Bloomberg
Green Daily

Sponsored By
MSCI

By Tim Quinson *November 2, 2022*

Chicago sets plan to divest from fossil fuels

Add the Chicago Teachers' Pension Fund to the list of groups taking a stand on the climate crisis.

The Windy City's retirement fund said it plans to sell all $350 million of its fossil-fuel holdings by the end of 2027, or invest enough in clean energy to fully offset its stakes in oil, gas and coal.

The decision by the third-biggest US city is the latest sign of the ideological divide that's sweeping the country's public retirement system. While legislators in states like Texas and Florida actively punish asset managers, banks and companies that make business decisions based on environmental, social and governance factors, their counterparts in states such as Maine, Illinois and California are taking the opposite approach.

In a statement announcing the decision, Carlton Lenoir, CTPF's executive director, doesn't allude to the politicization of an issue that, as far as scientists are concerned, is a settled grim reality. The board of trustees, Lenoir said, "has long understood that responsible and sustainable investments must form the core of our investment strategy." Moreover, the fund is required to consider ESG principles when deciding what to buy and sell.

His comments are in stark contrast to those of Florida Governor Ron DeSantis, who in late August claimed "corporate power has increasingly been utilized to impose an ideological agenda on the American people through the perversion of financial investment priorities under the euphemistic banners of environmental, social, and corporate governance and diversity, inclusion and equity."

The Republican went on to say that "we are reasserting the authority of republican governance over corporate dominance and we are prioritizing the financial security of the people of Florida over whimsical notions of a utopian tomorrow."

DeSantis, a possible candidate for the GOP presidential nomination in 2024, doesn't mention that perhaps the biggest opponent of ESG's environmental pillar is one of the largest corporate behemoths there is: Big Oil. Or that ESG investing has been shown to be more profitable for investors in the long run than the alternative.

Moreover, about a month after DeSantis told managers of Florida's pensions to reject ESG criteria, the state was hammered by Hurricane Ian, which caused catastrophic flooding and insured losses totaling more than $7.5 billion. Since the storm, which rapidly intensified over warm waters and killed at least 127 of DeSantis's constituents, the Republican has done little to acknowledge the risks global warming presents for his state.

Vehicles and homes submerged in water in a flooded neighborhood of Orlando following Hurricane Ian on Sept. 30. *Photographer: Brian Carlson/Bloomberg*

In Chicago, meanwhile, Lenoir said the decision to divest from fossil fuels and follow ESG principles was made after a year-long study of the issue. “As fiduciaries, our trustees must invest consistent with our mission to protect and enhance the present and future economic well-being of members, pensioners and beneficiaries,” he said.

The polar opposite views of Lenoir and DeSantis are playing out across America with numerous Republican-led states being vocally anti-ESG, while Democratic-led states and cities largely back the investment strategy.

The growing divisions may date back to the passage last year of contradictory policies for pension fund investments in the states of Maine and Texas, according to a report from the law firm Ropes & Gray. Maine was the first US state to order its public pension fund to sell off its fossil-fuel holdings, while Texas facilitated a plan that prohibits the oil-rich state from having contracts with financial companies that boycott energy companies.

In the end, all of these conflicting state laws leave managers of public pension funds in a tricky position, Ropes & Gray wrote, especially “when restrictions may prohibit a manager from considering investment factors it would otherwise view as significant for purposes of prudently investing state pension assets.”