OFFICE OF THE ILLINOIS STATE TREASURER
MICHAEL W. FRERICHS

Michael Frerichs
Illinois State Treasurer

Statement Before the House Financial Services Committee

For the Hearing Entitled "The Fall of ESG: Scrutinizing the Failed Use of Environmental, Social, & Governance Standards and the Influence of Proxy Advisors"

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State Capitol
Room 219
Springfield, IL 62706
Phone: (866) 458-7327
Fax: (217) 785-2777
TTY: (866) 877-6013

555 West Monroe Street
14th Floor
Chicago, IL 60661
Phone: (866) 458-7327
Fax: (312) 814-5930
TTY: (866) 877-6013

Marine Bank Building
1 East Old State Capitol Plaza
Springfield, IL 62701
Phone: (866) 458-7327
Fax: (217) 524-3822
TTY: (866) 877-6013

Good afternoon. My name is Michael Frerichs, and I serve the people of Illinois as their State Treasurer.

I am the state's Chief Investment and Banking Officer. In that role, my office manages approximately $66 billion across nine investment portfolios, which includes $35 billion in state funds, $20 billion in retirement and college savings plans and $11 billion on behalf of local and state governments.

It is my job to protect and grow the hard-earned savings of families across the state, as well as the funds that state and local units of government depend on to provide critical services to the people of Illinois.

I take this responsibility very seriously. Whether it's the single parent trying to save for their kids' college tuition, an individual saving for a new wheelchair, or a town building a new library, my constituents are trusting the Treasurer's Office to grow returns on their funds over the long-term, while ensuring they have access to the money they need in the meantime.

With this mindset, I intentionally invest not just for the next quarter – but for the next quarter century.

That brings me to why I am here today. We are experiencing a widespread, politically motivated attack against investors who utilize data that has a material impact on our investment value and ultimately, investment returns. We see this attack both in Project 2025 and even in this subcommittee hearing today.

I am here to advocate for investors' ability to consider all data that allows us to perform our fiduciary duty to act with prudence, loyalty, and care. Although the term "ESG" has become highly politicized, using environmental, social, and corporate governance factors in the investment process has been and will continue to be a longstanding and common practice.

There is a fundamental misconception that using ESG data is pushing a liberal agenda. This could not be further from the truth. It is simply about evaluating data that matters in long-term value creation for businesses.

Investors like myself need to manage and mitigate all types of risks that may have a material impact on investment performance. Investors identify these risks by seeking data from many sources, both quantitative and qualitative and from internal analysis as well as with the assistance of consultants. The more comparable, accurate, and timely data we as investors have, the better informed our decisions are when selecting suitable investments.

Some of the data that we use in our investment processes, *emphasis on some*, may be related to material sustainability issues. In those cases, integrating sustainability factors is the prudent approach to total portfolio risk management. In Illinois, it is also State law.

The value of integrating sustainability factors is supported by both academic research and common sense.

Companies that value their employees' working conditions will have less turnover and higher productivity. This impacts their bottom line.

Companies that build a strong governance structure will be more resilient to fluctuating market dynamics and business cycles. This impacts their bottom line.

And when a topic area or issue impacts a company's bottom line, it impacts the value of our investment. If it impacts the value of our investment, it is important for investors to be able to assess, and when warranted, critique or voice concern to a company related to its business practices.

Restricting the ability to access or use data to make investment decisions is fundamentally anti-free market. It is literally an Orwellian system where the government proclaims that "ignorance is strength."

Why would someone tell an investment professional to ignore data that provides insights into if a company has destructive labor practices harming workers? Or data that sheds light on excessive executive compensation packages that focus only on short term profits rather than generating long term value for shareholders? Or to ignore the fact that climate risk creates real financial risk for many companies?

The effort of trying to limit this data harms working people, retirement savers, businesses, and the wider United States by imposing real costs, and limiting investors' freedom.

My office exercises shareholder rights, including voting proxies, introducing shareholder resolutions, and engaging management. Exercising these rights is an important part of being a fiduciary, and shareholder rights are core to American capitalism. To dissuade or restrict shareholders from exercising their rights is anti-free market.

My office utilizes an advisor to help inform our decisions around how to vote proxy ballots. Their recommendations are based on prudent diligence considering items such as company disclosures, academic research, international regulatory bodies, or investment performance, and they use data.

Efforts to stifle the voice of shareholders by making it more difficult to file shareholder proposals or use consultants interferes with investors' ability to make their voices heard with management.

In summary, there is no legitimate justification for intentionally blinding and silencing investors. Shareholders know what issues are material to investment performance.

Let's move past this noise. Let's dismiss the nonsense and focus on common sense. Let's preserve our freedom to invest responsibly, use data, and keep shareholders at the center of American capitalism. To do otherwise is fundamentally anti-free market and anti-American.

Thank you for your time and attention, and I look forward to your questions.