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Matt Considine Testimony S.28.

Thank you for giving me the opportunity to speak on S.28. As I have not had the opportunity to introduce myself to a couple of the committee members, I hope you won't mind if I take a moment to review my background.

I graduated from Wesleyan University with Honors in Mathematics-Economics and after college worked for an economic consulting firm in Manhattan. The clients I dealt with were primarily the research departments of Wall St. firms. I received an MBA with concentrations in Finance and Entrepreneurial Management from the Wharton School at the University of Pennsylvania. After that I spent almost 20 years as an equity analyst and portfolio manager. Prior to retiring to Vermont in 2008 I managed approximate a half billion dollars in institutional pension assets. I earned my CFA in 1993, I have been a member of the New York Society of Security Analysts and am currently a member of the Vermont CFA Society. And I am currently the Director of Investments at the State Treasurer's Office, reporting to Treasurer Pearce and supporting the VPIC in its role with the substantial help of two colleagues also here today - Katie Green and Nick Foss.

All of the testimony you have heard has come from people who care deeply and passionately about the issues our environment faces. We care just as much about the same issues, but we disagree about the effectiveness of a tactic, namely that of divesting of holdings in securities of companies believed to be contributing to the problem. And unlike endowments or foundations or individuals, the VPIC has some constraints which cannot be negotiated. The combination of concern and constraint is one reason we believe so strongly that divesting is the exact wrong response to corporate behavior we would like to influence.

An oft-cited study by proponents of divestment is one done by the Aperio Group in 2012. Updated in 2013 and again in 2014, it is mis-used as evidence that there is no significant penalty incurred by avoiding energy companies. Aimed at "Endowments, foundations and individual investors", the study is deeply flawed when used in the context of analyzing projections concerning pension funds - as prior testimony uses it. The original study eliminated one half of one percent of 3000 names and concluded that the resulting performance was not much different. Common sense would suggest that is the case, so perhaps that is why in the 2014 update that part of the study was redone to include the Energy sector.

Also redone was the section on increase in risk that prior testimony relies upon. Actually, it was more than redone - it was dropped entirely from the revised study.

Rather than continue line by line (you can read more in a memo accompanying this testimony), I'd like to quote some critiques of the study :

- the back-testing method used "should be taken with a grain of salt"

- back-testing a portfolio's performance "does not reflect the impact that material economic and market factors might have had on the manager's decision-making process"
- on the impact of divestment on portfolio returns, research " results are mixed"
- "Carbon-free portfolios in markets with large concentrations in Oil, Gas and Consumable Fuels have historically incurred significant tracking error"
- "results from a wide range of studies on social and environmental screening do not provide a consensus on whether there has been a return penalty or benefit from carbon screening. "
- "there are compelling scenarios investors can imagine that lead to outperformance of carbon industries and others that lead to underperformance."
- The study is "Lacking a consistent story about the future return impact of divesting in carbon"

These are not insubstantial criticisms of the study. More notably, these are criticisms of the 2013 and 2014 studies *as noted by Aperio themselves.* I think it is disingenuous to have this study put before you without the caveats being noted and would respectfully ask the committee to reflect on whether or not they think prior testimony serves them well when it does not provide the depth of analysis and critical review this topic deserves.

I would like to also briefly address the issue of transaction cost estimates that we have provided. It is true that large cap stocks in the US have low transaction costs. This was reflected in both the studies provided by the Treasurer's office. But we are talking about a large, institutional-class portfolio with very sophisticated strategies - *not a simple handful of stocks*. The costs of entry and exit in fixed income strategies, international and emerging markets, and risk-parity strategies - to name just a few - are not insignificant. And when taken as a whole present what is likely to be a significant cost to the overall portfolio. To specifically address NEPC's estimate, it was arrived at by conservatively looking at each asset class and then confirming those estimate ranges with a manager of transition services at one of the world's largest asset custodians.

I would like to conclude my comments as I did last year, by urging you to not go forward with this bill. Were this legislation to proceed, it would not serve any tangible purpose beyond a symbolic gesture that comes at a great cost to the pension plans. We take a step backwards by waking away from the table on such an important issue, particularly when we are using that position at the table to try to effect change. With this as legislation, we would be avoiding meaningful engagement with the very companies we should be most concerned with. Finally, if you believe there is an ethical problem in owning these securities, this legislation will only substitute for that problem the far more troubling one of knowing that we walked away from discussions in which we could make a difference by being engaged.