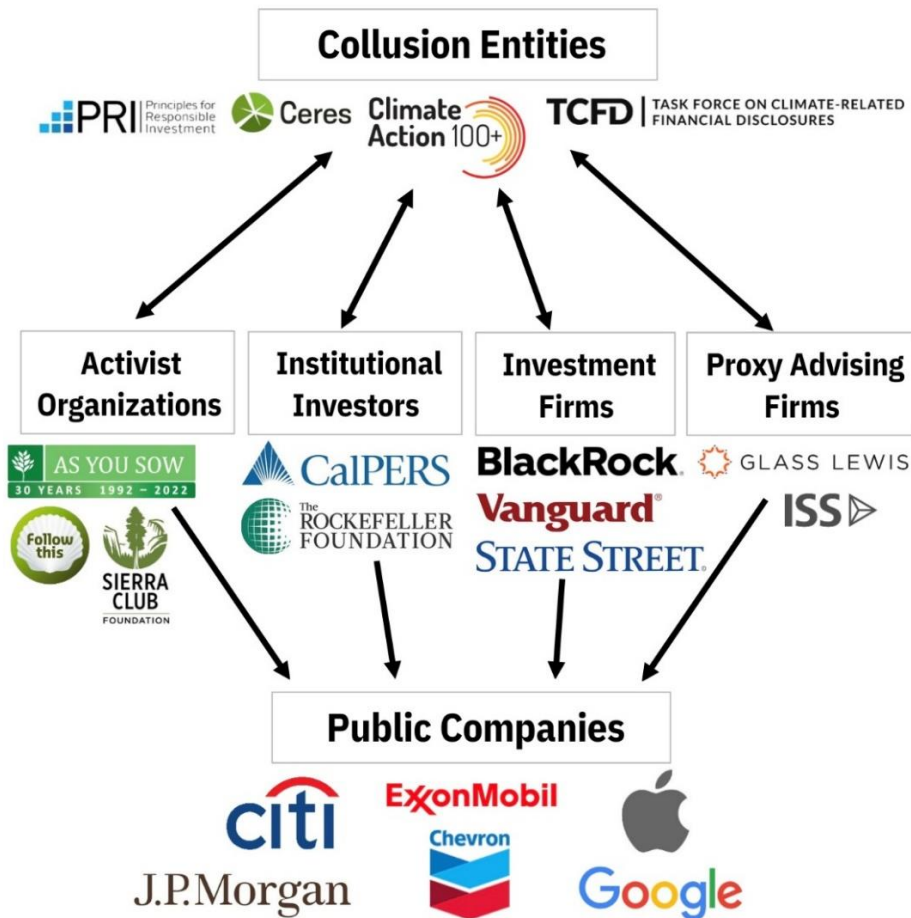
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Testimony of Brent Bennett, Ph.D.
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Texas Public Policy Foundation
Before the
Ohio House Financial Institutions Committee

Chairman LaRe and Members of the Committee,

Thank you for the opportunity to testify in support of SB 6 today. First, we want to commend this committee and the Ohio legislature for countering the trend of political activism in the investment industry and to set clear standards on how Ohio pensions and endowments invest and vote their shares. **Figure 1** below shows how these trends are affecting both institutional investors, including state pensions, and corporate activities.

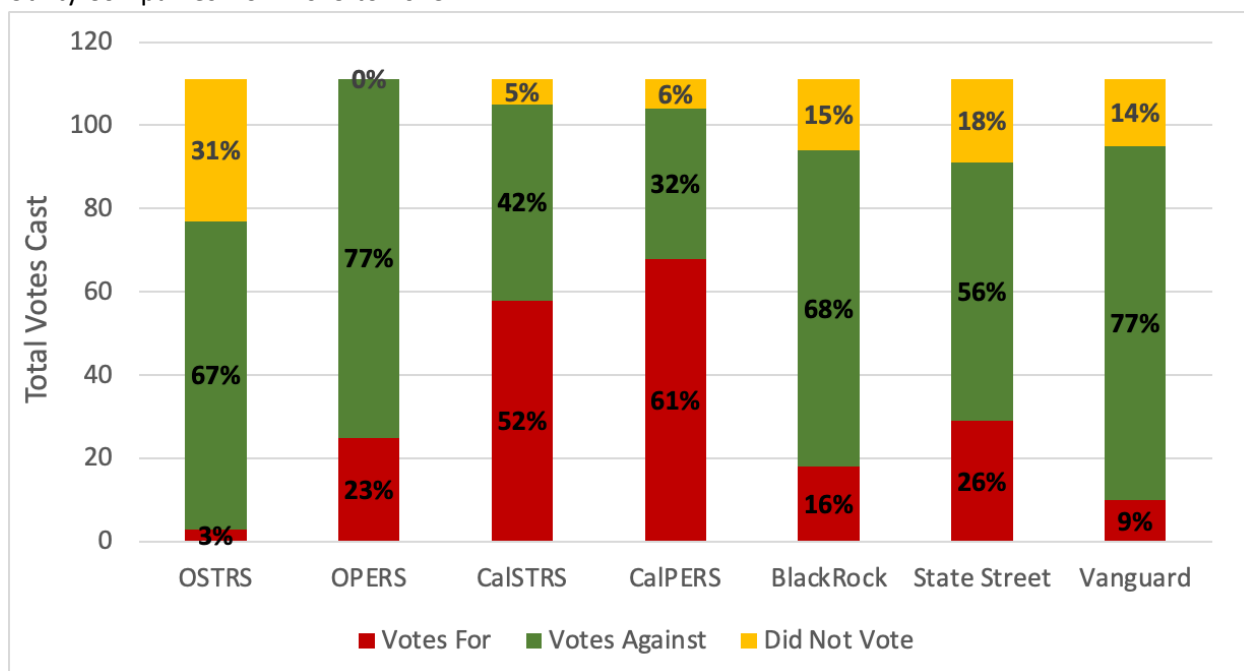
Figure 1: How Politically Motivated Investing Practices are Propagated Through Corporate America



