SBA FLORIDA
STATE BOARD OF ADMINISTRATION
At A Glance

Accomplishing Change, Divestiture vs. Engagement

Section 215.47(10), Florida Statutes - fiduciary standards and Employee Retirement Income Security Act standards requirement.

Alicia H. Munnell, current research, working papers, publications.

Before CalPERS can save the world, public workers want it to save their pensions

It is not unusual for the SBA to receive requests to alter our investment approach to achieve a specific social or political objective, however worthy; these have related to a wide range of industries and issues. As a pension plan fiduciary, the SBA's duty is to act in the sole interest of participants, strengthening their retirement security, not invest to make statements.

Pension funds are required to provide retirement income security in a cost-efficient manner with undivided loyalty to plan participants. Fiduciaries considering adding social goals to their investment decision making must be mindful of increasing costs, reducing diversification and ultimately, reducing returns.

Divestiture or the sale of certain securities as a tool for social change relies on the false premise that selling a company's stock or threatening to will change corporate behavior. Many believe that selling stock punishes companies by "taking our money back." That is simply incorrect. In fact, stock transactions almost always occur among independent third parties, not the original issuer of the shares. Global securities markets anonymously match willing buyers and sellers, efficiently setting a price for the perceived present value of a company's future earnings.

Because divestiture initiatives are usually embraced only by certain interest groups and geographic regions, they seldom result in persistent suppression of share prices or capital market access for affected companies. Pension plans electing to divest from companies that would otherwise be owned as components of institutionally recognized market indices probably would not advance their underlying social or political agenda because other investors will purchase their shares (how else could they sell?). Over the long term, it is a certainty that divestiture will increase costs (execution, custom indices reflecting excluded securities, etc.) while potentially reducing diversification and returns.

Engagement or formal dialog with corporate boards and management is a better approach to advancing desired policy change. Shareholders are the ultimate owners of businesses; they elect boards of directors who in turn hire, oversee and compensate management and set corporate objectives and policy. Continuing to own shares empowers engagement, often with other like-minded shareholders, to focus corporate attention on issues and alternatives for constructively addressing them. The Florida SBA has a long history of success and leadership in this area; we are a credible and influential voice. Engagement is foreclosed by divestiture, which eliminates ownership and with it any standing to vote on directors, access proxy statements or motivation for management to listen to our concerns.

Alicia Munnell, world-renowned retirement researcher of the Boston College Center for Retirement Research and former assistant US Treasure Secretary and member of the President's Council of Economic Advisors summarizes the subject clearly: "While social investing raises complex issues, public pension funds are not suited for this activity. The effectiveness of social investing is limited, and it distracts plan sponsors from the primary purpose of pension funds – providing retirement security for their employees."

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