CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM

BILL ANALYSIS

Senate Bill 1928 **Senator Haynes (As amended 8/7/00)**

Position: **Oppose**

Proponents: **CCPOA, Center for Religious Freedom**

Opponents: **CalSTRS, CalPERS**

SUMMARY

SB 1928 encourages the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS), to the extent consistent with their fiduciary duties, not to invest in foreign companies that pose specified threats. In addition, effective July 1, 2001 and on or before every July 1 thereafter, the bill requires the respective retirement boards to review, at a minimum, publicly available corporate reports and specified federal information and report to the Legislature regarding their investments in foreign corporations during the prior calendar year doing business in countries meeting specified criteria.

HISTORY

SB 2122 (Ortiz) authorizes and encourages the CalSTRS and CalPERS to share information on investment strategies. The bill also provides that the confidential status of the information and documents shared by the systems will be preserved if such information is shared. The Teachers' Retirement Board (Board) supports the bill, which is with the Assembly Appropriations Committee.

AB 2745 (Kaloogian) encourages CalSTRS and CalPERS not to invest in foreign companies that pose a threat to national security and requires the respective boards to investigate and report annually, on or before January 15, to the Legislature regarding their investments in international corporations doing business in countries meeting specified criteria. The Board adopted an Oppose position on this bill. The bill was held in the Assembly Appropriations Committee.

Chapter 341, Statutes of 1999 (SB 105—Burton) required CalSTRS to report on its investments in companies operating in Northern Ireland. CalSTRS submitted its first report in March 2000.

Chapter 216, Statutes of 1999 (SB 1245—Hayden) required CalSTRS to report on investments in companies that owe compensation to victims of slave and forced labor from 1929 to 1945.

SUMMARY OF LATEST AMENDMENTS

The August 7 amendments deleted the contents of the bill and amended in the reporting provisions of AB 2745 (Kaloogian), and encourages CalSTRS and CalPERS to have their managers perform due diligence with respect to potential investments in foreign companies that pose national security threats to the U.S.

CURRENT PRACTICE

In 1999, approximately 24 percent of the fund's investments are in international equities. About 50 percent of the system's international equity portfolio is passively invested to replicate various international stock indices. A large portion of the system's portfolio is passively managed through numerous market indices. In addition, CalSTRS uses consultants while it develops its investment strategies. CalSTRS retains a general consultant and two external consultants are used for special investment-related projects. All of the system's external investment managers are consulted from time to time on investment related matters. CalSTRS' investment managers and consultants mainly review and process economic and financial data related to the performance of corporations in which the system is invested. The system's managers, consultants, and program staff do not currently monitor or maintain information related to every country an international corporation operates in, the number of employees, etc. Instead, information on investments is maintained related to the names of the individual corporations, the number of shares and market value of shares held at month's end.

DISCUSSION

SB 1928 encourages CalSTRS and CalPERS, to the extent consistent with their fiduciary duties, not to invest in foreign companies that pose threats to national security through terrorism or the proliferation of weapons of mass destruction, as documented by the federal government and the United States Congress and to have its managers perform due diligence with respect to potential investments in foreign companies. In addition, effective July 1, 2001 and on or before every July 1 thereafter until July 1, 2005, the bill requires the respective retirement boards to review, at a minimum, publicly available corporate reports and specified federal information and report to the Legislature, regarding their investments during the prior calendar year in foreign corporations doing business in countries meeting specified criteria.

The bill also encourages CalSTRS to have its internal and external fund managers perform due diligence on potential foreign investments. Historically, neither CalSTRS' program staff nor external fund managers have performed the type of research and duties envisioned in SB 1928. Implementing the legislative direction that CalSTRS fund managers undertake due diligence with respect to potential foreign investments that may pose a threat to national security will result in two different costs. First is the additional cost of research needed to perform that due diligence. Second is the opportunity cost of foregone investment earnings while that due diligence is being performed on potential foreign investments.

FISCAL IMPACT

Benefit Program Costs – No impact on current benefit programs.

Administrative Costs – The Investor Responsibility Research Center, which can provide the information required for the report, indicates that it would cost $60,000 to provide this information required for the report on an annual basis. CalSTRS would incur minor additional costs to prepare the required report.

CalSTRS would incur costs of probably hundreds of thousands for managers to undertake the research necessary to perform the due diligence encouraged in the bill. In addition, the system would experience loss opportunity costs of foregone investment earnings, potentially in the millions of dollars, while due diligence is being performed by fund managers on potential foreign investments.

POSITION

Oppose. Although CalSTRS could provide the information required in the reporting provisions, implementing the legislative intent with respect to potential foreign investments would result in substantial direct and opportunity costs.