As noted in a meeting of the Texas Senate State Affairs Committee on December 15, 2022¹, entities such as Climate Action 100+ serve as the hubs in a classic hub and spoke conspiracy to impose rigid political agendas, such as net-zero greenhouse gas emissions by 2050, on public companies through proxy voting, board elections, and “engagement” pressure. The spokes in this collusive network, which collaborate through Climate Action 100+ and its peers, are investment firms, activist groups, large investors like state pensions and private foundations, proxy advising firms—including Institutional Shareholder Services (ISS) and Glass Lewis, which are used by many public pensions—and consultants. Public companies are increasingly becoming willing collaborators in the process in order to market themselves as virtuous and to gain regulatory and market advantages over smaller competitors.

As market participants controlling over \$100 billion in assets, Ohio pensions cannot be aloof or neutral as to the political agendas of firms they do business with or how their investments and shareholder engagements impact Ohio businesses. Emerging research is showing that corporations and corporate management are becoming increasingly political and that companies which engage in political virtue-signaling are experiencing lower returns than their peers who choose not to spend time and effort on such activities². When corporations abandon their role as the vanguards of free market capitalism and advocate for policies that erode the very foundations of capitalism, Ohio pensions should ensure they stand apart from that harmful activism, encourage those firms to change, and, when necessary, take their investments elsewhere.

Figure 2: Vote Totals on Environmentally Focused Shareholder Resolutions at American Energy and Utility Companies from 2019 to 2023



¹ Texas Senate, *Senate Committee on State Affairs* [Video], Texas Legislative Council, December 15, 2022, https://tlcsenate.granicus.com/MediaPlayer.php?view_id=52&clip_id=17105.

² M. Edelson and A. Puzder, “Is ESG Profitable? The Numbers Don’t Lie,” *Wall Street Journal*, March 10, 2023, <https://www.wsj.com/articles/is-esg-profitable-the-numbers-dont-lie-benchmarks-analytics-politics-neutral-fiduciary-duty-market-woke-5da4a533>

As shown in **Figure 2** above, our research indicates a large discrepancy between how different pensions vote on environmental shareholder proposals, including Ohio's two major pensions. All of these proposals were clearly put forward to advance political agendas, not company performance, and state pensions should oppose all of them. OSTRS has voted for only 3% of these items since 2019, but OPERS has voted for 23%, which was higher than BlackRock's voting rate. Fortunately, OPERS only voted for one such proposal in 2023. What this data shows is the need for consistent standards to ensure that all state pensions avoid the politics seeping into corporate governance and vote with the sole purpose of producing higher returns from each company.

SB 6 as engrossed is a good starting point for Ohio, but it can also be improved in a few ways.

1. The phrase "with the primary purpose of influencing any social or environmental policy or attempting to influence the governance of any corporation" is used repeatedly throughout the bill. The word "primary" should be removed and "attempting to influence the governance of any corporation" should also be removed.
2. Clearly codify proxy voting standards and reporting requirements.
3. Require more reporting on private equity investments, fees, and returns.

Ultimately, transparency is a critical element of any legislation designed to counter politicized investing. The investing landscape is always fluid, and the ability to identify and investigate problems is more important than the exact wording of any fixed statutory requirement. We know it is a challenging task to find the right cost/benefit balance when exercising more stringent oversight, developing more reports, or choosing not to work with certain vendors. However, this committee should be heartened by the fact that the contracting and investment policies adopted by Texas and other states are already having a positive effect on the marketplace. The two dominant proxy advising firms, ISS and Glass Lewis, have created non-ESG voting policies in response to demands from their clients, and new investment managers are creating products and services that explicitly adhere to sound fiduciary principles and eschew ESG ideology. American banks are threatening to leave the U.N.-backed effort to restrict lending to new fossil fuel projects over antitrust and state regulatory concerns³.

Market competition is the antidote to the collusive action of political activists, and states and municipalities, as market participants, should foster competition by demanding products and services that best serve the interests of their taxpayers from companies that are aligned with their interests. We support the efforts of the Ohio Legislature to push back against politicized investing that is harming Ohio taxpayers, pensioners, and businesses, and we look forward to assisting with improving these policies in the coming months and years to ensure the best outcomes for Ohio citizens.

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³ Alastair Marsh, "Wall Street Bankers Told They Can Set Own CO2 Terms After Spat", Bloomberg, October 8, 2022, <https://www.bloomberg.com/news/articles/2022-10-08/wall-street-banks-win-key-net-zero-concession-a-month-before-cop>