Brooke E. Lierman
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News Release

Comptroller Lierman to Share Perspective with House Financial Services Committee Roundtable on Sustainable Investing

Maryland's elected CFO to underscore nationwide importance of accounting for entire range of risks when managing public resources

ANNAPOLIS, Md. (July 11, 2023) - Comptroller of Maryland Brooke E. Lierman today released the following statement in conjunction with her upcoming appearance on a House Financial Services Committee Roundtable Wednesday at 3 p.m. in the Rayburn House Office Building.

"As the Comptroller of Maryland and a board member of our state's more than $60 billion pension system, I take my role as a fiduciary very seriously. Our 400,000 state employees and retirees – teachers, correctional staff, legislators, police and firefighters, and more – have all entrusted our State Retirement and Pension System with their hard-earned retirement dollars. Therefore, we must have and retain the freedom to be responsive to changing risks in our economy to safeguard and grow retirement dollars.

"The free market works best when investors know if and how companies are managing risk so that they can make more informed decisions. Investments with firms that are proactively mitigating risk will be stronger and safer.

"Today, these risks are frequently associated with a changing climate, human capital management challenges and more. These factors have a direct impact on the financial performance of companies in which a state, pension system or similar entity invests. It is therefore my duty as a fiduciary to look at a company's vulnerability to climate change, including extreme weather events, flooding and rising temperatures, and their governance record, including labor, health and safety violations, alongside their balance sheet and creditworthiness.

"In a 2020 report, the Federal Reserve Board identified the impact of climate change as a critical emerging risk factor to the stability of the U.S. financial system. Climate risk can manifest itself in different ways in a huge variety of potential investment opportunities, chiefly as physical risk and in the risks associated with a changing economy. Industries like insurance and real estate – of which our pension fund and many funds are exposed to – are especially vulnerable to climate change. It would be an irresponsible use of tax dollars to fail to account for these vulnerabilities. Similarly, we will miss out on financial benefits if we do not embrace sustainable, renewable energy as economies transition away from fossil fuels and towards sustainable, renewable energy technologies.

"Another area of intense concern is human capital management – whether reviewing labor, health and safety, or ethics violations – in terms of the financial risks they pose to returns. I have not met an employer in the past two years who has not struggled to hire or retain good employees, underscoring the importance of responsibly managing human capital concerns. When companies act in a way that violates laws and regulations, it exposes them to litigation risks and costs them money in legal fees, penalties, settlements and more. So it is fiscally responsible to examine a company's track record on things like labor law violations and health and safety violations.

"When labor, health and safety issues are present, there is likely a larger workforce management issue present. Research shows that poor management of human capital can lead to material risks to the firms and investment value. When poor human capital management or ethics issues are made public, damage to the brand can alienate both prospective employees and consumers. The reputational risk piece is particularly important in today's economy – where companies hold more of their value in brands and intellectual property, and less in actual goods and assets.

"The work of assessing risk is as old as capitalism itself: to deny a fiduciary's obligation to assess risk when making spending and investment decisions not only cripples the ability of the fiduciary to fulfill his/her duty but acts in a way that is contrary to the capitalist system on which all of our investments rest. This week's hearings by Congressional Republicans on this topic, coupled with the more than 100 bills introduced in states by Republican legislators this year, disregard the full panoply of risks confronting companies and are fiscally irresponsible and short-sighted. Evidence demonstrates they are costing taxpayers hundreds of millions of dollars already and those costs will only rise. Fiduciaries must have the freedom to invest according to the changing risks that affect earnings over the long term.

"We are in challenging times as a country and as a world, managing new risks that we must confront head-on to safeguard the long-term retirement dollars of our beneficiaries. We must also be clear-eyed about the fact that tackling climate risk, governance risk, and seeking out sustainable investments is both good for taxpayers and pension beneficiaries."

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