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CalPERS throws away pension money on green energy investments

By: Lachlan Markay – March 28, 2013

A top official with California's public employee pension system admitted this week that its holdings in green energy companies have lost hundreds of millions of dollars.

Joseph Dear, the chief investment officer of the California Public Employees' Retirement System (CalPERS), called its green energy investments "a noble way to lose money."

The admission came shortly after CalPERS officials voted to divest from high-performing investments in companies that manufacture firearms, fueling criticism that the organization's investment decisions are based on political factors, rather than a determination to maximize returns.

According to Dear, CalPERS' $900 million green energy investment fund has produced an annualized return of negative 9.7 percent.

"We're all familiar with the J-curve in private equity," Dear said at the Wall Street Journal's ECO:nomics conference this week. "Well, for CalPERS, clean-tech investing has got an L-curve for 'lose.'"

"Our experience is this has been a noble way to lose money," Dear said. But he added that CalPERS would dial back its green energy holdings given the extensive losses it has produced for California's public sector retirees.

If prices for renewable fuels do not decline, Dear said, "somebody has to step in and either raise the price of carbon or lower the cost of the alternatives" to make the industry financially viable.

Dear's comments on green energy suggest political motivations in how CalPERS makes investment decisions, critics say.

"One of the fundamental problems with governments holding large investment portfolios is the potential for those investments to be influenced by politics rather than sound finance strategy," said Jason Richwine, a senior policy analyst at the Heritage Foundation.

Dear's comments came shortly after CalPERS decided to sell its holdings in major gun manufacturers Smith & Wesson Holding Corp. and Sturm, Ruger & Co.

The value of Ruger stock has increased more than five-fold since 2007, when CalPERS began investing in green energy companies. Smith & Wesson stock value has declined by about 16 percent in that time.

“Investment strategies that pursue ‘social goals’ at the expense of investor (or pensioner and taxpayer) interests are reprehensible,” said Jagadeesh Gokhale, a senior fellow at the Cato Institute.

Gokhale said the most troubling aspect of public pension accounting “concerns insufficient attention to safety of principal, diversification, and especially proper asset-liability matching because state pension benefits are mostly constitutionally (or court) protected.”

Those protections can make public pension investment decisions act as de facto subsidies for politically favored industries, Richwine noted.

“Administrators can risk money on ‘noble’ investments, all the while knowing that their losses are covered by taxpayers,” Richwine said.

“In that sense, using the pension fund to invest in green energy is a way to subsidize industries without having to go through the awkward process of actually passing legislation.”

CalPERS’ green energy-centric investment strategy was the product of its former chief executive, Russell Read, who “successfully transitioned [CalPERS] toward clean technology and environmental investments,” according to a press release from a company he co-founded after leaving CalPERS.

Read, who now works for an investment firm in Kuwait, could not be reached for comment. CalPERS did not respond to a request for comment.